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With compliments & kind regards

from:-

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Bombay 7th Decr. 1939.

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PREFACE TO FOURTH EDITION

In the present edition the whole of the text had to be largely re-written and revised with a view to bringing in problems of most up-to-date practice in business organisation. It has been the frequent complaint of business men that the training in colleges and schools of Commerce was not practical, and hence the alumni were not suited in such cases for holding responsible positions in business offices of our large organizations. The author feels confident that this revised and thoroughly overhauled edition, based upon lectures actually delivered by him at his own college as well as elsewhere, will prove how erroneous this assumption happens to be. Not only will the contents be, it is hoped, of immense advantage to a student of commerce aspiring to acquire a thorough grasp on practical problems of the subject; but they will, the author trusts, be of some service to business men who have to deal with living problems of the type and class dealt with within these pages.

In course of the revision of the text the chapters dealing with Company Organization have been brought up-to-date in the light of the latest legislation and practice. In case of the chapters on Organization of Wholesale Business, considerable additions have been effected with a view to bringing in the most advanced ideas and practice. Purchase and Selling policies in connection with the wholesale and retail businesses have been exhaustively dealt with. Problems of Distribution, After-sales-service, Dealer helps, Price policies, etc., find separate places in conformity with modern ideas. The Practices of Foreign trade, Import and Export, receive their due treatment with illustrations on exhaustive lines. A special chapter has been added to deal with Office Routine and Modern Appliances. Scientific Management and Industrial Efficiency, including labour problems, are exhaustively dealt with in a separate

chapter ; and the most recent developments in this connection, as well as up-to-date legislation, have been incorporated. The chapter on Scientific Advertising has also been overhauled with a view to bringing in new developments both in theory and practice. The Stock Exchanges of London and Bombay find a special place and the old chapter has been here also thoroughly revised in light of recent amendments in rules and practice. Shipping, Marine and Fire insurance practice as well as Negotiable Instruments and Credit have been touched up, and a special chapter has been added dealing with General Problems of Finance.

It is thus hoped that within the compass of a volume of about 650 pages the author has endeavoured to bring in all that is needed for the preparation of a student of commerce for the highest examination on the subject concerned.

SOHRAB R. DAVAR.

DAVAR'S COLLEGE,
Bombay, 15th August, 1939.

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CHAPTER I.

THE ESSENTIAL REQUISITES FOR BUSINESS SUCCESS.

In this chapter it is proposed to deal briefly with the most important requisites for business success. The various authoritative writers on this subject have no doubt expressed themselves differently, but all seem to be agreed in their conclusions. Prof. Dicksee in his work on "Business Organization" lays down three requisites, *viz.*, (1) skill and energy, (2) the necessary capital and (3) the means of speedily acquiring connection or reputation. Writers of the older school have held out the three virtues, *viz.*, "tact, push and principle" as the most essential. There are writers who have actually issued questionnaires to a number of leading and successful business and professional men of great experience, enquiring the cause of the largest number of failures in both these branches. A large number of them have replied that the same was due to laziness or lack of ability, and in some cases to speculation. Thus industry and ability play a most important part in the success of a person in the modern world, if backed up with an undying determination to win by not shirking the hardest kind of work. The point which these successful men have tried to impress on the minds of their readers is that there is no "easy way" or "short cut" to success. The lives of most successful men, who to-day occupy places of honour and responsibility, if studied, would show that they were the hardest worked men of their time. Thus undoubtedly industry or hard work plays the most important part in bringing about success or victory. A young man who gets everything ready made because he is born in a prominent business or professional family, generally manages to lose every-

Business Organization

thing, or to spoil same unless he has energy and other qualities inherited as well as acquired. This accounts for what is commonly known as "degeneration of the second or third generation" in every great industrial, business or professional family. After having given this subject the most anxious consideration for many years, and having read of and observed the various factors that have, or are said to have made or marred the careers of eminent business men, the writer hesitates to dogmatise. In the modern business world there are so many positions a business man may be called upon to fill, and that too under circumstances so varied, each requiring its own chain of equipments, that nothing more than a general discussion on broad lines is possible. It is said quite correctly that "the modern business man is a compound of temperament and training." All men are not born alike. Some are born as the gifted children of nature to rule and direct a business. Such men take to business like "ducks to water", and a good training, coupled with a little experience, enables them successfully to organize and direct large enterprises. Others, less fortunate lack this ability in spite of training and experience: but though they fail when placed in positions where initiative, and correct judgment are necessary, they succeed in positions where directions are to be carried out, and initiative, or independent action, or original thought, are not called for.

To sum up, the most essential requisites to business-success appear to be (1) Sound Common Sense, (2) Business Morality, (3) Business Ability, (4) Business Training and (5) Capital.

Sound Common Sense.—We are all said to be born with a quantity of what is known as "common sense". How many of us can claim that this "common sense" which we are all possessed of, is sound and consistently unerring. Of course education and experience tend to improve us in that direction. We no doubt come across instances where men holding the highest academic distinctions lack what a business man may call "common sense". Fortunately these are rare exceptions.

Mankind generally benefits by experience and training. Tact, caution with self-confidence, ability to judge between men, a cool head, resourceful readiness to meet situations, courage to give up the most cherished opinions and schemes when found erroneous, a patient and tolerant attitude towards criticism, and a generous nature that is ready to forget and forgive, sum up the qualities that are to be found in all cases where common sense rules supreme. These qualities are the result of temperament, experience and training. There is no better school for the perfection of common sense than the school of experience: and an educated young man who has specialized in practical commerce, stands the chance of being able to improve himself in that direction, by passing through this most efficient of schools.

On the question of fear of criticism Mr. Albert J. Hall in his book entitled "Why Men Fail" rightly emphasises the fact that "the greater your superiority, the more of a genius you are, the greater the number of critics you will arouse. By their number you can easily measure your ability and estimate your probable success. Man is naturally envious of his superiors and is seldom willing to admit their superiority. . . . The man who never makes enemies or never arouses criticism never amounts to much. . . . When by overcoming opposition and persevering in face of criticism, you have carried your plan to a successful issue, you will be a bigger and a stronger man for it." As to well directed criticism Mr. Hall rightly concludes, as:—"There is not one of us who does not at some time or other do things that justly call for criticism, for we are all liable to err. At such times, criticism is good for us and we should accept it as such and profit by it. It is when our purpose is right that we should have no fear."

On the question of college education the same author has something wise to say, particularly to those who claim superiority simply on the ground that they have crammed through a few books at a university. He rightly asserts that "A college education sometimes helps but it is not a passport

to success. Some of our greatest failures were college educated, while most of the great ideas and inventions have been contributed to the world by unschooled thinkers. The scholar's education is largely artificial, while the thinker's is natural. That accounts for the difference in the results obtained. It is very difficult to unlearn a wrong method, therefore, we should be careful to learn right methods, to learn nature's way. Learning of any kind that we cannot make use of is valueless. And even correct learning is profitless unless we set it to working for us."

Business Morality.—This factor of business morality, or business honesty, plays no mean a part in contributing towards business success. Straight-forward methods pay in the long run in every walk of life ; so they do in business. The business which lasts and becomes permanent is one which is built up and maintained on the policy of strict honesty. The majority of businesses which have expanded and risen to their natural height have been built up on this principle, though a few cases here and there may be pointed out as exceptions. Even here it cannot be denied that if they had had honesty as their policy they could have done much better. Besides, the result of dishonesty, whatever may have been its profits financially, is not success ; because no amount of money or property can make up for loss of character and reputation among the public. There are some men, no doubt, who have made fortunes through dishonest methods ; but they are the least respected of men and they know that, with the result that they cannot enjoy in their heart of hearts the fruits of their so called success achieved by these underhand and dishonest methods. If a manufacturer or merchant acquires a reputation for sharp practice, his business declines in proportion. Once a bad name is made—it is so easy to do so in these competitive days with so many jealous rivals about you,—no effort at making amends, will avail. The modern merchant or manufacturer comes in touch with his compatriots of the most distant countries, and his reputation for honesty, or otherwise, travels

to these far off lands, and forms a serious factor which makes or mars the foreign trade of his country. The British business man has established a high reputation for clean methods all over the world, with the result that Great Britain commands to-day the largest foreign trade of any civilised country. Every patriotic Indian should see that his country is second to none in this regard. India, with its infant industries quickly growing into healthy manhood, naturally looks forward to the day when its manufactures, particularly those commanding special advantages, are in demand all over the civilised world. It should therefore see that it firmly establishes a reputation for business morality which is second to none. One no doubt meets with cases where the richest and the most successful men in business are not exactly patterns of virtue, still it cannot be denied that rewards of straight-forward methods are not only sweeter but more lasting.

Let us consider this problem from the point of view of a unit, because units make a nation. Supposing a business man is in the habit of giving promises which he has no intention of keeping, and which he forgets immediately after giving them, he will find that he soon acquires a reputation which deprives him of his business as well as social standing. It is the most dangerous habit that could be cultivated by the young. Every broken promise serves as a nail in the coffin of success to the party concerned. Respect and esteem are the most valuable assets of a business man. When he finds that he cannot obtain the credit necessary to succeed in business in competition with his rivals who have built up a credit by their honest and straight-forward methods, it is perhaps too late to improve the position. To put it briefly, every time a person makes a promise he stakes his good name, credit and honour, on it, and therefore, promises ought to be made after careful consideration.

The Acquisition of Business Ability and Business Training.

—We have already noticed that business ability depends first on temperament and next on training. A most favour-

able combination of these two factors in a young aspirant to business-success is full of promise. In the words of Mr. Hall in his excellent book from which we have already quoted, "The world always pays for ability in the coin of the realm and talent always attracts financial recognition." "If you wish to hold your present position or to climb to a higher one, you must make yourself more 'fit' than your associates and competitors." Commerce and industry to-day have expanded to such gigantic proportions that specialised training, not only in the general principles of business, but also in connection with various professions that have sprung up within its fold, has come into prominence and has become a normal feature. The technicalities of these professions and vocations in the commercial world have become so complicated, that in each branch a specialised study, ranging from two to five years, is necessitated. As a result, Professional Boards of Accountants and Auditors, Company Secretaries, Chartered Insurance Experts, Actuaries, Bankers, Salesmanagers have now been established on the same principle as the time honoured Societies of the Inns of Court of England for Barristers, or the Colleges of Physicians and Surgeons in connection with the medical profession. The courses of training in force provide for both technical, and practical education; the former being obtained at colleges where specialised lectures on technical education are provided, and the latter through a system of apprenticeship under accountants or in banks, insurance companies, etc. The product thus obtained is most finished, and ready for the purpose of being absorbed in the mercantile economy. Universities have also come on the scene with commerce degrees; but the value of these, just like the degrees in law, is much inferior to that of the professional diplomas for two reasons, (1) the training provided has too much of what is called "the cultural bias", the practical and technical side of education being largely neglected in many cases, and (2) no provision is made for acquisition of practical experience side by side with technical theoretical education. The external side

of some universities, like that of London, does aim at the ideal of attracting those engaged in trades and professions towards taking university degrees through study either at night colleges or through postal training institutions conducted under the auspices of experts. The author himself was told by one of the most important business men in London that those of the university products who were successful in business, were the scholars of the external side, who joined the business at an early age and continued their studies in night schools and colleges, appearing in university examinations for which no compulsory terms are required to be kept, as in the case of internal scholars. This is natural, because commerce, like medicine or surgery, has a practical side which must be developed simultaneously with theoretical education ; and unfortunately in the case of commerce one cannot work in a large bank or an insurance company side by side with a university day college as is the case with medical education, where hospitals are running in co-operation with medical colleges.

The young man who qualifies through a diploma or otherwise should, however, not imagine that after he has acquired this much coveted and honoured distinction there is nothing more to be done, or that his education has ended. As a matter of fact, in the business world of to-day, with its complications, constant exercise of the highest intellectual faculty is absolutely essential ; and the world is progressing so rapidly that unless one is a constant scholar of the progress which takes place from year to year, he soon gets out of date and he is sure to be beaten by other, and perhaps younger, men, who have kept themselves abreast of the times. The complicated business world is a great college in itself, a school in which you begin to learn as soon as you enter, but for which there is no end till the day of your death or retirement.

There are, no doubt, cases where men, through force of exceptional natural ability, have risen to prominence in spite of their defective education, or want of it. The student of commerce when confronted by that statement has to remember

two undeniable facts, *viz.*, (1) all men destined for a commercial career, either by choice or force of circumstances, are not born with exceptional natural advantages, and (2) in these progressive days the circumstances under which these men worked and made a mark for themselves in years gone by, are not likely to recur to afford us similar facilities. With nations around us, specially trained and equipped for the various branches of commerce on the principle of specialization, it is useless for any race to expect to make an appreciable headway without being equally armed. Have we not heard it repeatedly lamented in India that the children of some successful merchants proved so incompetent, that all that they did after the death of their parents was to help to destroy within a few years the magnificent fabric their fathers had built up during the course of a strenuous life? That gift of nature which we have called business temperament, present in the parent, was found to be wanting in the children. For this the only remedy and the right remedy happens to be to provide, as a substitute, a sound business education for the mediocre children of the rich and successful business men, and thus they, with the assistance of a specially trained and experienced staff, could carry on their parents' business with certain amount of continuity, and uniformity of efficiency and success.

The other point we should like to emphasise is that the acquisition of a diploma or a degree is only a means to an end. In other words, the object of all education is to acquire sound knowledge and become most efficient: and not merely to cram through an examination without carefully studying the text and reference books provided by the Examination Boards concerned. Unfortunately the tendency among young Indian students is to be attracted towards cram of this type; and the writers who bring out cram literature for them in the form of short notes, and short cuts to the study of a particular curriculum are not only doing a great disservice to the scholars concerned, but are injuring the good cause of the industrial and

commercial expansion of their country. It is frequently asked why there are so many failures in life among our so called "qualified men"; and the answer is that they manage to get through their examinations more on cram literature than on the sound foundation of deep learning and knowledge. Such men are woefully unqualified, rather than qualified, for the great struggle and competition before them irrespective of the degrees and diplomas they have obtained by, so to say, deceiving their examiners into the belief that they have gone through the programme of studies provided for. Such young men are also their own enemies; and it is the duty of every professor in every college to see that young men are saved from this type of folly by proper advice and caution, and by seeing that they purchase and study the text books recommended. It is submitted that a business professor should make it his special business to take particular interest in the work of every scholar left under his charge, because the noble profession which he has taken up for nation building for India's great future will otherwise be very unworthily served by him.

Capital.—The last requisite, though not the least, is capital. The tendency of modern commerce is towards amalgamation and expansion of commercial enterprises into large business-houses. This makes it increasingly difficult for men less fortunate in this regard to start in business on their own account. There are, no doubt, various courses open to a man of ability and experience to make up for this lack of capital, with which we shall deal later in chapters on partnership, companies, organization of credit, etc., but it cannot be denied that many a man who would otherwise have blossomed into prominence, has been compelled to occupy a subordinate position for the greater part of his life, if not all throughout it, for want of sufficient capital. In order to work any enterprise with success in these days of small profits and quick returns on huge lines, the principals should provide themselves with ample capital to be able to cope with all possible requirements. In the case of businesses that have

grown gradually to large dimensions from a small beginning, capital has also grown with them : but where one contemplates the starting of an entirely new enterprise, it is wise to sit down and make careful calculations, in order to arrive at as accurate an estimate as possible as to the necessary capital, with a view, not only to being able to launch the concern with success, but also to provide for that period in the life of every new enterprise in the early stages of its career, when the profit and loss account usually exhibits a debit balance, which, by the persevering efforts of a capable head, is gradually brought round to the credit side. The ability to meet your engagements punctually, so essential to the establishment of business credit, can only be met with in enterprises which are properly financed. The points to be noted while estimating the approximate financial requirements are, (1) the amount actually required for permanent constructive work and loss of interest on same during this process of construction, (2) the actual amount required for investment in stock in trade as working capital, (3) the actual extent of credit which has to be allowed to customers according to the practice in that branch of business, (4) the extent of credit likely to be allowed to the business by others, though of course where cash discounts on liberal scales are allowed for prompt payments, it is best to provide sufficient capital in order to be able to take advantage of the same.

Opportunity.—Many writers and thinkers have assigned great importance to one more factor, *viz.*, "opportunity", in this regard. There is no doubt some force in the assertion that unless a person gets an opportunity to "make good", he or she cannot be blamed if success has not attended his or her efforts. Some poets have sung to the effect that opportunity is a delusive Goddess, who knocks at the door of us all in turn but once, and that if we allow ourselves to be surprised when unprepared to receive her, or, while in a state of leisured ease we happen to be asleep at the psychological moment when she chooses to call, the rest of the voyage of our life is

condemned to misery. The writer thinks that this teaching, which is inclined to make a man more or less of a fatalist, has perhaps done more harm than good. It has encouraged persons with weak will-power to sit with folded hands and cry over the want of opportunity all throughout the best time of their life. Here the assumption is that the vague item called "opportunity" is on a tour and that one must wait till it breaks its journey somewhere near our home. On the other hand to an active man of common sense, the modern American idea that opportunity is present everywhere for the man who is willing to see it, appeals with greater force. It is true, as is said by our American friends, that "opportunity is in the very air we breathe". No, they go further and assert that one must make his own opportunities by originality in thought, by creating ideas that are worth millions, and thus the opportunity arises from one's own exertion. Again, to a man of sound common sense and practical ability, every difficulty or obstacle serves as an opportunity to test his ability and turn the situation from failure to success. In the words of Mr. Hall in his excellent book from which we have already quoted "Trouble makes the right man great, while those it breaks, were not worth while. The greatest men in the world to-day, the men who have really done big things, are those who have encountered much trouble and made use of it." Trouble is described by this authority as "Blessing in disguise in ninety-nine cases out of a hundred". Out of trouble itself a determined and able individual may discover an opportunity for making headway. Anyhow, the struggle against troubles and obstructions is in itself an exercise for developing the will-power as well as various faculties lying dormant within the human frame. Make use of trouble for this purpose, and profit by it, instead of going under in despair. To us, it appears that troubles and obstructions are so many opportunities placed our way, with the right use of which we are helped by indulgent Nature to get fitter for the struggle in life. As Mr. Hall rightly puts it "an obstacle is not to stop you, but to furnish

momentum by having you ride over it. Sit tight when you meet trouble and dig in the spurs, increase your speed, look straight ahead and keep going, and you will reach the goal and score a victory."

CHAPTER II.

COMBINATION IN BUSINESS

Individualistic Concerns.—Under the present state of society the social organization is based on the principle which acknowledges the existence of private property and the freedom of the individual to use his exertions according to his wishes with a view to acquire private property as well as multiply same through the use of this private property so acquired. In other words it is a system which is opposed to the idea of the socialistic organization, which aims at the idea of all property belonging to the state, or society as represented by the state. The individuals, also, under the socialistic organization, being looked upon as so many servants of the state who have to work for society at large, and in return have to be satisfied with the distribution that the state may make for their necessities and comforts. That is a system where individual liberty is denied and a state becomes virtually speaking a prison-house where each individual has simply to carry out orders, and has no initiative or liberty of action apart from the sphere laid down by the state. Many practical economists and thinkers have rightly said that socialism will only be possible when human beings are perfect ; and when that ideal state is reached socialism perhaps will be unnecessary. It is not our purpose in the course of this chapter to deal with the merits or otherwise of socialism as a system. But what is proposed to be done here is to explain the various developments of modern individualism, a system which has been handed down by generations of civilisation and has been evolved by improvements suggested by experience till it has arrived to this stage. It is no doubt not perfect for the simple reason that no system that human intellect can invent is likely to be perfect, but has proved satisfactory while looked at from various standpoints.

Under the individualistic system various members of society are engaged on their own account in various activities with a view to produce and supply commodities or services which society in general requires ; and in exchange for their work and labour become entitled in their turn to receive goods and services that they may require from the other members of society from time to time. The medium for this exchange in services and goods is known in our modern society by the popular name of money. We shall now deal with each type separately.

The Sole Trader.—The sole trader is a person who carries on business on his own, that is, without the assistance of a partner. He brings in his own capital and uses all his labour. He also gets himself assisted by others, to whom he pays a salary by way of remuneration. This method of carrying on business is necessarily confined to a small area, because a single individual naturally finds considerable difficulty in connection with the expansion of the business within wider spheres. The limitations he has to cope with are scarcity of capital and also a limitation in managerial ability. Of course this type of concerns have, in some cases, owing to exceptional natural ability of the proprietor, expanded into sufficiently large proportions and many chain stores here sprung up from this type of enterprise ; but they have been in many cases converted either into partnership combinations or joint-stock companies as the proprietor finds himself getting on in age and thinks of either taking things at ease or of retiring. There is one advantage however in connection with individual enterprise, and that is that personal interest in the details of business is being taken by its proprietor which naturally conduces to economy as well as efficient results. Another advantage is that the proprietor of a small shop or business comes in personal touch with his customer, with whom he makes a sort of personal business acquaintance and thus attracts business. There are many people who naturally like to be attended to by traders and shop-keepers who take

a personal interest in them and with whom they get familiar. Thus generally one finds sole traders flourishing where the markets are localised and where customers give greater importance to their own requirements being studied in detail.

Joint-Hindu Family.—Under the *Metakshara Law* which is in force in Bombay, Madras, Benares, etc., all the property of a Hindu is inherited by his heirs as ancestral properties. The ancestral property may go down through generations, and a Hindu may have inherited the property either of his father, grand-father or great grand-father. The idea here is that the property is to be held in joint ownership by those heirs, in what is known as a co-parcenary. This joint property is managed by the senior male member of the family known as the manager who is known by the name of *Karta*. If the senior member does not wish to manage, the management naturally falls on a male member junior to him. Each son of the family acquires an interest equal to that of the father in this ancestral property, though the father by reason of his paternal relations and his position as the head of the family and its manager, is entitled to make lawful disposition of the family property in the interest of the family. Thus a *Joint-Hindu Family Firm* may form part of ancestral business and it descends with other property through the heirs of the family. This is a peculiar type of partnership composed of male issues by the operation of law. To this form of combination the general rules of Hindu law alone apply. The peculiarity is that this family partnership is not dissolved by death of a co-parcener, nor is a co-parcener entitled, on severing his connection with the family firm, to ask for accounts of past profits and losses. The only person who has a right of management in this partnership firm is the manager, and no other co-parcener has any authority to deal with the property of this form of partnership or to sign or do business in its name. In cases of losses and liabilities incurred by this form of partnership the co-parceners are liable only to the extent of the joint-family property, whereas their private separate pro-

perty is not at all liable. In case of the manager, however, it has been held that he is personally liable to his last penny for the debts incurred by him in connection with the management of the Joint-Hindu family partnership.

Partnerships, Where and Why Necessary?—In the last chapter we discussed in the form of a general survey, the various requisites for business success. It is rare to find a combination of all these requisites in one person. Besides, there are other practical difficulties which make difficult, if not actually impossible, the smooth running of a concern without the combination of a number of proprietors. We have noticed how a man who combines business temperament and training may be handicapped through the lack of capital. Here, a combination with a financing partner, places him on the right road to the benefit of both. Again, where the nature of the business demands special concentration in more than one direction, division of responsibility by a number of individuals for the common good of all, tends to efficiency of work.

The advantages of partnership are as follows:—

- (1) Co-operation of two or more individuals with experience or ability or both could be easily secured.
- (2) The business departments could be conveniently and advantageously divided and taken over by partners according to their ability and experience.
- (3) The formation or dissolution of a partnership does not entail the legal expenditure and formalities as in the case of joint-stock companies.
- (4) The fact that each partner is liable to his last penny for the debts of the firm incurred in the regular course of its business keeps every partner vigilant with a view to see that slackness or speculation does not prevail.

The disadvantages may be summed up as follows:—

- (1) The unlimited liability of partners for payment of debts of the firm,
- (2) the fact that the partnership is dissolved in law on the death or retirement of a partner: though of course there is no objection to the surviving partner carrying on the business under the same name and style, and without having to go through any legal formality which entails expenditure or inconvenience.

A partnership as defined by the Indian Partnership Act, 1932 "is the relationship between persons who have agreed to share profits of a business carried on by all or any of them acting for all." The English Partnership Act, 1890, defines partnership as "the relation which subsists between persons carrying on a business in common with a view to profit."

This legal definition embraces in brief the object with which people in business enter into partnerships. The paramount object is to share profits of a business carried on by them, and the success of the firm thus constituted depends mostly on the nature of this combination and the care and judgment with which selection is made. A number of individuals possessed of the necessary skill and ready to devote their time and labour, may combine, with others possessed of capital, who are prepared to invest in the proposed enterprise. It is no doubt true that those individuals, endowed with the necessary skill and experience, may be able to arrange for a loan, but a firm which deals entirely or largely on borrowed capital, is at so great a disadvantage in actual practice, that that course is seldom resorted to. It may be argued with equal force that a person who commands capital may avoid partnership by engaging the services of trusted employees possessed of the necessary skill and experience. This is no doubt frequently done, but it is easy to understand that the incentive to work and labour to the best of one's abilities in concerns, in the profits and the future good-will of which one has proprietary interests, is one

which cannot be substituted by any other device known to mankind. In fact, this is a factor which is said to place partnership in a more advantageous position compared to public companies, as we shall see in a later chapter. It would thus be seen that it is a great mistake for people to join as partners on the simple ground that they possess capital and would like to be doing something by way of business. Absence of combination with those with experience and training in some form, would here spell disaster. This seems so self-evident that it would hardly deserve mention in a work of this character, were it not true that this simple fact is frequently ignored.

The Psychology of Trade Name.—The partnership, or a sole trader, has to select a name by which to be known in the business world, and under which to carry on business. The most popular method, as well as the most advantageous, has been to use the surname or names of the proprietor or proprietors in connection with the business, so that once a good-will is established, these names get associated with the qualities and reliability of the goods in their own line of business. The surname also suggests personal craftsmanship and quality for the simple reason that the proprietor or proprietors are willing to lend their name to the business. It is said that these types of names last long, with the result that in the modern business world one finds surnames with centuries of usage behind them. To put it briefly, surnames are preferable to mere descriptive names of business unless they are extremely common or have an unpleasant association, or are too difficult and long-winded to remember or pronounce. There are cases where ordinary words which are not descriptive in connection with business concern are frequently used in connection with business names, as in the case of Camel Cigarettes, Shell Petrol, White Horse Whisky, etc. There are invented names used in connection with business, such as Kodak, used in connection with the famous camera and photograph materials manufacturers. This word is of a classic type and thus its neutrality is so superb that it has stood the test of time, and has associated

itself in the mind of the readers of its advertisements, as well as users of its materials, with a particular quality of photographic camera and materials. Of course such names without any meaning have to be incessantly advertised with a view to reminding or impressing themselves on the memory of its readers. These trade names are coined, and once impressed on the memory of the buyers have a peculiar psychological effect, so that when a person orders a Bass Beer, or a Ford Car or a Kodak camera he does not so much think of the article, because the name itself brings to his mind the impression of what he is trying to get.

In law however a trade name of a partnership or firm is nothing more than a brand under which the proprietors are carrying on their business, because the law does not acknowledge a partnership as a distinct personality from that of the members that constitute it. Thus if A & B are carrying on partnership under the name of Kodak & Co., the law does not recognise Kodak & Co., as a personality; but the description given to the business in law will be "A & B carrying on business under the name and style of Kodak & Co."

The Essence of Partnership.—The essence of partnership is mutual trust and mutual confidence. One has to display great caution and judgment in the selection of partners with regard to their integrity and honesty of purpose. In law every partner is responsible to his last penny for the debts of a partnership incurred in the regular course of its business, and hence the necessity for greater caution, lest the speculative tendency or dishonesty of a partner may involve the firm and the other partners in losses. However small the share of a partner in the business, his liability remains unlimited with regard to its debts to outside creditors. This factor should never be lost sight of or ignored by those who enter into a business partnership. The other factor to be settled is the amount of capital each is to provide and the share of profit each is entitled to draw. This share need not depend on the proportion of the capital contributed by each, for a financ-

ing partner may bring in capital which is much larger in amount compared to that contributed by his experienced colleagues, and may draw an equal or even a smaller share in the profits. This difference in contribution towards the capital of the firm is supposed to be made up by the experience and knowledge of those who bring in a smaller contribution. Frequently a partner who devotes more, or most of his time to the partnership business, compared to his colleagues, is allowed to draw a salary over and above his share of profits. This salary, which forms part of the establishment expenses of the firm, has to be written off to the debit of the profit and loss account before arriving at the figure of divisible profits. We thus arrive at the meaning of the expressions "active" or "working" partners and "sleeping" or "financing" partners. Those who take an active or working part in the business are known by the designations first named, whereas those who have invested their capital in the firm, but do not take any active part in the working of the concern, are known as sleeping, dormant or financing partners.

The Partnership Agreement.—Having selected the right men as partners in the business, the next step is to see that a working agreement is drawn out and signed by the partners. No well constituted partnership of modern times should be allowed to exist for a day without going through this legal formality. When people join hands as partners they are in the best of spirits and frequently forget that this happy mood unfortunately does not prevail for ever in all cases. Unexpected losses, or even unlooked for profits, are frequently the signals for some misunderstanding which, in the absence of a written agreement, may develop into an expensive law suit. The sudden death of one of the partners may also bring about an unpleasant situation which could have been avoided if a well thought out and properly drawn agreement had been in existence. Differences have also arisen when one or more of the partners get into the habit of drawing out large amounts for their personal expenses. The calculation of "goodwill" in case

of death or retirement of partners, has also frequently resulted in heavy litigation. In order to provide for all these unpleasant contingencies, a partnership agreement is absolutely necessary. Of course, in law such an agreement in writing need not exist, and in the absence of the same, the practice of the firm during its active years of work is taken as data ; but as we have seen, the expense, inconvenience and unnecessary unpleasantness may all be avoided by this simple document.

The most important points that a partnership agreement should provide for, may be summed up as follows:—

- (1) The term or duration of the partnership.
- (2) The actual amount of capital each partner undertakes to bring in.
- (3) The total amount that each is to be allowed to draw out for personal use, monthly or quarterly.
- (4) The percentage of interest, if any, that has to be allowed on each partner's capital and charged to each partner against his withdrawals from the firm, before profits are ascertained.
- (5) The actual apportionment of work, for which each partner makes himself responsible to his co-partners.
- (6) The proportion in which the profits or losses are to be divided among partners at agreed intervals.
- (7) The steps to be taken on dissolution, by death, retirement or otherwise as to the calculation of good-will and capital and the method by which such a share has to be paid out.
- (8) The arbitration clause providing for certain disputes and differences between partners to be settled by a reference to arbitration.
- (9) The right of a partner to get books of accounts independently examined by an expert of his own choice.

In the absence of an express agreement to the contrary, the following rules laid down in sec. 253 of the Indian

Contract Act, 1872 would apply to the various points dealt with above.

Conduct of Business and Mutual Rights and Liabilities.

—Subject to contract between partners:—

- (1) every partner has a right to take part in the conduct of the business ;
- (2) every partner is bound to attend diligently to his duties in the conduct of the business ;
- (3) any difference arising as to ordinary matters connected with the business may be decided by a majority of the partners, and every partner shall have the right to express his opinion before the matter is decided, but no change may be made in the nature of the business without the consent of all the partners ;
- (4) every partner has a right to have access to, and to inspect and copy, any of the books of the firm ;
- (5) a partner is not entitled to receive remuneration for taking part in the conduct of the business ;
- (6) the partners are entitled to share equally in the profits earned, and shall contribute equally to the losses sustained by the firm ;
- (7) where a partner is entitled to interest on the capital subscribed by him such interest shall be payable only out of profits ;
- (8) a partner making, for the purposes of the business, any payment or advance beyond the amount of capital he has agreed to subscribe, is entitled to interest thereon at the rate of six per cent per annum ;
- (9) the firm shall indemnify a partner in respect of payments made and liabilities incurred by him—
 - (i) in the ordinary and proper conduct of the business, and
 - (ii) in doing such act, in an emergency, for the purpose of protecting the firm from loss, as would

be done by a person of ordinary prudence, in his own case, under similar circumstance ;

- (10) a partner shall indemnify the firm for any loss caused to it by his wilful neglect in the conduct of the business of the firm.

What a Partner Cannot Do Under Implied Powers.—

In the absence of usage or express authority from all other partners the implied authority of a partner does not empower him to :—

- (1) submit a dispute relating to the business of the firm to arbitration ;
- (2) open a banking account on behalf of the firm in his own name ;
- (3) compromise or relinquish any claim or portion of a claim by the firm ;
- (4) withdraw a suit or proceeding filed on behalf of the firm ;
- (5) admit any liability in a suit or proceeding against the firm ;
- (6) acquire immoveable property on behalf of the firm ;
- (7) transfer immoveable property belonging to the firm ; or
- (8) enter into partnership on behalf of the firm.

Good-will.—It will not be out of place to devote some space here to the treatment of this most important item which frequently forms one of the most valuable assets of a business concern. Good-will is the value attached to the established reputation and connection of a firm. "The possibility that the old customers will resort to the old place" (*Lord Eldon in Cruttwell v. Lye*, 17 Vcs. 335). In the words of Warrington, J., "The good-will of a business is the advantage, whatever it may be, which a person gets by continuing to carry on, and by being entitled to represent to the outside world, that he is carrying on a business which has been carried on for some time previously."

Thus good-will is an asset which owes its very existence to the efforts of the proprietors or managers of the concern to which it is attached, and thus, it is but fair that in cases where the concern is run through the co-operation of partners, it should be, as it usually is, considered as a common asset of partnership, which must be taken into account when computing the share of the capital of an outgoing partner. The difficulty however arises in the computation of the actual value of this most fickle of assets. I call it fickle in the sense that it constantly fluctuates with the increased prosperity or otherwise of the concern. Besides, there are so many circumstances that are to be considered before anything like a correct computation can be made; the more so because the circumstances considered to be of value and importance in some particular cases may, if applied to a different class of business, be considered to be trivial. Under these circumstances unless proper provision is made in the partnership agreement indicating the lines on which the good-will of the firm on dissolution is to be calculated, expensive litigation, or perhaps worse, a public sale of good-will by auction would result. Of course there is nothing to prevent partners from expressly laying down that in case of death or retirement the good-will is to belong entirely to the continuing partners. The usual provision is that it should either be computed through arbitration or on the basis of the average profits of a certain number of years. It is also usual to lay down in such cases a condition to the effect that, in case of the sale of good-will to outsiders on dissolution, the surviving partners who are not purchasers, will not compete with the old firm within reasonable limits, or use the old name. This is all that need be said here on the question of good-will. The author's books on *Higher Accounting* and *Mercantile Law*, respectively, embrace further details to which the reader who is interested, from the accounting or legal standpoint is referred.

The Arbitration Clause.—Partnership agreements usually contain a clause by which it is laid down that, all or any

dispute between partners are to be referred to the arbitration of some person named, or to be selected hereafter, or to some one holding a particular office or position, *e.g.*, the President of the Indian Merchants' Chamber and Bureau. This minimises the chances of partners indulging in unnecessary litigation. Such a clause is legal and binding under exception No. 1 to sec. 28 of the Indian Contract Act, 1872, as long as it does not deprive any partner of his right to appeal to a Civil Court; and any stipulation that restricts such a right to appeal, would be to that extent, void and unenforceable.

Shares and Rights of Partners.—We have noticed that as far as the law is concerned, all partners are entitled to share equally and to take an active and controlling part in the working of the firm. This is of course subject to agreement to the contrary, and such agreements to the contrary are not the exception, but almost the rule. We have noticed that in actual practice all the partners do not devote equal time, labour, or capital, to the partnership business, nor are they generally possessed of a uniform standard of efficiency and experience. It is therefore usual to fix the shares of profits on considerations of ability, actual time employed and the actual share in the capital. On the question of control and direction also, a well organized firm ought to lay down fixed rules as to the powers and the scope of work of each partner by mutual agreement, to which all should strictly adhere. To those of the partners who possess expert knowledge or experience in the business of the firm, should be assigned the right of management of the various departments of purchase and sale; whereas, the financing partners should control the finance in consultation with their managing colleagues. This control of finance also requires considerable care, caution and experience, and therefore, if the financing partner is not possessed of these, he should in his own interest engage the services of a trusted assistant of ripe experience, or should allow himself to be guided by his more experienced colleagues. It is also desirable that one of the partners should take up the supervision, if not

actual control, of the counting house, keeping a close watch on the items of outstandings in the debtors' ledger. If possible the private-ledger which contains the profit and loss account, balance sheet and capital accounts of the respective partners should be written up by the partner in charge of the counting house.

Dissolution of Partnership.—A partnership firm may be dissolved by mutual agreement or consent of all partners at any time. Where it is a partnership at will, the same may be dissolved as from the date mentioned in the notice given in writing by any partner to all other partners. If no such date is mentioned the same is dissolved from the date of the communication of the notice.

A firm is dissolved compulsorily when all partners, or all but one partner, are adjudicated, or where an event has happened which makes it unlawful for the business of the firm to be carried on or for partners to carry it on in partnership.

A partnership is also dissolved (subject of course to contract between partners) (1) by the expiry of the term if it is for a fixed term; (2) by completion of one or more enterprise to carry on which the partnership was constituted; (3) by death of a partner, and (4) by the adjudication of a partner as an insolvent. In this case the adjudicated partner ceases to be a partner on the date on which the order of adjudication is made, irrespective of whether the firm is dissolved or not. Where by a special contract between partners the firm is not dissolved on death of a partner, the estate of the deceased partner is not liable for any act of the firm done after his death.

Accounts on Dissolution.—The principles on which the partnership accounts ought to be finally settled on a dissolution are now laid down in sec. 48 of the Indian Partnership Act, 1932, as follows:—

In settling the accounts of a firm after dissolution, the following rules shall, subject to agreement by the partners, be observed;

- (a) Losses, including deficiencies of capital, shall be paid first out of profits, next out of capital, and, lastly, if necessary, by the partners individually in the proportions in which they were entitled to share profits,
- (b) The assets of the firm, including any sums contributed by the partners to make up deficiencies of capital, shall be applied in the following manner and order :—
- (i) in paying the debts of the firm to third parties,
 - (ii) in paying to each partner rateably what is due to him from the firm for advances as distinguished from capital,
 - (iii) in paying to each partner rateably what is due to him on account of capital ; and
 - (iv) the residue, if any, shall be divided among the partners in the proportions in which they were entitled to share profits.

It may be added here that a suit for account in dissolution of partnership is to be brought within three years of the date of dissolution.

It may be further noticed that each and every partner has a right, on dissolution, to insist on a sale of the partnership assets. No partner, in the absence of an agreement to that effect, can claim to have his own share or that of his partner valued by a valuer or to have same divided in specie. Besides, the right of winding up the affairs of a partnership in dissolution is a personal right belonging to each of the members of the firm, which cannot be taken out of the hands of other partners by the personal representatives or trustees of a deceased or bankrupt partner. The general rule with regard to the above is stated thus: "On the dissolution of the partnership all the property belonging to the partnership shall be sold, and the proceeds of the sale, after discharging all the partnership debts and liabilities shall be divided among the partners according to their respective shares in capital" (*Darby*

v. *Darby* (1856) Crew., p. 503). Here good-will on the value attached to the firm's name must also be sold for the common benefit of all the partners (*Levy v. Walker* (1879), 10 Ch. D. 446).

Registration of Firms.—The Partnership Act of 1932 has introduced a new departure, *viz.*, registration of partnership firms. Though registration is optional and not compulsory in the sense that no penalty is imposed, the sections are so framed as to provide media for sufficient indirect pressure to be brought to bear on partners to have the firm and themselves registered, as we shall see presently. It may be added, however, that the sections as to registration came into force as and from 1st October, 1933.

The idea is that the registration should be introduced gradually in such provinces as are sufficiently developed for the purpose, but to leave undeveloped areas untouched for the present. Thus the Governor General in Council is given the power by notification in the Gazette of India, to direct to what province, or any part of it, the provisions applying to registration shall not apply (sec. 56).

How to Register.—The registration is to be effected, by officers known as registrars, of firms of the respective area, by either sending through post or delivery in person a statement on a prescribed form with a prescribed fee. The statement is to contain (1) the name of the firm, (2) the principal place of business of the firm, (3) names of any other places where the firm carries on business, (4) the date on which each partner joined the firm, (5) names in full and permanent addresses of the partners and the duration of the firm. This statement must be signed by all partners or their duly authorised agents.

Restriction as to Name.—The usual restrictions imposed on joint stock companies as to the use of words in connection with their name such as "Crown", "Emperor", "Empress", "Empire", "Imperial", "King", "Queen", "Royal" or words expressing or implying the sanction, approval or patronage of the Crown or of the Government of India or local Government

are also made applicable to registered firms (sec. 58). All alterations in the name or locations of the principal place of business of such a firm have also to be notified to the registrar in similar fashion (sec. 60). Similarly a change in the constitution has to be notified either by the incoming, continuing or outgoing partner. A dissolution may also be notified by a partner, or an agent of a partner who was a partner immediately before the dissolution.

Registration and Minor Partner.—When a minor is admitted to the benefits of partnership and the said minor attains majority he may notify whether he elects to become a partner or not. The registrar in all these cases makes a record of such notice in his register. The registrar may rectify any mistake, or the Court deciding any matter relating to a registered firm may direct the registrar to make any amendment of the entry in the register of firms relating to such firms which is consequential upon its decision (secs. 46-65). The register is open for inspection to any person on payment of the prescribed fee, together with all statements notified and intimations filed (sec. 66).

JOINT STOCK COMPANIES.

The other most popular form of combination which has helped the modern industries by providing enormous capital, takes the form of joint stock companies.

The actual process of incorporation, working and office organization of such institutions are dealt with at length in their proper sequence in course of the subsequent chapters, but for the purpose of this chapter we shall confine ourselves to a general survey as to the services rendered by these institutions to the business world and the points of interest as to their foundation and constitution.

Companies are formed either with a view to take over the business of some old firm, with a view to extending and working the same on joint stock principles, or an entirely new

concern may be sought to be brought into existence through the medium of this form of incorporation.

The advent of these institutions on the scene has brought into existence gigantic enterprises with capital of millions of pounds, capital far beyond the powers of a single individual even in these days of multi-millionaires. The joint stock company enterprise has also, besides stimulating enterprise, encouraged public saving among not only the rich and the upper middle class, but also among the middle and the lower middle classes. To-day, with a ready market on which shares of joint stock companies can be easily sold and bought, the average citizen is encouraged to economise and save with a view to investing in these companies; and thereby, besides helping the development of industries of his own country, he secures a good return by way of dividend on his investment, and frequently finds his capital itself augmented through success of the enterprise concerned. While stating this it is not forgotten that company enterprise is not always an unmixed blessing, because joint stock companies fail as well as succeed in their enterprise: but in a country where the company system has existed for a long time, the average investor gets too shrewd and experienced in connection with his dealings in shares and stock of these companies to be easily misled. Besides, legislation has considerably helped, as far as legislation can do so, to protect the average investor by introducing in the Companies Act various safeguards which tend to protect a cautious investor, and help him to arrive at a correct decision. The enterprises where joint stock companies are playing an increasingly important part are manufacturing, mining, banking and transport. The company system has so far not progressed, as far as the agricultural field is concerned: though there is no reason why its utility should not be tested in that direction. Some writers, and even learned judges, have described this form of enterprise as an extension of the partnership system. When the joint stock enterprise originally started, the liability of members who contributed capital was

generally unlimited: but soon a stage was reached when it was found that the expansion in numbers of the investors, and the smallness of their stake as determined by the small value of their shares, made the burden of unlimited liability undesirable as well as impracticable. This economic phenomenon brought on the scene the limitation of liability of shareholders; and to-day the bulk of joint stock organization works on a limited liability basis.

We have already noticed that the greatest advantage offered by joint stock enterprise is that one can secure through it an almost unlimited extension of capital as the enterprise flourishes and expands. Another advantage is that the combination is so based that the whole internal management is left in the hands of a small number known as the board of directors, and with managers, managing directors or managing agents as the permanent whole time executive officers. Not only one with a moderate income can invest in joint stock companies, but even a person with large capital finds investments in joint stock companies in modern times more advantageous, inasmuch as he can distribute his capital over a large number of enterprises and thereby minimise the risk and at the same time collect satisfactory returns. A further advantage is, that a joint stock company is a legal entity with a permanent succession; and is not dissolved through the death or retirement of any of its members, however important and whatever his stake in the enterprise may be. The disadvantages lie in the direction of undesirable dishonest or incapable persons taking advantage of a period of excitement and speculation under which they secure capital which may be lost. It is rightly stated that, under joint stock company organization, the possibility of unscrupulous promoters securing capital for an undesirable concern are substantial through the help of glaring advertisements and attractive prospectuses: though here too the legislature has done much to make the position as safe and secure as possible for an average cautious investor. The incentive to work hard and secure all the profits.

of his labour for himself, which is present in case of owners of private concerns such as those of sole traders and partnerships, no doubt is absent in joint stock enterprise: but through the grant of bonuses paid out of profits made by the concerns to managers, managing directors and other officers, this drawback is sought to be obviated.

In spite of the disadvantages discussed above the advantages no doubt considerably outweigh the disadvantages, and hence the system has become universally popular and well established in all the modern industrial countries.

The most popular form is incorporation under the limited liability arrangement, which enables investors even with small savings, to share the fortunes of the largest enterprise in existence, with no greater risk than that of losing the face value of the shares. It also encourages thrift and saving among the middle and professional classes, who in them find a medium of profitable investment, at the same time materially assisting in the development and progress of the industries and commerce of the nation. Thus in a gigantic concern with a capital of millions of pounds, a humble workman, or a poor clerk with a modest saving, can have a proprietary interest by buying up say Rs. 10 shares in which its capital may have been divided. It has no doubt been argued with some force, as we stated above, that these joint stock concerns could not be expected to conduce to the same efficiency of work on the part of their directors, or managers, as in the case of institutions owned by private owners, who devote personal skill and labour; but in the absence of better substitutes, joint stock enterprises are accepted as a sort of compromise in these days when huge capitals are absolutely necessary for certain types of enterprises. To quote Mr. Hartley Withers from his excellent book on "Stock and Shares":—"The needs of commerce have compelled the creation of a machinery which works with a good deal of jarring and plenty of loss and failure in individual cases, but well enough on the whole, though its most striking successes are still won in the fields which Smith

and M'Culloch marked out as specially favourable to its efforts." It may be mentioned that these special fields, according to the two gentlemen just named, are enterprises "where business may be conducted according to a nearly uniform system—such as dock, canal, railway, insurance, and banking companies." To these may be added mining, manufacturing, hydraulic power, gas and electric lighting companies. There are, however, enterprises, where personal attention to details and anxious care on the part of those in charge are necessary, *e.g.*, purely trading firms. Here the joint stock company arrangement, pure and simple, does not stand an equal chance of success with a well managed and amply financed partnership. Some partnerships frequently don the garb of joint stock companies with a view to taking advantage of the limited liability principle ; but as the whole of the capital is practically held by proprietors who are the working genius of the concern, the distinction is but in name if viewed from the organization standpoint.

Control of Joint Stock Enterprises.—Joint stock companies are controlled by a Board of Directors, who are again selected and elected by the shareholders. The directors, technically, stand on the footing of a committee of management and are primarily responsible for the working results. A joint stock company is an inanimate body. The legal phraseology defines it as "an artificial person, created by law with a perpetual succession and a common seal." It can therefore enter into contracts and deal with the outside world only through duly authorised agents. These agents, besides the directors, are the secretary or the manager. The manager is also occasionally designated the "Agent" in some companies. In India we have a peculiar system of organization, *viz.*, that of managing agents, under which a firm or a joint stock company (usually a private limited company) controls and manages joint stock companies, most of which companies they have themselves promoted, or agencies which they happen to have acquired by purchase or otherwise. Many managing agencies

are run by honest, industrious as well as influential business men: but it cannot be denied that a much larger number are in the hands of indifferent, incapable and frequently undesirable persons, which fact has caused frequent comment and criticism of the system. The details as to the legal position and importance of this peculiar system of management under managing agency will be dealt with under a separate heading: but it may be stated that this managing agency system took its rise in early days, particularly in case of the cotton textile industry, at a time when the people of this country were not, owing to their ignorance of the working of the joint stock system, enterprising enough to come forward with capital. Under the circumstances, the only method by which a large company could, in those days, be promoted with a view to working a mill or a factory, was through the assistance of a firm of prominent merchants, who, besides investing their own money in the enterprise, also, through their prestige and credit, obtained finance not only through the selling of these shares among their own friends and receiving deposits and loans on their credit, but frequently on their personal guarantee. Perhaps the time is now ripe when we can safely do without the managing agency system in the case of most of our enterprises floated in the future under the company system. The Central Legislature has already accepted this proposition by providing in the Indian Companies (Amendment) Act of 1936, as well as in the Insurance Act of 1938, to the effect that in the future no banking or insurance company shall be promoted or managed through managing agents.

THE MANAGING AGENTS.

We have, as we noticed above, a system in operation in connection with the management of our companies under which a firm of merchants or a private limited company is appointed a manager or managing agent of a number of companies. In most cases the managing agents are themselves promoters of

the companies, and as such, take a leading part in the settlement of various questions of preliminary contracts with the company they are promoting as founders, and of which they propose ultimately to become managers in the garb of managing agents. In spite of the fact that the managing agency system has existed in India for more than half a century, the Indian Companies Act not only failed to define a managing agent, but even failed to mention the expression "managing agent" anywhere within the fold of its 290 sections. This anomaly has been removed by the Indian Companies (Amendment) Act of 1936 ; and now not only are managing agents defined by the Act in a series of sections, *viz.*, secs. 87A to 87I, but the various incidents applicable to managing agency work and organization have been provided for in the light of past experience of the working of the system. The idea dominant in the mind of the legislator has naturally been to see that, without in any way restricting the expansion and growth of company organization on which our Indian industries largely depend, they should bring the managing agency organization within the control both of the shareholders as well as the law, in such a way as would tend to increase the confidence of the investors on the one hand, and on the other hand protect an honest and first class managing agent from unequal competition of adventurers appearing on the market with fantastic schemes of more or less mushroom growth.

Thus the Act now defines the managing agents in sec. 2 (9A) as follows:—

"Managing Agent" means a person, firm or company entitled to the management of the whole affairs of a company by virtue of an agreement with the company and under the control and direction of the directors except to the extent, if any, otherwise provided for in the agreement, and includes any person, firm or company occupying such position by whatever name called :

Explanation :—If a person occupying the position of a managing agent calls himself a manager he shall nevertheless

be regarded as managing agent and not as manager for the purposes of this Act."

It will be seen from the above definition that a very able attempt has been made to bring within the purview of the definition not only the explanation of what the system happens to be, but also to prevent persons assuming other garbs or names though they may be actually *de facto* acting as managing agents and thereby escaping the provisions of the Act. The definition was drafted after considerable difficulty, and it remains to be seen how far it works satisfactorily in practice. It is, however, in the opinion of the author, a very bold attempt to tackle a rather difficult and complicated problem.

Terms or Period of Managing Agency Agreement.—

The greatest opposition offered to the managing agency agreements, from the standpoint of the investors, by the Bombay Shareholders' Association, was the length of the term of managing agency contracts. A term of fifty years was not uncommon, and in many cases it was provided, in addition, that after the expiry of the said term the agents could continue until they resigned: and the agency contract itself was expressed to have been entered into between the company and the agents, their heirs, successors and assigns. It has been now laid down in this connection that:—

"No managing agent shall after the commencement of the Indian Companies (Amendment) Act, 1936 be appointed to hold the office for a term of more than 20 years at a time." However, with regard to those who were appointed prior to the commencement of the Act, it is laid down that notwithstanding anything to the contrary contained in the articles of a company or in any agreement with the company, a managing agent of a company appointed before the commencement of the Indian Companies (Amendment) Act, 1936 shall not continue to hold office after the expiry of 20 years from the commencement of the said Act unless then reappointed thereto or unless he has been reappointed thereto before the expiry of the said 20 years. In case of old managing agents it is

further provided that upon such termination such managing agents shall be entitled to a charge upon the assets of the company by way of indemnity for all liabilities or obligations properly incurred by the managing agents on behalf of the company subject to existing charges and encumbrances if any and that the termination of the office of the managing agent by virtue of these provisions shall not take effect until all moneys payable to the managing agents for loans made to or remuneration due up to the date of such termination from the company are paid. This section is not to apply to a private company which is not the subsidiary company of the public company.

It will be seen from this that the rights of the old managing agents appointed prior to the Act have been preserved for a further period of 20 years after the commencement of the Act in case their agreements are lengthy enough to exceed this period. The other protection given to them is that in case they have advanced any money or incurred any personal liability on behalf of the company, they would naturally have a right to be indemnified for same, and that the termination of their office is not to take effect until all moneys payable to them for loans made to the company or any remunerations due up to date.

Remuneration of Managing Agents.—In connection with the remuneration chargeable by managing agents who are appointed after the commencement of the Indian Companies (Amendment) Act of 1936, it is laid down:—“ the remuneration shall be a sum based on a fixed percentage of the net annual profits of the company, with provision for a minimum payment in the case of absence of or inadequacy of profits, together with an office allowance to be defined in the agreement of management.” (Sec. 87C(1)). In case there is any stipulation for remuneration additional to or in any other form than the remuneration specified above, it shall not be binding on the company unless sanctioned by a special resolution of the company (sec. 87C(2)). Thus now all agreements with the

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company by managing agents for remuneration in form other than a percentage on profits, etc., such as a percentage on sale, etc., will be void unless they are sanctioned by a special resolution of the company concerned.

The next point to be noted is that "net profits" on which the remuneration of managing agents is to be calculated, are specifically defined by the Act instead of leaving them to be defined in the managing agency agreements according to the whims of the agents concerned. It is now laid down that "net profits" for this purpose means:—

The profits of the company calculated after allowing for all the usual working charges, interest on loans and advances, repairs and outgoings, depreciation, bounties or subsidies received from Government or from a public body, profits by way of premium on shares sold, profits on sale proceeds of forfeited shares, or profits from the sale of the whole or part of the undertaking of the company but without any deduction in respect of income-tax or super-tax or any other tax or duty on income or revenue or for expenditure by way of interest on debentures or otherwise on capital account or on account of any sum which may be set aside in each year out of the profits for reserve or any other special fund.

Inter-Company Loans and Purchase of Shares.—A practice had grown up by which it was universally common for companies under the same managing agents to lend and borrow from one another large amounts of money. It was discovered that in good many cases a sinking company was propped up by managing agents with a view to maintaining their own remuneration for the management, through making some other prosperous company under their management advance money to the sinking concern. In some cases this money was advanced through the purchase of debentures issued by the company in a less favourable position, as an investment on reserve fund by the stronger company, and in other cases, a still more undesirable practice, of borrowing on fixed deposits on the credit of the substantial company under the management, with a view to

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lending that amount to a weaker company which had no such credit was indulged in. This naturally resulted in the weakening, and in many cases the ruination, of many good companies through the failure of the weaker borrowing companies.

The Indian Companies (Amendment) Act of 1936 now provides that :—

“No company incorporated under the Act after the commencement of the Amending Act of 1936 which is under the management of a managing agent shall make any loan to or guarantee any loan made to any company under management of the same managing agent, and no company shall after the expiry of six months from the commencement of the said Act except by way of renewal of an existing loan or guarantee given make any loan to or guarantee any loan made to any such company.” This rule is not to apply to loans made or guarantees given by a company to or on behalf of a company under its own management, or loans made by or to a company to or by a subsidiary company thereof, or to guarantees given by or to a company on behalf of a subsidiary company thereof. Any contravention of this provision would entail a fine not exceeding rupees one thousand on any director or officer of the company making the loan or giving the guarantee who is knowingly and wilfully in default and he shall be also jointly and severally liable for any loan incurred by the company in respect of such loans or guarantee.

In connection with the purchase of shares it is laid down that :—

A company other than an investment company, that is to say, a company whose principal business is the acquisition and holding of shares, stocks, debentures or other securities, shall not purchase shares or debentures of any company under management by the same managing agent, unless the purchase has been previously approved by a unanimous decision of the Board of Directors of the purchasing company.

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Other Restrictions on Managing Agents.—The other restrictions are that in case a managing agent becomes insolvent, his office shall be vacated: and that a transfer of his office by a managing agent shall be void unless it is approved by the company in general meeting. It is, therefore, not now possible for a managing agent to assign or transfer his office without consulting the company or the shareholders in general meeting. A charge or assignment of remuneration or any part of remuneration effected by a managing agent is now declared to be void against the company. The law also provides that if the liquidation of the company is due to the negligence or default of the managing agent, he shall not be entitled to receive any compensation which may be provided for in his agreement or otherwise for termination of his office earlier than what is provided for in his agreement with the company. Further that any variation in the agreements of managing agents or their remuneration made by the directors after the commencement of the Amending Act of 1936, must be approved by the company by a resolution in general meeting.

Constitution of the Board.—The successful organization and the control of joint stock companies largely depend on the constitution of its board of directors and more care and judgment is required here than is frequently displayed. The temptation to include gentlemen of title with very little experience, or devoid of business education, seems to have proved all powerful in the past, with disastrous results. The banking crisis through which we had to pass a few years ago, with considerable loss, both material and moral, forcibly illustrated the strength of this contention. Many well meaning and honest men of reputation and standing in public life, who were induced to join the boards of these companies, were simply led by the nose by dishonest managers through sheer lack of all knowledge of even the most elementary principles of banking business, which nearly encompassed their ruin. The subsequent disclosures in courts of law exhibited to the

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public gaze amazing ignorance on the part of the directors, who presented a sight which was very pathetic. To avoid such disasters, the proper course, as is now increasingly acknowledged all the world over, is to select men of business experience who are likely substantially to contribute towards the successful management of the enterprise. For this purpose it is best to mobilise the best business talent of the country, paying them substantial remuneration, and insisting on their taking a genuine interest in, and devoting sufficient time and labour to the work entrusted to them. For this purpose men who are already on the boards of a large number of companies ought to be avoided, as it is hardly possible for these overworked men to give adequate attention and thought to the efficient working of the company. In India we are labouring under both these drawbacks. We have not yet sufficiently appreciated the fact that dummy titled directors, minus all other qualifications, are not only a hoax practised on the investing public with which to attract capital in the initial stage (a factor of doubtful value even in this regard in advanced countries), but, that it is positively dangerous to entrust such men with the responsible position of directors in the case of companies dealing with large amounts subscribed for by the investing public by way of capital. It is also usual for us to find certain names repeatedly on the boards of directors of almost all our companies. How these gentlemen could be expected to be managing so many concerns of their own, besides devoting sufficient time and attention to the important details connected with their duties as directors of independent companies outside the sphere of their own firms, is a question which the author finds impossible to answer. Co-operation of a board of experts, on the other hand, who have sufficient time at their command, and are ready and willing to devote it to the services of the company, with that of a capable manager and the staff, is bound to produce the best possible results.

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CO-OPERATIVE SOCIETIES.

A co-operative society is generally formed by a class of people with a common interest, such as railway employees or employees in an industry or agriculturists, etc., who as far as possible subscribe the capital and act as the society's customers. The dominating idea here is to derive from this organization, whether industrial or otherwise, the benefits which usually go to the outside capitalists or shareholders who provide the capital. Here the idea is to supply the various articles required by members of a particular group at popular prices, which embrace a small margin of profit which the society keeps to provide for its expenditure and for the purpose of paying a dividend to its shareholders. The dividend itself is usually restricted to a modest percentage. Thus in such societies the consumers combine either to produce the goods themselves or to purchase them collectively with a view to eliminating the profit of the middleman.

Co-operative societies are of four well-known types, namely (1) Distributive Co-operation, (2) Productive Co-operation, (3) Agricultural Co-operation and (4) Co-operative Credit.

Distributive Co-operation.—The idea here is that the consumers associate with a view to economising by buying in common, and to increasing their profits by selling in common, because when a class of people want certain commodity, by wholesale combination they get it cheap, at the wholesale price. Then the society, after adding a small margin for the purpose of meeting its expenditure, and also for paying a small interest or dividend to those who have invested money, may re-sell the goods to the members at the most favourable price. Generally, each member is made to buy certain shares, and thereby becomes a shareholder. Of late this idea of co-operation has considerably developed, and co-operative societies are to be found in many towns and villages in all civilised countries. According to Stephenson, in his book entitled "Principles and Practice of Commerce", this system has met with little success

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in sea-side towns with a moving population in England. It has flourished in Lancashire, Yorkshire, the Midlands and the Valley of the Clyde. It is naturally not successful among very poor classes, who cannot afford to pay ready money, or among the wealthy classes, who are indifferent as to economy, but wish to be paid more attention to when they are making their purchases.

Distributive co-operative societies are also run on wholesale lines, *i.e.*, where wholesale dealers combine and form a co-operative society which makes purchases for them and re-sells them wholesale. Frequently there is a combination by which a wholesale co-operative society purchases and re-sells the goods to the retail co-operative societies and the retail co-operative societies sell them to their members, who are generally consumers.

Productive Co-operation.—Here a combination of producers act together through a committee elected by them and secure the profits to themselves. These productive societies were not very successful in their original idea, where the workers wanted to combine in production and then sell with a view to getting the profits themselves. The management is done by the committee who are the delegates of the workers.

Agricultural Co-operation.—This form of co-operation has generally flourished in foreign countries such as Denmark, Belgium and Holland. Small agricultural holders combine together and purchase in co-operation all their requirements such as seed, manure, etc., and make their arrangements on the same footing for transport and marketing, etc. Thereby they manage to get the advantage of wholesale arrangement.

Co-operative Credit.—These are societies formed to receive deposits from their members who have spare cash with a view to lending them out to those members who happen to be in want. The idea is to give credit to small business men, who cannot get ready accommodation from other sources.

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COMBINATION.

The most noteworthy development of modern industry is the increased growth of combinations among industrial units. These combinations are made either by informal understandings, or through what are commonly known as "gentlemen's agreements" between competing units, *i.e.*, firms or companies; or agreements for regulating prices, more or less formally made. There are also associations for regulating output or for allocating contracts for each type of work or sale or supply. All these combines can be divided into two main divisions, *viz.*, (1) The Vertical and (2) the Horizontal combines.

In the case of vertical combinations, one large company or corporation links up all the stages of production, right from the raw material to the finished article. Thus there is one large limited company, *viz.*, Dorman Long & Bolckow-Vaughan Ltd., which is an iron company, and links up right from the coal mines to iron and limestone supply in all its stages: and the famous Bovril Ltd., which supplies the concentrated Ox soup, owns large ranches of cattle in Argentina and Australia and manufactures the condensed soup which it puts on the markets.

In the case horizontal combinations, however, there is a combine of a number of companies or organizations producing an article in the same state, the object being to prevent cut-throat competition or to maintain prices at a certain level, as in the case of Imperial Tobacco Co., of England, which is a combination formed by a number of independent tobacco and cigarette producers. We have a large combine of a similar character in India, *viz.*, The Associated Cement Co., Ltd., which is formed or made up of a combination of a large number of joint stock companies in the cement manufacturing line.

The advantage of such combines is to avoid cut-throat competition (as in the case of our cement companies) as well as making for efficiency and perfection in the product and reduction of costs through large scale organization and production.

MONOPOLIES.

A monopoly, generally speaking, is in effect, control, either natural or artificial, on either the supply or demand side of goods or services. According to John Stuart Mill, monopoly is a limitation of supply. Monopolies thus may be divided into two divisions, *viz.*, (1) monopoly of supply or (2) monopoly of demand. In the modern world, absolute control of the demand or supply is very difficult, except in the case of monopolies enjoyed by the State, as in the case of post office and telegraph work, or similar other work of public utility, of which the State secures the monopoly through legislation preventing any other party within its borders from either supplying or producing the article. There is another type of monopoly known as *legal monopoly* acquired by individuals in case of inventions, through obtaining of patent rights for a certain period. This is allowed in civilised societies on the ground that invention should be encouraged through such protection given by the State. There may be monopolies in the case of certain supplies, due to peculiar geographical conditions by which a certain article is exclusively produced in one country, and thus that country acquires a monopoly of supply of that natural wealth to the rest of the world. These latter monopolies are natural, and not artificially made by legislation or otherwise ; but in the modern world even such monopolies do not succeed for a long time, as synthetic processes may produce even that natural article, and compete with it, and thereby destroy the monopoly of supply. A professional man or a business office or a manufacturer may secure a *partial monopoly* through his peculiar talent or through the reputation or prestige of the firm or company for excellent quality, style, etc., which monopoly can be maintained so long as competitors are unable to produce and supply the same quality of service or commodity. There are other monopolies which go under the heading of *social monopolies* such as copyrights, trademarks, etc. There is one more class of monopoly known as *secret monopoly* which is made up of the secret of

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the process of manufacturing or producing a particular article, for which the manufacturer or producer does not care to get a patent lest the secrecy of the process of manufacture may become known.

RATIONALISATION.

Rationalisation is a word of continental origin and of rather wide significance ; but generally speaking it denotes a form of organization particularly designed with a view to eliminating waste and inefficiency. On the close of the great war, it began to dawn on the leaders of industry that the old system of individualism must now be replaced by the more efficient method of running the whole industry under a special form of reorganization of all the industrial concerns covered by the said industry on most modernised and scientific basis, with a view to eliminating waste as well as inefficiency connected with the productive units as well as selling organizations. This is done through co-ordination and co-operation of the individual concerns covered by the industry, each individual concern restricting itself towards producing that for which it has the most efficient organization and machinery, and co-operating with the rest of the concerns along given lines. Through this type of combined organization not only large capital is naturally made available, but the most efficient organization for purchasing, producing and selling or marketing products is achieved. Competition is also reduced and specialisation is encouraged. On the whole the result is not only better and more efficient production, but the cost of the units is considerably reduced with the result that the selling prices are also a bit lowered. As we have already stated, rationalisation is a very wide term and involves one or more of the following ideas :—

- (1) simplification and standardisation of the product leading ultimately to economy,

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- (2) wholesale application of scientific management according to the present day methods,
- (3) consolidation or amalgamation of certain undertakings either in the same line or in allied industries in one great unit, with common management and control with a view to produce in the largest possible quantity and reduce cost.

Rings or combinations of capitalists formed with a view to maintaining a standard price of a particular commodity in which they are interested, which price may be higher than that of the actual or economic market value.

Pool.—In case of Pool, certain firms which ordinarily competed with each other agree to join in a combination, under which all their profits are clubbed together and then distributed in proportion to their capital and output. The idea is to permit each member to retain his individual independence and to remove competition by a combination of profits through a loose form of trust.

Trust.—The modern form of Trust is the combination of companies under which the shares are purchased by a new company formed by themselves. The old form of Trust was one where companies and firms which combine, confer a general power of Attorney upon certain individuals whom they appoint trustees. Under this power they were given entire control as administrators and managers. The owners of the shares concerned received trust certificate and the profits were distributed among them in a proportion guaranteed.

Cartels.—Are a loose form of trust, whose main object is the maintenance of reasonable price or limitation of supplies. Under the cartel each separate unit or business maintains a separate existence and their idea is to break as soon as possible the particular reason which brought them into existence disappears.

Trade Associations.—A looser form of combination or association on more or less a gentleman's contract principle is

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what are called Trade Associations. In the case of these associations each member contributes a certain amount with a view to creating a fund which is being augmented through similar contributions on the basis of sales, etc. These associations may have as their principal objective either to restrict output and to share it among its associated members in times of difficulty or over-production ; or it may be formed for the purpose of price maintenance. The other general object is to prevent unfair competition and to fix fines or penalties in case of infringement of any of the regulations of the association mutually agreed to. They may also go in for collective advertising out of the common funds of the association. In connection with sales, also, quotas are fixed based upon past records of trading of individual members. There are other important services rendered to the members such as information bureaus for credit information, research laboratories, debt collection, etc. It is usual, in the case of such associations, to appoint a secretary by mutual agreement who is usually an independent accountant who has the right of inspection of the books of any of the members at any time, and who ascertains or verifies percentages of actual business done for each of them with a view to ascertain how much each member has exceeded or fallen short of his quota either of production or of sale so that the final adjustment can be arrived at.

An Association of Employers is virtually speaking a trade union of employers. We have, *e.g.*, our Mill-owners Association in connection with textile industry, which is virtually speaking an association of employers in that industry. Their object generally is to protect the interests of employers in a particular industry or in the country or district in which they are established. These associations help the employers to work in collaboration in connection with the industry concerned and prevent abnormal rise in wages, *i.e.*, they are a counterblast to the workmen's trade unions by presenting a united front of employers against these trade unions when any unreasonable demands are made by the said unions. Frequently

such associations have arranged efficient control for output and price in mutual interest. In connection with research work also, both on marketing and technical questions, the associations by a united effort provide finance. They also collect and distribute technical and business information among their members, as well as acting as a medium through which standardisation could be introduced.

Corner.—Is where an individual or a syndicate buys a particular commodity from a given market with a view to raise the price to their own liking. This type of corner has now become very difficult in cases of commodities, because of the facility in communication and transport and markets such as the stock exchange, and one seldom hears of them.

CHAPTER III.

ORGANIZATION OF WHOLESALE BUSINESS.

PURCHASE DEPARTMENT AND BUYING POLICIES.

Wholesale Business.—Having dealt with the most necessary preliminaries we shall now proceed to deal with the organization of a wholesale business.

A wholesale business may be carried on either by a sole proprietor or a partnership or even a joint stock company. The main purpose of the business is to buy in large quantities either on the concern's own account or act as agents of manufacturers and receive goods on the arrangement of consignments or indent and in return sell these goods wholesale. The wholesaler of modern times has become virtually speaking the controller of markets at various locations where he studies the requirements of the buyers through market research and other methods and guides the manufacturers who are attached to him in one form or other as to the type of production they should bring out, or as to the alterations, improvements and variations that should be made from time to time in order to meet the requirements of the average buyer in the district where the wholesaler happens to be predominant. He is also a great convenience to the retailer, inasmuch as he keeps a stock of the goods in the line in which he is dealing from which the retailer keeps on replenishing his little stock in the shop as he manages to sell them retail. Were it not for this wholesaler, the retailer would have to keep a much larger stock, and to run the risk of same getting out of date or stale, as well as the risk of getting out of stock and losing orders through the interval that he secures them from the manufacturer from a distant place. The wholesaler also helps to maintain the

prices which would otherwise fall heavily during slack seasons if the production happens to be much larger than the demand. He also exercises a similar wholesome influence in checking a constant rise in the price through the production getting suddenly out of stock at particular location. The usual practice of these wholesalers happens to be that they buy during the slack season, when prices are more favourable, and sell them during the busier season.

The wholesalers are divided into. (1) wholesale warehouse men who sell locally on the markets where they are situated and do not export in large quantities for foreign buyers and (2) export merchants who get orders from abroad from indent firms and other agents at different locations and either supply from their own stock, or place the orders with various manufacturers whom they select as those whose manufactures are suitable for the foreign buyer who has sent him the order. We shall deal with the indent firms with whom these foreign export merchants deal in a separate chapter when we shall also give an idea as to the nature and type of organization that these export wholesale merchants have to maintain.

Wholesalers and Manufacturers.—The wholesalers help the manufacturers considerably not only in connection with formulating policies as to the manufacture of the goods and help them to secure markets for their manufacture, but also relieve them from the necessity of employing large capital by either purchasing the goods in large quantities or by advancing money or finance in form of acceptances of the bills of exchange for goods consigned by the manufacturers to them. They also relieve the manufacturers from the work of collecting and securing orders, and thereby relieve the former of having to maintain a large sale organization of their own and thereby distract their attention from their legitimate and proper work of manufacturing goods. By frequently signing forward contracts for supply of goods from month to month in the year to come, they relieve the manufacturer not only of the anxiety of their produce being sold, but also that of maintaining

a large stock on the off chance of getting orders. Thus a large proportion of manufacturers of modern times do not carry stocks on their own account and risk, but produce goods against contracts that have been already made with them.

There have been of course cases, though rare, of manufacturers setting up their own wholesale organization for selling at different locations ; and also of wholesalers starting to manufacture on their own. In the case of manufacturers setting up a sales organization, we have already seen that that course would entail the locking up of enormous capital both in connection with maintaining of stocks as well as of giving credit to the retail shop-keepers and also in connection with floating capital to be employed in the huge selling organization which is to be maintained in such cases. In the case of the wholesale organization which is also manufacturing, a similar difficulty arises not only in connection with having to lay out a much larger capital for setting up factories, but also disadvantages connected with distracting attention between manufacturing and selling. Some manufacturers have even gone to the length of eliminating the wholesaler altogether, and by opening a large number of what are called "chain shops", or "multiple shops", try to sell to the consumer directly. We shall deal separately in detail with this form of organization under a special heading.

Generally speaking a wholesale organization, as distinct from manufacturing organization, has proved to be a necessity ; particularly in connection with independent retailers as well as for the convenience of a large number of manufacturers who are not required to have their own selling organisation. The convenience of the independent retailers arises from the fact that through the wholesaler they are able to secure all their requirements instead of having to get them from numerous manufacturers. They are also relieved of the necessity of keeping a large stock, as we have seen above, or of the risk arising through the constant fluctuation in prices if the wholesaler was not on the market to balance same.

Wholesalers' Organization.—We shall now proceed to study the organization of a wholesale office on its administrative and executive sides, the principles of which will no doubt in a large measure apply, with certain variations, even to a large selling organization for retail purposes. The administrative side looks after office routine, finance, etc., whereas the executive side is in control of the purchase, sales, publicity and despatch departments. Mr. Stephenson, in his work on Principles and Practice of Commerce, divides the organization into five facultative divisions, and assigns to each of these a personnel and duties. They are as follows:—

Faculties Required in Business Administration.

FACULTY.	DESCRIPTION OF PERSONNEL	DUTIES.
Determinative ..	Board of Directors, Managing Director.	Determination of policy.
Administrative ..	General Manager, Secretary, Group Managers.	General application of policy, co-ordination between functions, control of executive.
Executive ..	Departmental Managers, Foremen and Overseers.	Departmental supervision and local co-ordination of function. Immediate supervision of work.
Operative ..	Factory Operatives, Clerks, Labourers and Apprentices.	Manufacturing and functional operations.
Consultative ..	Legal advisers, Consulting Engineers, Auditors, Advertising Agencies.	Specialised advice.

From the above it will be noticed that the learned author has placed the board of directors and the managing director in what he calls the "determinative" faculty; inasmuch as they are there to determine and lay down the policy of the undertaking as a whole. On the "administrative" side of the faculty he places the general manager, the secretary as well as group managers, whereas to the executive faculty he assigns the departmental managers, foremen and overseers. The operative faculty is naturally in the hands of the lower

staff, made up of the operatives, clerks, labourers and apprentices ; whereas in the consultative faculty group fall the legal advisers, consulting engineers, auditors and advertising agents.

Individual v. Collective Responsibility.—We shall now proceed to deal with the question of the selection of the staff, or the employees, and deal with the duties connected with the principal offices in some detail. It has been repeatedly emphasised that the success of this form of combination mainly depends on the efficiency of the officers and the extent of personal interest displayed by them in the successful working of the enterprise. It has been conceded by the best authorities, that the duties and responsibilities of men in charge of the establishment should be regulated on the collective responsibility principle, in order to ensure smooth and continuous work. If a concern is made to hang on the sole and individual responsibility of the chief officer, that officer has not only to be exceptionally capable, but the danger is, that the abilities of his subordinates are likely to be dwarfed for want of continuous practice and experience in the work where initiative and original thought are required, with the result that the sudden removal of the chief through illness, death, or resignation, leaves the whole establishment in a state of confusion and stagnation, till his place is filled in by an outsider equally capable. On the other hand, if the establishment is carefully divided into departments, each in charge of an efficient head, with a careful distribution of work and responsibility, permanence of efficiency is ensured, and an opportunity for development of originality and initiative brought within the reach of a much larger number. The removal of one of the heads, through any of the accidents above enumerated, does not give rise to any inconvenience under this form of organization, because the post can be filled up by gradual promotion from the staff itself. This affords the additional advantage of creating a sort of incentive among the staff to work hard and bring out the best of their talent in the service of the company in the hope of promotion. The humblest

member of the staff should be made to feel that the highest and the most remunerative office is open to him provided he proves himself worthy of it.

Technical and Business Knowledge Distinguished.—The other point to be remembered, particularly in the selection of the Manager is the fact frequently lost sight of, *viz.*, that technical knowledge and business ability are two distinct qualifications. In other words, a technical expert, say for example a practical chemist, will no doubt prove a good acquisition for the laboratory of a company formed to manufacture patent drugs, but if he is handed the charge of office management, *i.e.*, the work of pushing the sales and organizing a distribution campaign, he is bound to fail. Many a promising Indian enterprise has failed through the total disregard of this most potent factor. There should be an appropriate division of work. The technical expert should strictly keep himself within the limits of factory management, whereas, the business specialist should be left a free hand in connection with his office work and finance. They should, however, co-operate by an exchange of views in order to bring about the most successful result. This class of mistake is common in connection with companies formed in order to work a patent. Here the inventor is hardly the fit person to act as the manager. He is no doubt an expert as far as the production or improvement of his invention goes; but he seldom possesses the ability and judgment necessary to push the sales or to control the financial side of the enterprise. This branch of work must be left in charge of a business specialist.

Specialisation v. General Knowledge.—This brings us to the consideration of the important distinction to be drawn between the specialist and the general business expert. Specialisation within certain limits, and in certain branches of work, has no doubt proved to be the most advantageous from the point of view of efficiency, but there are other employments where the zeal for specialisation may be carried too far. Mr. Harry Tipper in his book entitled "The New Business" rightly

states that "Specialisation in any kind of pursuit has the tendency to limit the outlook in breadth while increasing it in depth." In other words a specialist no doubt acquires a deep knowledge of his own branch of human activity, but outside its limits he is a mere child. The result is that the specialist can only be used as a component part of a large organization, working and co-operating in that work with his brother specialists in other departments, but all of them have to be directed and guided by a master mind at the head of the organization who has acquired a sort of a "specialised knowledge of general affairs". The specialist efficiently assists the general manager with the practical solution of the problems set before him, but he is incapable of creating ideas as far as the directing of the whole organization is concerned. This, according to Mr. Harry Tipper, "must be done by a mind well enough equipped with general knowledge of human affairs to construct, with a sufficiently broad understanding of the relations of the different branches of human affairs, the plan upon which the operating problems are based. It is for this reason that many of the most successful merchants have been found among those who were not specialists in anything except the broad interests in humanity and buying and selling, but who because of this broad knowledge could direct the work of the specialists in any particular line so that the greatest efficiency could be secured out of the whole plan." To support this argument further Mr. Tipper adds that "commercial affairs of to-day dealing with enormous masses of employees, with trade extending over the whole world, with activities of scores of sciences and innumerable details of practice, are demanding more and more not the detailed information along simple narrow lines possessed by the specialist, but the broad general information which permits of a view-point properly proportioned with due consideration of the prospective."

It will thus be noticed that in the grouping together of the staff of a large establishment, we have to provide for specially selected specialists, who are to carry out instructions

from higher quarters and who are to be directed and guided by managers or heads possessed of general knowledge, wide experience and considerable practical ability. Our business schools and colleges should therefore devote their attention to the manufacture both of the specialist, and the business man with a "specialised knowledge of general affairs".

The Locality, Site and Building and Their Influence on Business.—In connection with the business office of a wholesale merchant, the location and site will entirely depend on the nature of the business. Of course the site value in the case of a wholesale business office would be of as great an importance as in the case of retail shop-keeper : but it is asserted by sales managers of great experience in the wholesale line that in the modern trading conditions, the location of the office is also a very important factor in organization which may make or mar the selling capacity of the whole business. In almost all wholesale trade there are what are known as "buying centres" where the mofussil and countryside buyers, in the form of retail merchants, frequently call whenever they happen to be in the town or city, either to place orders or to discuss other equally important items of business. In fact the retail shop-keepers make up two types of buyers. One is that which belongs to the class which waits for the salesman to call for his orders, whereas the other is one who is in the habit of frequently calling at the wholesale office itself, in order to make his choice or purchase and discuss incidentals thereof. Thus it is necessary that a wholesale office must also be located in that part of the city or town where such buyers are in the habit of frequently going ; and thus that location may become almost a wholesale market. The office building must be easy of access in the locality, and there should be outside a display of signs, and uniformed attendants clever enough to guide the mofussil buyer or customer to the correct department or to a particular head of department whom he may have come to visit. There should be in the main hall or entrance a clear indication as to the positions of the rooms of various heads of departments, and a lift

service. In short, the appearance of the premises should be in keeping with the dignity and the name of the firm. Many large wholesale houses have built their own buildings along modern lines and the tendency now-a-days is to eliminate small rooms and compartments in order to save space and time in passing from one room to another. In connection with ventilation and lighting arrangements also, small compartments are more expensive and inconvenient. Only for those officers and employees whose work is likely to be disturbed are separate rooms provided ; and for the principals or heads of departments special interview rooms fitted with telephones, etc., are maintained. In fact the modern executive seldom receives a client in his working office, but maintains a separate interview room to receive and discuss business with him. This is most convenient in view of the fact that in the work room there may be an amount of important papers lying about, and when the busy executive is working on them the room may not have an exactly attractive appearance ; and a specially fitted up room makes an excellent first impression.

The building should be built with a view to provide ample day-light and ventilation through windows, besides fans for the warm season. This helps the staff concerned not only to work in comfort, but also to maintain their efficiency for the whole day through ; fatigue being much lessened by these methods. In the case of artificial lights, not only should they be ample, but the modern tendency is to get them so covered up as to be free from glare and dazzle. On that side of the country where winter is severe, heating arrangements on most modern lines should be maintained for winter. The office accommodation should be free from overcrowding either through so many employees being placed in a small space, or through files and other papers being stored up in a clumsy manner. Every modern office should be fitted up with what is called a strong room, with pigeon holes and steel cabinets where the whole record of accounts and books of a most valu-

able character may be stored every evening and kept safe against an outbreak of fire.

The most modern offices have now adopted the practice of keeping a reception or an enquiry office in charge of an intelligent and trained attendant who is in a position to distinguish between important callers and others, and who is able to receive the callers and give them private directions. Many offices maintain special reading and writing rooms for such callers and visitors, particularly where they have a number of visitors frequently visiting them on business from the mofussil and countryside, so that the customers can use these rooms as a sort of an office and club during their short stay in the city. It is asserted that this experiment has brought a considerable amount of business, not only from the old customers, but has also helped the introduction of new customers who accompany the old ones during their visit to the city.

Furniture.—In large offices the telephone exchanges are placed in separate compartments to prevent conversation being overheard; and also to avoid interruption by outside noises. The office furniture of modern times is made up of tables which are cleared every day, and the old fashioned roll top desk has virtually disappeared. Desks used by ledger keepers should be sloping; whereas in the case of typists, special typewriter tables must be used. These tables are of a height which is adjustable with a view to eliminating fatigue. In the case of chairs, too, comfortable chairs which give the least possible degree of physical fatigue and discomfort should be used. Various other mechanical devices should be used for labour saving purposes, which will be dealt with separately.

Selection of Staff.—The next item of importance in connection with large wholesale, as well as other offices, is the question of the selection of staff. In connection with original selection of staff, considerable skill, care and impartiality has to be observed. Unfortunately the human element generally prevails in favour of nepotism which is a weakness which tends

to destroy or impair the efficiency of a good business as one great writer has rightly stated.

The only considerations which should weigh in the balance in the selection should be ability, education and experience. In short, selection should be on the footing of merit, irrespective of caste or creed ; and it is the duty of every business head who is called upon to select staff, to see that he adheres to that principle. It is bad enough to select members of staff on the principle of nepotism if the business happens to belong to yourself though there may be the redeeming feature that the loss entailed through inefficiency affects your own pocket ; but it is positively a crime against moral order, as well as against the concern which one is called upon to manage, to show any favouritism to any relative, friend or outsider over other more deserving applicants. Many a good business has been ruined when, as Professor Russell Smith puts it in his excellent book on "Elements of Industrial Management", nepotism is resorted to. Nepotism is derived from the Latin word "*Nepos*" a nephew or grandson, and means favouritism shown to nephews and other relatives with a view to finding them some remunerative employment, irrespective of their training or ability. In the words of the same learned author "they are nice young men, it is true, and being of the blood of the successful, they have, upon the average, a better chance of inheriting the qualities for success than the average man. The trouble is that the potential qualities for success must, we know be developed by education and experience. The latter they often fail to get. Merely because they are these fortunate nephews, they do not get the knocks that give the experience necessary to develop their powers. The old saying that 'Blood is thicker than water' is really a potent destroyer of good business. It is a fact, blood is thicker than water. We love our relatives, we like our friends, and we are going to do the best we can for all of them ; with the result that we put men in positions because they are our friends or relatives rather than because they are fitted by nature or experi-

ence to assume responsibilities in the best possible way. Another name for nepotism is 'pull'. It puts the right man in the wrong place, where he can wreck enterprises. It also discourages other young men because they see that a rival has an opportunity merely because of relationship, not because of merit. This evil is particularly strong in old enterprises that run through second and third generations. A man starts a concern, hands it down to two or three sons, who vary in ability, and by the time their sons have got good positions all the way through the concern, it is well fixed on the high way to ruin. Almost any person of wide observation can name a few examples in point." Human nature in the United States of America, where these words were written, is evidently in no wise different from that in India. Do we not know of companies and enterprises started and successfully developed by the founders, particularly by some of our old firms of "Secretaries and Agents", which were handed down to their children in a flourishing condition, gradually exhibiting signs of decay?

Encourage Your Own Staff.—The next point to remember is that the first desideratum of every business executive is to encourage his own staff by giving them all facilities for training and study with a view to improving themselves, so that when higher appointments in the concern fall vacant through retirement or death, one from the staff itself is promoted. In some concerns the so called policy of "importing new blood" is followed. In such cases it has been found in many instances that this is only an excuse to fill up the vacancies with men related to, or having some connection with, the directors or managers. Where however there is genuine intention of employing specially trained men and thus import new blood in that form, care should be taken to see whether there is any member of the staff worthy enough with similar qualification to fill up that place; and if so the first opportunity must be given to him. Any departure from this naturally results in disaffection and dissatisfaction among the members of the staff which would soon lead to inefficiency all along the line in the business.

organization resulting in great loss. It is rightly said that employees are entitled to look for promotion and unless there is reasonable prospect to look forward to, the best man might leave the organization as soon as a better opportunity occurs.

The Procedure for Selecting Junior Employees.—The usual practice in selection of junior employees is either to advertise for them or to write to various employment agencies specialising in that class of work. If an advertisement is put in, care should be taken to state clearly the type of people required, together with qualifications and prospects, so that the right kind of applicant may be attracted and it may save the reading through a large quantity of applications of unwanted persons. Many offices therefore prefer to take the assistance of employment agencies of standing and repute who submit names. Whether the applicant comes through the employment agency or through advertisement, he is to be interviewed, and thus a certain number of suitable candidates are selected. Original certificates should be asked for to be produced at the interview, and as each applicant is interviewed a note should be taken as to the impression created on the party by the officer interviewing who must be an experienced head in this type of work. Where references are produced or mentioned they should be noted down and correspondence opened in due course and correct information obtained.

Usually in all large businesses where the employees are being interviewed the practice is to prepare a standard questionnaire for each class of employee so that the officer concerned may utilise same and ask questions from the said questionnaire and take down the answers given at the interview. After these questionnaires are dealt with, the interviewer makes his report for which report also the firm prepares a special questionnaire which is to be answered by the interviewing officer. The papers are then circulated among the board of directors or handed to the chief officer concerned, who has the final voice in selecting for the post. In connection with salary asked for by the applicant it may be that in these days

of unemployment he may ask for much less than what he actually needs, or in some rare cases ask for much more. The best course therefore is to see that the salary and promotions are fixed in advance according to the nature of work that is to be done for a man properly qualified ; and thereafter the firm must see that it gets the person who deserves such a salary and promotion. This will not only result in the best selection, but will also encourage the selected party to continue with the firm, and not to leave it suddenly for a better job. One point which has been emphasised by the most experienced and successful business men is, that it is a great mistake to expect the best results from under-paid or poorly paid clerks and assistants. Unfortunately there are many concerns in this country making huge profits and in spite of that they are most tardy in the payment of their clerical and other staff, while the principal officers are given large salaries. This principle militates against efficiency, because a poorly paid staff works without stamina, gets easily fatigued, gets frequently absent through illness and thus in the long run the organization suffers.

After the new clerks are engaged, the work of training them in the routine of the office concerned must also be left to superior and experienced clerks who are sympathetic and energetic enough to see that the young men are given all possible facilities to pick up their work. Frequently in case of complicated departmental organizations, office manuals are prepared, giving in detail the description of the work to be done by each officer concerned, explaining the reason why that is to be done, and finally showing how the work of a particular officer is linked up with the rest of the office. A large number of offices encourage their own assistants to attend morning or night lectures at commercial colleges by not only providing facilities of attendance and examination study leave, but also by paying a portion of their fees. Ultimately this course results in benefit to the office itself through securing of able and grateful assistants.

Capital and Sources of Supply.—Every business naturally requires capital. In the case of a sole trader the proprietor generally starts with his own capital, whereas in case of partnership, the partners bring in their quota of capital as agreed upon. In the case of a joint stock company, the capital is raised by issue of shares to the public and thus the shareholders become, virtually speaking, the proprietors of the company, providing it with the necessary capital. This capital is thereafter employed in business and may become what is known as fixed capital or circulating capital. The fixed capital is, of course, that part of the capital which is utilised on purchase of fixed assets such as building, machinery, etc., which assets are worked with a view to produce income; whereas the circulating capital, otherwise known as working capital, is a liquid capital which is used for carrying on the business: as for example for purchasing goods or raw materials in case of manufacture, payment of wages and salaries, etc. The quantity of capital required in business will not only depend upon the nature of the business, but also upon the credit of the owners in the business world. Merchants and firms with established reputation and credit can do a much larger quantity of business with relatively smaller capital than new businesses, which do not generally command the same credit or prestige on the markets concerned.

In case of joint stock companies, besides share capital one comes across debenture capital, which is the amount of money raised or borrowed by issue of debenture bonds on which the company agrees to pay a fixed rate of interest. This amount, raised through issue of debentures is frequently called debenture capital; but it is in fact a misnomer because it is nothing more than the money borrowed for the purpose of business.

It may be added that besides the actual capital which has been thus brought into business or raised through the issue of shares, etc., the financing of business is also largely done on the concern's credit through the acceptance of bills of exchange for purchase of goods, discounting of bills accepted by other

traders against goods the concern has sold, overdraft arrangement with bankers on personal security or guarantee or on pledging or mortgage of moveable and immoveable assets.

Departments.—By a department is meant a unit of organization to which a set of functions are allotted. In a wholesale business office the usual departments are departments for (1) Cash, (2) Purchase, (3) Sales, (4) Accounts and (5) Works.

The Cash Department.—We shall first of all see how the finance of the concern, *i.e.*, the Cash Department is organized. There is a head cashier and he is assisted by a number of junior cashiers or assistants. The head cashier keeps the General Cash Book which has separate columns for "bank", "cash" and "discount". The head cashier is supplied with printed receipts bound in book-form, with perforated counterfoils, which are also consecutively numbered, and is instructed to acknowledge all cash received on these receipts. On every invoice as well as debit note sent out by the firm, intimation is printed in red letters to the effect that all receipts not acknowledged on the firm's printed forms will be deemed worthless. When the head cashier receives cash, he has to fill in one of the receipt forms in the receipt-book, filling in the original and the counterfoil coupon at the same time. He signs the original receipt, initials the counterfoil, which remains with him, and hands over the original receipt to the customer. If the cashier is not empowered to sign the receipts, he gets the same signed by the departmental manager concerned. He then proceeds to enter the amount in the cash book on the debit side, placing the number of the counterfoil in the "voucher number column"—a special column to be found on both sides of the cash book—in the same line with the amount received.

With regard to payments, the best rule followed is to make all payments by cheques, crossed wherever possible, whereas only in case of emergency, or absolute necessity, the payment is to be made in cash. The cheques are all filled in by the head cashier, or his assistants, and then presented to be signed

by the head of the department concerned. A receipt from the payee for the amount paid has to be obtained and in case of payments over Rs. 20, the same has to be stamped. These receipts are then pasted in a book called the "voucher guard book". They are then consecutively numbered in the proper order, the number being placed on these vouchers either in red ink or in blue pencil, which numbers are then recorded in the "voucher number column" in the cash book on the credit side in the same line as the amount of payment. It will thus be noticed that there is a proper voucher for each of the receipts and payments. The cashier never makes a payment unless the bill or invoice against which the payment is to be made is duly certified by the managing partner concerned. Thus a thorough check is maintained on all payments coming in and going out. The auditors of the firm will thus be able to easily check the receipt-book counterfoil with the amounts and details as entered on the cash book debit side and then verify if they are properly posted in the ledger. With regard to payments, the auditors will be in a position to check them with the counterfoils of the cheque books, as well as with the "voucher guard book", where the "receipt voucher" from each of the payees is carefully pasted in its numerical order. The cheque book counterfoils are also checked by the auditors with the bank pass book to see whether the payments were actually made by the bank.

Petty Cash.—Petty expenses such as postage, cartage, cooly hire, packing, stationery, etc., are sometimes too numerous to engage the attention of the head cashier and it is often arranged in large concerns of the type we are dealing with, to allocate to a particular clerk the duty of acting as a petty cashier and the petty cash is kept on, what is known in book-keeping, as the "*Imprest System of Petty Cash*", under which the head cashier advances a sum at a round figure, say £20, to the petty cashier by drawing a cheque in favour of the petty cashier. The petty cashier cashes the cheque, makes all the petty disbursements, for which wherever possible he obtains receipts, and at the end of the week presents his account to the

head cashier. We will suppose that his detailed expenditure in the week amounted to £15-10-0, for which he accounts to the head cashier as paid for telegrams £10, cartage £5 and postage 10s., the head cashier passes an entry in the Cash Book on the credit side according to the ordinary rules of book-keeping, debiting these heads of accounts and hands over to the petty cashier a further cheque for £15-10-0, *i.e.*, the actual amount the petty cashier has accounted for, thus replenishing the petty cash in order to make it up to the original figure of £20.

Credit Information and Collection of Accounts.—The object of this branch of work is to arrange a system by which the most accurate information could be obtained, filed and kept up-to-date, as to the credit and standing of parties who deal, or are likely to deal with the firm. In old-fashioned business offices, including banks, this branch of work is left to the cashier. The second branch of work indicated by the heading, *viz.*, the collection of accounts, is also more or less left in charge of this generally overworked official. Perfection and accuracy can hardly be expected under the circumstances. The trained business manager should never allow this state of affairs to continue. Large amounts are often written off yearly by business houses as bad debts, that could have been saved through the efficient handling of credit information work and a proper system of collection of accounts. Every firm of any magnitude or importance should maintain a department such as the "intelligence and collection department", the principal work of which is to collect and file information as to the standing and credit of both the wholesale and retail firms with which credit business is done. For this purpose, in small concerns a book called the "Opinion Book" is maintained with an alphabetical index on the first few pages. One or two pages of this book are devoted to each name, which is indexed and the details collected are written out on the pages assigned to each. The information is dated and kept up-to-date by insertion of new reports from time to time. The general practice is to revise

these reports at least once a year. The information collected may be generally placed under some or all of the following headings:—

Firm's Name.

Partners.

Financial standing of each.

Do they hold landed properties, if so of what value?

Are they encumbered; if so, up to what extent?

What is the value of the stock-in-trade generally maintained by the firm?

What is the yearly turn over?

What is the reputation of each partner individually and the firm collectively as to honesty and resources; whether he is speculative or sober in his dealings?

What is the amount they are good for and for what time?

Are they competent and experienced?

When the credit customers are numerous, beyond the scope of a single, or a number of opinion books, the information reports may be kept in folders, filed on the principles of the vertical system of filing, with either an alphabetical or numerical card index.

In case of joint stock companies, the information required is collected from balance sheets and published accounts as well as from bankers and the bazaar merchants. Character element plays an important part in this type of concern, though of course the same by no means should be ignored in case of private firms. Are we not frequently meeting with instances, where the balance sheets periodically proclaim concerns that are rotten to the core, as being financially sound? The head of the credit intelligence department should never allow himself to be guided substantially by these statements, but should work hard to find out all the secrets as to the inner working of these concerns and for that purpose should keep himself closely in touch with the market gossip, each time trying to test the strength and truth of each story that the daily excitement of a busy market brings out by way of relaxation. A firm or

company, whose directors are inclined to be speculative, should be watched with great care and anxiety in spite of its prosperity and capital.

In the case of concerns situated outside the district, information may be collected through business friends situated in the same locality, or through bankers who generally maintain branches or agencies in all principal towns. In Europe and America "Information Agencies" are conducted either under the auspices of local chambers of commerce, trade associations, or by private individuals. These agencies undertake to furnish confidential information as to the standing and credit of firms situated within a certain radius for a small charge. There is no reason why such agencies should not be started and developed in the principal towns of India, either by our Indian Merchants' Chambers, or by men of established standing and reputation.

The intelligence and collection department should undertake the work of collecting accounts. The accounts department should from time to time, send out a return of balances due from customers, together with the length of time during which the accounts are left unpaid, to the credit information and collection department, whose duty it is to see that the same are collected without undue delay. Being in close touch with the latest information as to the fluctuations in the credit and the standing of each of these firms, this department is in the best position to judge where a polite reminder, and where a more vigorous demand is necessary to bring about the desired effect. As a rule the department should begin with a polite reminder, which may be followed by one or more similar letters as the knowledge as to the standing of the firm addressed may dictate. Finally a more emphatic demand may be resorted to.

Inquiry Agencies.—Inquiry agencies or information bureaus are also very handy in connection with obtaining reports on the standing and credit of people in business. One agency in America has about 200 offices located in principal cities throughout the world, through whom it obtains all

information it desires with regard to any trader or business man in the locality concerned. The services of such agencies are undoubtedly of great value to the subscribers who get their information at a reasonable charge.

BUYING POLICIES.

In connection with all large concerns which deal in wholesale lines, the most vital factor is that of purchase along correct lines ; and it may be stated that the policies laid down, on the footing of which purchases are to be made, must be closely related to the policy of selling as well as the financial policy of the concern. The policy of purchase centres round the question as to what to buy, what types and qualities are to be purchased and where they could be had to the best advantage. In short, good purchasing can only be made by the head of the purchase department who makes a thorough research in this connection and obtains a definite knowledge through such research which enables him to purchase at the best advantage. He will then obtain a complete knowledge of prices at which goods could be had from different manufacturers and producers, and their fluctuations, and for this purpose a constant research is necessary. The policy is to be based on the type of customers for whom the goods are to be purchased by the wholesaler. If the selling organization caters for middle class customers, the class of goods suitable to that class will have to be covered, whereas in case where its customers are shop-keepers located in wealthy localities, the goods suitable for wholesale dealing will naturally be those suitable for richer a class. The next points that will have to be taken into account are the quantity which should be kept always ready in stock, and the forward contracts that should be made with producers and manufacturers, which idea the manager of the purchase department will get through his past experience in connection with his own firm, and the tendency of the market at the time he lays down that policy. The style,

colour and the pattern also play an important part in this connection, in view of the fact that the taste or fashion constantly changes. This particular phenomenon of constant changes generally is the principal item of worry to the manager of a purchase department in view of the fact that there are very few articles which maintain a steady demand for a lengthened period; and even the demand for staple articles frequently varies.

Job Lots.—Frequently the buyer of the buying department is offered what are known as "Job Lots", i.e., goods which are to be sold in lots, belonging to bankrupts or to those who wish to rapidly convert them into cash. Naturally here the temptation of the buyer is to make purchases owing to the exceptionally tempting price at which these job lots are offered; but the deciding factor should be here the suitability of the job articles for the purpose of the customers of the buying firm, whereas otherwise, unsuitable articles however cheap will lie heavily on their hands, and may ultimately have to be sold at a loss. If a decision is arrived at to purchase, all possible deductions should be made for unsuited goods which will have to be scrapped. The goods should not be purchased on the footing of mere sample or samples presented, but every article ought to be carefully examined. It may be that some of the wholesalers' customers are situated in a poor locality where cheap goods of inferior styles or out of date patterns could be sold at a profit. In such a case, of course, that factor will play an important part in the decision to purchase.

The Quantity to be Purchased.—As we have already stated, the quantity which should be purchased will largely depend upon anticipated sales, which will again depend upon the past record of sales maintained by the purchase department of the wholesaler himself. Here naturally the purchase department will have to decide the problem in close collaboration with the sales department. The quantity that should be purchased

at a time will again depend on the policy of the firm as to quantity discounts offered to its customers, its facility for storing its goods, risk of change of style or fashion as well as that of perishability of the goods, amount of capital at the disposal of the wholesaler, transport facilities for obtaining such goods at short notice, etc. In connection with records of past sales, the analysis of the number of years immediately preceding the date of purchase will be an excellent guide in connection with the quantity sales, style and the price, class of the goods concerned. There are goods of a class that entirely depend on the type of weather and naturally the forecast of weather conditions will naturally have to be taken into account, such as in the case of umbrellas, overcoats, etc., for rainy season or woollen for the winter.

Rapid Stock Turnover.—Frequently some wholesalers as well as retailers follow the policy of what is called “rapid stock turnover”, which means buying in small quantities frequently and trying to sell them away as rapidly as possible. The advantages of following such a method happen to be that goods which are maintained in stock are fresher ; which element is enough to tend towards increased sales, the risk of deterioration is lessened, loss through sudden fall in the price is in a large measure eliminated, the capital required is also small in amount and the expense of warehousing and storing are also lower. However, there is the other side of the question, in case of rising market this policy will not pay, and the general practice is to buy larger quantities with a view to taking advantage of the rise in price. The other risk which this policy has to face is that of getting out of stock suddenly and unexpectedly through suddenly increased demand, and that the stock checking has to be constantly and vigilantly employed. In short, if this rapid turnover policy is carried too far, it may result in increased expenses in connection with buying, accounting, packing, shipping, etc.

Buying Budget.—Frequently large concerns prepare a budget in advance as to the quantity they should purchase from

time to time during the year and the total estimated purchase. This is a very common practice in connection with large department stores who employ a large number of buyers in their service, and who have to take guidance as to what quantity should be purchased at certain intervals. In the preparation of the budget, of course, the record analysis of past sales serve as a guide, and constantly the budget has to be adjusted according to the actuals in unexpected increase or decrease of sales. It is claimed that by such method a sort of a check is maintained on over-purchase or under-purchase of particular articles. As the budget deals with the purchase of various departments, naturally it forms a medium through which the principal executive is able to control and co-ordinate the results of the departments concerned.

Influence of Prices and Quantity Discounts on Purchase.

—No doubt the prevailing prices on the market frequently influence the quantity purchase and in this connection what are called quantity discounts play also an equally important part. When the market prices show a tendency to rise, a large purchase is made in anticipation of being able to sell at a still higher price and make a larger profit. In the case of quantity discounts, there is always a temptation to buy a larger quantity so that a large percentage of discount may be obtained. Both these tendencies entail considerable risk because in the case of prices the upward tendency may suddenly change, whereas in the case of quantity discount, if a quantity is purchased which turns out to be beyond the calculation of possible sales, the goods may not only lie on hand, but if they are perishable may get stale or spoiled and ultimately entail a large loss.

Buying Agents.—We have seen that in order to be an expert in purchase, one has to be in constant running touch with the changing phases of the purchasing and manufacturing markets, and it is frequently found desirable that the purchasing should be left to outside buying agents who make a speciality of buying or purchasing. This is particularly so

where purchases are made from a centre of produce or manufacture which is outside the country or located at a great distance. Many large concerns make use of the specialist buying agents because it is found in many cases advantageous to do so, as these buying agents, being in constant touch with markets and prices, secure better offers than the purchasing head of the firm can do on his own. The sources from which products can be obtained are better known to them and in times of shortage these buyers are in a better position to know where to get these goods and give quick delivery. It is frequently argued that there are some disadvantages connected with this, inasmuch as these outside buying agents will not have the interests of the buyer at heart and may frequently mislead them by wrong advice. However, it is admitted on all hands that the specialist buying agents in many cases are not only advantageous but indispensable, though of course their utility largely depends upon their reputation for honesty and fair play.

Co-operative Purchase.—In a previous chapter we have dealt with co-operation in its various phases. Frequently large buyers who may be wholesalers themselves or retail shopkeepers combine to make this form of purchase, and if these co-operative organizations happen to be efficiently managed they no doubt work out to the benefit of the buyers concerned. The management of these co-operative purchase organizations of course should be honest, reliable and energetic. Usually these co-operative organizations are incorporated companies whose shares have been purchased by members who are themselves large retail or wholesale organizations.

Group Purchasing.—This organization should be distinguished from a co-operative purchase organization although this group buying is no doubt a form of co-operative purchase, and has now prominently come on the scene both in Europe and America. Here, groups of buying offices of different concerns combine in making their purchase and thereby secure the goods at more favourable prices and also get better selection.

In many cases this results in the purchase of the entire output of a factory or a mill. One difficulty of group buying is that the different concerns that make up a group may frequently require different styles and patterns as well as colours of goods ; in which case the purchase cannot be made on favourable prices. However there are groups who have found that they can advantageously combine and are working satisfactorily as well as with economy in expenses and quantity prices.

Organization of Purchase Department.—The organization of this department is of vital importance as to the degree of success with which the business can be managed, whether wholesale or retail. We have already dealt with the main features of buying policies and shall now proceed to consider the practical aspects of office records and organization.

To certain officials and clerks is assigned the duty of reporting to the head as to what class of goods are "low" in stock, in view of the margin laid down, on whose report the head takes action in time so as to avoid loss and inconvenience arising through any of the articles getting out of stock. A well-organized business, as we have already noticed, should never be short of stock, and all the time and trouble devoted to this branch of organization is bound amply to repay in its results. During what is known as the "season", the articles which are likely to be in the greatest demand should be adequately stocked, otherwise the stock is likely to run short at that very time when there is a possibility of effecting the largest sale. Even worse, a late purchase order may bring in the goods too late for the season, thus involving the firm in greater loss, both through the loss of opportunity for sale and the burden of carrying over a heavy stock to the next season, by which time it might get out of fashion.

Every department of the firm sends out its orders on regular printed "Order Forms" of the firm. These "Order

Forms" are printed and bound in book-form consecutively numbered and duplicated. The manager of the particular department, when he fills up the "Order Form", takes a carbon duplicate which he keeps with him in the book itself. The original "Order Form" is filled in and signed by the manager. Very often the firm sends out orders for purchases on account of contracts that the firm has entered into, in which case the order always refers to the purchase contract on which the same is based. With regard to these order forms, the usual practice is to prepare a number of copies by using carbon paper. One of these is sent up to the firm to which the order is sent, another is sent to the accounts department to facilitate their work of checking the invoices when the goods come, a third may be sent to the godown keeper who receives the stock. Here it may be stated that many firms prefer to send only specifications of the goods to the accounts department, as the purchase-prices are generally kept secret and one copy is maintained in the order book itself. When the goods come in, in response to these orders, the invoices of the goods are to be carefully checked by one of the clerks of the departments concerned to whom the work is allocated. The first thing to be checked in the invoice is the quantity ordered, with the quantity supplied, for which the clerk has to refer to the carbon duplicate in the Order Book. He has also to see whether the goods supplied are of the same quality as stated in the order. He has then to see if the price is correctly charged. For that purpose he should see if any price is indicated on the "Order Duplicates". Where the purchase is made on account of a purchase-contract by the firm, the clerk has to refer to the original contract. All the calculations in the invoice itself should also be carefully checked. Mistakes are frequently made in ordinary mathematical calculations to the detriment of the firm to whom the invoices are sent out. Thus the time and trouble devoted to these minute details are amply rewarded. These invoices are then sent on to the counting-house, or the

accounts department, where they are entered in the "purchase-journal". The purchase-journal is ruled as under:—

Date.	Amount.	L. F.	Invoice.	Cotton.	Coal.	Wool.	Crockery.	Expenses.

The student here notices a number of columns, each for a separate department of the firm together with the amount column which indicates the total amount of purchases made from the firm whose name is found entered in the column headed "Invoice". The invoice is practically speaking analysed and a one line entry is made in the purchase-journal stating the particulars of invoice in the invoice column, viz., the name of the purchaser, the amount of actual goods purchased for each of the departments being entered in each of the separate columns reserved for each of these departments, and the total expenses being entered in the expenses column. This method of main-

taining separate columns for each department gives us separately, the total monthly purchases of each of the departments. The expenditure column gives us the total expenditure on purchases. It also facilitates the posting of the ledger. What is done here is that each of the firms from whom the goods were purchased as entered in the invoice column, is credited in the ledger separately for the total amount of purchases as shown by the amount column, and at the end of the month, totals are taken of the cloth, coal, wool and crockery and the expenses columns and the accounts are debited for the totals of the respective columns of the total, thus making a complete double entry.

Here, it may be further added that, in wholesale concerns the warehouse where the stores are kept should be in a more or less well regulated order. It would not do to heap up goods as they arrive at random, so that much time is wasted in sorting out the articles at the time they are wanted. The idea in the arrangement of the warehouse should be to so arrange the articles as could admit of their being easily handled. This can be done by allotting certain space to each type of articles where they should be segregated, arranged and stored up on specially-made shelves to suit the nature of the goods that are stocked. The stock-book should also be carefully ruled, indicating each type of stock and showing the quantity received, and quantity sent out, with facility for reckoning of the stock which is likely to be on hand. For this purpose books with pages ruled in the form of a banker's current account ledger are universally in use, which admit of the quantity of stock received being shown on one side in a set of columns, those sold on the other, with the balance on hand in the third. There should also be some arrangement for the proper checking of stock at certain intervals.

It would not be out of place to deal with a few documents usually used in business in connection with purchase and sale. Most important of these documents, as we have already seen above are invoices. Invoices may be inland or foreign. The

following are the forms of Inland and Foreign Invoices respectively:—

INLAND INVOICE.

5th March, 1939.

Bought of

Messrs. GORDHANDAS GIRDHARILAL & CO.,
Wholesale Provisioners,
84, Mazagaon Road,
Bombay.

Messrs. Nagji Premji & Sons,
553, Eldon Street,
Bombay.

Order No. 296.

		Rs.	As.	P.
10	2 cwt. bags rice @ Rs. 28/- ...	280	0	0
1	tin tea of 100 lbs. net @ Rs. 15/- ...	15	0	0
6	dozens porcelain jars @ Rs. 3/- a doz. ...	18	0	0
E. & O. E.		313	0	0
Net Cash, 30 days.				

The following is the form of Foreign Export Invoice for goods sent out:—

Messrs. SULEMAN KHAN & Co.,

Invoice of 1000 bags groundnut seed shipped per s.s. *Dunkirk* from Bombay to Calais by order and for account and risk of Messrs. P. Elliot & Co., Calais.

	Rs.	As.	P.
1000 bags groundnut seed each $1\frac{1}{2}$ cwt. net (about) f.o.b. at Rs. 8 per bag ...	8,000	0	0
Total net weight Tons 80-12-3-8.			
CHARGES :			
Carriage to docks ...	Rs. 47 8 0		
Freight Rs. 10/- per ton ...	„ 807 7 0		
Shipping charges ...	„ 20 1 0		
Marine Insurance ...	„ 4 8 0	879	8 0
E. & O. E.	Rs. 8,879	8	0
Suleman Khan & Co., 136, Kalbadevi Road, Bombay.			

Credit Note.—The following is the form of Credit Note which is generally sent by the seller to the buyer when the buyer complains of some inferiority in quality or some leakage or loss and the seller admits that claim. By sending this Credit

Note the seller informs the buyer that he has credited him in his ledger for the said amount.

Credit Note Form.

CREDIT NOTE.

43, SUPARIBAUG, PAREL, BOMBAY.

18th Jan., 1939.

MESSRS. SORABJI & CO.,

112-13, PYDOWNIE, BOMBAY.

Cr. In account with KALIANDAS KANJI & CO.

	Rs.	A.	P.
By allowance made for leakage of rice in transit	50	0	0

Foreign Price Quotation.—In connection with Foreign Trade the student has to master various prices quoted for various incidents. There are what are known as Loco Prices; Free on Wagon Prices; F. A. S. Price; F. O. B. Price; C. I. F. Price and Franco Price. The following diagram clearly explains same:—

ITEMS INCLUDED IN EACH CLASS OF PRICE.

	L o c o	Free on Wag- gon	F. A. S.	F. O. B.	C. I. F.	C. I. F. F.
1. Manufacturer's price						
2. Carriage to Station.....						
3. Dock Charges.....						
4. Loading Charges.....						
5. Export Duty.....						
6. Freight.....						
7. Insurance						
8. Landing charges in foreign country.....						
9. Transport charges to and by station.....						
10. Local Delivery charges.....						
11. Commissions.....						

Certificate of Origin.—When goods are exported from places like Italy, Spain, South Africa, Australia and Canada certificates of origin are required. They are frequently printed on the back of invoices and can be obtained from the local British Chambers of Commerce or from the Customs House at the time the goods are entered. They have to be signed either by the exporter or by the Secretary of the Chamber.

Consular Invoices.—These invoices are required by countries such as the United States, as well as a number of Republics of South America. These invoices have to be signed by the Consul of the country to which the goods are being shipped. The Consul certifies these invoices in three copies, one of which has to be given to the shipper, other to the customs authority at the port of entry, while the third is retained by the Consul himself. A small fee is charged for so doing by the Consul concerned.

CHAPTER IV.
ORGANIZATION OF WHOLESALE BUSINESS
(Continued).

SALES DEPARTMENT & SELLING POLICIES.

We dealt in the last chapter, in some detail, with the buying department of a wholesale business and shall now proceed to deal with the Sales Department of a similar concern.

Is a Wholesaler Necessary ?—Frequently manufacturers maintain their own wholesale selling department and thus divide their organization into two sections, *viz.*, (1) the factory organization and (2) the sales organization. There are others who prefer to concentrate on manufacture ; and entrust the work of selling to wholesale merchants who at different centres command great influence and maintain most efficient selling organization under competent salesmanagers. These wholesale organizations have established their claim through their long experience and efficient work, which has given them an enormous influence over the retailers in their district. They are prepared frequently either to purchase against cash or on credit on their own account, the goods of the manufacturers, or to receive them on consignments for sale on their account. The manufacturers find in such cases that they are not only relieved from the worry of maintaining their own efficient sales organization, but also from providing a sufficiently large capital in case they were to open up their own sales department with a head office at the centre at which they manufacture and district branches with district salesmanagers supervising sales of their manufacture in each district. Many manufacturers in India, such as our cotton mills, have firms of selling agents to whom the monopoly of sale of almost all their products is given by long term contracts. The question has been frequently raised whether this form of division is advantageous. The

answer is, that if the selling organization of the agent is maintained on modern lines, with an efficient staff at every centre, the division of work would certainly bring about the best results, *viz.*, concentration or specialisation in each of these two departments. Unfortunately many of our Indian selling agency firms are too old fashioned and out of date for modern requirements, and hence our textile manufactures are not marketed on the most modern lines as they should be: which is one of the causes why the foreign imported textile cotton goods are still in control of the Indian markets. In early days when the textile cotton industry could not secure all the capital it required from the share-holding public, perhaps that course was necessitated through force of circumstances, but now there is no reason why selling departments should not be opened and run by such of our mills as cannot secure the services of selling agents with modernised equipment for selling, pushing and marketing their goods.

Whether the manufacturer employs a wholesaler or works his own department, he must of necessity, in modern times, carry on a propaganda of his own with a view to keep his brands and goods known on the market. Many manufacturers, however, with their own departments for selling, have managed to come in direct touch with retailers and sell the goods most favourably through their advertised brands: but of course in such cases a much larger capital outlay, and specialised organization for selling of a most efficient character, is necessary.

A few of the manufacturers have even gone so far as to open chain shops and sell to consumers directly. This aspect of selling has been dealt with in a separate chapter and hence a passing reference need only be made here.

There are however cases where a manufacturer is not prepared, or is not able, to lay out large capital outlay in a selling organization of his own, and prefers to deal with competent wholesale agencies. In the case of foreign markets, particularly, opening of branch offices for wholesale selling is most

expensive ; and it has been found in practice that the wholesale selling agents who are natives of the countries concerned, and who command an efficient selling organization, are most desirable, at least until such time as the sales at such a foreign centre are sufficiently large to warrant opening of a branch of his own by the manufacturer.

Thus it will be seen that a large number of manufacturers use the wholesalers for keeping in stock their goods at different centres, selling them on credit to retailers, and advancing the manufacturers against the goods thus sold sufficient finance in one form or other. In many cases the wholesalers act in the centres where they are located as sale agents of the goods produced by the manufacturer and are thus encouraged to push the goods if the agencies are given to them for a sufficiently lengthened period to recoup all the expenditure that they may make for creating goodwill for them during early years. This relieves the manufacturer also of certain amount of expenditure which he himself would otherwise have to incur in pushing, selling and creating goodwill for his goods. In assigning a territory for a sole agency, care should be taken however to see that too large a territory is not assigned: but each wholesaler is given monopoly within an area which he is in a position most efficiently to develop and control. Generally it is the experience that if a product is of such a character that it requires aggressive salesmanship and pushing at different centres, the wholesale sole agency system is not only desirable but advantageous while looked at from various stand-points.

There are no doubt arguments against exclusive agencies *viz.*, (1) that they frequently result in decline in sales due to reduced number of outlets, (2) that for exclusive agencies, the best dealers cannot be always secured, (3) that the dealer in exclusive territory may become indifferent. As against that, the question of finance, and the necessity of large organizations at different centres have to be weighed ; and it should not be forgotten that in many cases the local wholesalers command a

prestige by themselves, which in case of unknown goods of a new manufacturer may be of considerable help. The consumer at each centre is much benefited through these wholesale exclusive agents who of necessity have to carry large stocks ; and thus the local consumer as well as the retailer can always find the goods they want and do not themselves have to keep large stocks with a view to avoid their getting out of stock. The only care that should be taken in connection with the appointment of wholesale agencies in any territory is to see that the selection is made with great care. Generally speaking the wholesaler has been found to be indispensable in modern selling economy on almost every market.

SALES DEPARTMENT.

In the case of the sales department, care has to be taken to see that the department is left in charge of those who are experts in the line, and know how and where the goods dealt with by their firm can be sold to the best advantage. A number of salesmen are employed, even in the case of wholesale business, to go round and secure orders. The men should be imbued with enthusiasm in their work, and should know the articles they are attempting to push forward in all their details, including both their strong and weak points, in comparison to those of competing business-houses. The practice of large English and American firms of modern times is to provide for a specialised training of salesmen and in this connection what they generally do is to take up smart men of good manners and fairly good education to be trained up specially for the work of salesmanship. As far as possible they are taught by demonstration and lectures as to the processes of manufacture, or production, of the articles concerned with a view to give them a general idea as to these. The principles of salesmanship are then imparted according to the writing and teaching of recognised experts on the subject, and they are next given in charge of experienced salesmen

to learn practical work. Thus the young man gets in touch with all the dealers and buyers in the line, and knowing as he does, the strong as well as weak points of the goods that are offered for sale, as compared to the advantages offered and drawbacks of those sold by competing suppliers, he is in the best position to argue out and convince his buyers, if necessary, as to the merits of the goods he offers. As far as possible the salesmen are encouraged to lay suggestions as to improvements or alterations in the quality, get-up, and specification of the articles, with a view to suiting the changing requirements of the market, of which suggestions the manager of the purchase department should take careful note. In the case of an entirely new business, a prolonged selling and advertising campaign has to be maintained, for which sufficient capital should be provided at the time of assessing the actual financial requirements of the contemplated undertaking. The technicalities of an advertising campaign ought to be thoroughly mastered by the capable head of the sales department who should select and engage specialists to assist him in carrying on this campaign either as full time employees or on the basis of professional fees. Once a capable head is selected for the sales department, the proprietor or director should give him a fair chance to display his talents and interfere as little as possible. In case of the wholesale dealers both in commodities such as tea, sugar, etc., which are articles of every day want, and also in the case of manufactured goods, nothing pays better than selling the same through the agency of salesmen travelling from place to place and establishing a direct connection with the retailers all over the country. This branch of work of the sales department is woefully neglected in this country, and sales of these particular articles are left simply to chance, or to the slow process of recommendations by business friends. There is an unexplored field, full of potentialities in this direction, which can be used by well organized firms of wholesale dealers through the help of enthusiastic salesmen, who are rewarded according to their working results. This is fully recognised by European

and American firms who take the full advantage of their opportunities. An average Indian merchant hardly realises to what extent his sales can be multiplied by paying more attention to this branch of organization. A good salesman is said to sell not only what the customer thinks he wants, but like the advertiser he creates wants where they did not exist, and thus multiplies the demand for the articles sold by his firm. If these articles are really good, this demand is likely to be constant, and if the goods sold by a particular firm are designated by a brand or mark, such a brand will soon establish a lasting reputation. The heads of the Indian cotton, wool and silk mills do not yet seem fully to realise this. If they were to advertise their goods properly, open up shops for the sale and exhibition of their manufactures and try to push them with greater vigour through travelling salesmen than they seem to be doing at present, their sales can be multiplied in these days of Swadeshi sentiment, provided of course their manufactures are worthy of public patronage.

Returning to the salesmen, the head of the sales department should assign to them a particular district or market for the exercise of the individual activities of each. The most suitable men ought to be selected for this work and the division should rest on the basis of ability as compared with the requirements of a particular district or market concerned.

The salesmen are allotted their territories according to their ability for securing orders and according to the nature of the customers which the territory covers. Generally more than one salesman is assigned a territory ; preferably a senior and a junior so that during the absence of the senior on leave or illness the junior could fill up this and look after the sales without any interruption or break. The transfer of sales from one territory to another is generally undesirable because it has been found that a new salesman taking over a new territory is almost always certain to lose a certain portion of the orders and even lose future customers.

WHOLESALE SELLING, SUPERVISION AND CONTROL.

Most of the wholesale business houses largely depend upon the orders secured by travelling salesmen who not only obtain continuous orders from the firm's standing customers, but also make a continuous attempt to secure new customers by visiting what are technically known as "prospects". The work of securing these prospects' orders, as well as that of reviving what are called "dead clients" accounts is the most trying work, and is generally entrusted to the most experienced and successful of salesmen on the firm's staff. The dead clients are those customers who have stopped giving orders. The best course in connection with this class of customers is to send a salesman other than the one to whom the territory is assigned, preferably at a time when he is absent on leave or otherwise, so that if there has been any dispute between the salesman and the customer concerned the new salesman could easily get over the difficulty and manage to get the old dead account reopened. Some travelling salesmen, through their honesty of dealings with the retailer, and through their tact and personality, win over the confidence of an average retailer with the result that the retailer looks upon them as his guides and advisers in connection not only with purchasing of goods but also with regard to other points such as the methods of display, the likely future demands for the goods, the possibility of alteration in pattern, design or fashion, the selling points which they should put forward to the consumers to buy from their shops and even on the quality of stock that they should require for a particular period.

This army of salesmen is continuously supervised by the salesmanagers of the district or head office, who have special records prepared from time to time in statistical order of each salesman under them, and receive continuous reports from these travellers as to the dealers they are visiting, the places they are travelling and the results obtained. The salesmanagers' sales office also assists the salesmen to secure interviews with

new customers by writing letters from the central office, and requesting appointments. They also simplify the work of selling by continuously sending the customers on the list, as well as the prospects, sales literature prepared from time to time in connection with new goods or old ones, illustrating the advantages as well as prices and emphasising various selling points in connection with the goods offered for sale. Thus the dealer who is always anxious to find out avenues for greater profits; having read this literature, is quite prepared to receive the salesmen and discuss with them the business. A skilful and proficient salesman has thus his work made easy.

The office of the salesmanager issues from time to time instructions to the salesmen known as "sale bulletins" which are prepared by the salesmanagers or other equally superior officers, continuously giving them ideas as to how they should proceed in connection with securing of orders, how arguments of rivals and competing firms ought to be answered, what new goods are proposed to be placed on the markets, their selling points and advantages and general questions of policies of the firm and alterations if any in them from time to time.

The salesmen are also asked to attend to various complaints as to quality and price, bad packing or any breakage or leakage, which are most sympathetically considered by the office, and where it is found that the dealers' claims are just, they are immediately and tactfully met.

Travellers Allowance and Remunerations.—The travellers who are frequently called by the dignified name of "representatives", are generally paid well. They are paid a remuneration, plus a commission on sales effected by them, plus travelling expenses. This remuneration is generally liberal in view of the fact that these travellers have to dress well, be well read, as well as live well. Simply payment of salary is not desirable in view of the fact that the incentive to work hard and multiply sales is wanting; neither is it desirable that the salesmen should only be remunerated on commission on sales, because in times of depression when the sales fall off, the salesmen's

remuneration may be so small that they may be tempted to leave the service particularly at a time when the house which employs them needs them most. The rates of salary are also fixed by a sufficiently attractive scale so that the salesmen may be induced permanently to continue with the firm, and promotion to higher grades will also serve as a great incentive to serve the house loyally and work hard for its betterment.

Advertising and Branded Goods.—We have already seen how sales literature is a great help to a traveller in securing orders. The same is the case if a continuous advertising campaign is maintained on economic lines in consonance with the exigencies of the business. The details as to this branch of work are dealt with in a separate chapter.

With regard to branded goods it is most remarkable how brands have become a normal feature of the sales market of the modern world. Commodities such as tea and coffee and even mustard, of common use, have now obtained the status of being branded, named and packaged by wholesale selectors, who through the prestige of their brand and name, and the quality of their selection, secure a continuous demand and build up a goodwill of a very profitable business. In fact the brands otherwise known as "proprietary articles" are now the backbone of great selling corporations as well as that of manufacturers. In connection with brand, either trading names may be used or distinctive words may be coined and applied. Thus we have words such as "Bovril", "Vim", "Hovis", "OXO", "Phosphorine", etc., which have been specially invented by the manufacturers for their particular goods. The points to be noted in connection with the selection of these trade-marks are that (1) they should be simple and easy to pronounce, if in form of names, (2) that they should be distinctive and easy to remember, (3) they should be easy to spell, (4) the design to be selected should be simple, (5) it should be one which should be employed permanently, (6) it should be one which should suggest the good quality of the merchan-

dise, (7) it should be attractive and sound in appearance and (8) it should be registrable and protectible.

Packaging.—It is now the universal practice, even in case of bulk merchandise, to package same in one form or other. This packaging has many advantages, the most principal being (1) it facilitates the physical distribution, (2) it facilitates their selling, (3) it leads to cleanliness and greater convenience in handling these goods, (4) much time is saved in wrapping and weighing which would be otherwise lost, (5) if certain goods are of a deteriorating nature, if they are put into proper containers they do not get stale or spoiled and (6) the neat and attractive packages help the sale of the contents.

Almost everything is packaged to-day, *viz.*, cereals, crackers, coffee, tea, cooking fads, dry fruits, candy, tobacco, cosmetics, drugs, breakfast food and even breakfast. The package itself is given a sort of personality in design and get-up by many wholesalers and manufacturers, and the shaping and size of the package is largely determined by the type of the product itself. A novel and distinct shape for packages or containers is frequently adopted for the purpose of attracting attention and creating an impression on the memory. Many wholesalers and manufacturers get an additional selling point by using containers for their goods which could be used thereafter by the purchaser for other purposes. In the case of novelty articles, novelty packages are mostly used. These novelty packages make a special appeal for selling to children and thus one finds on the market pencil boxes of fancy types, fantastic containers for children's sweets or toys, trick boxes, etc.

SELLING POLICIES.

In connection with selling, the success or failure will largely depend upon the policies followed by the concern. Policies in connection with sales are a definite course of action pre-determined after careful calculations; and if seriously thought out and efficiently operated, they lead to profitable results. In

these competitive days carefully thought out selling policies lead to outstanding success. Every business concern has to fix a policy in connection with sales, purchases, marketing, service, prices, distribution and credit. A policy is defined as "a selected line of action to be taken by a business organization consistently over a considerable period, sometimes running into a year, two years or several years". The policies are naturally decided upon not only after careful thought but also after experience of the markets concerned as well as the customers and have to be from time to time as new circumstances arise, altered to fit in with the situation. Market research is one of the methods by which policies are tested and revised when necessary. The policies of production and selling are known as "major policies", whereas the policies of giving credit, advertising, packaging, etc., are known as "minor policies". There is a difference of opinion as to whether the thinking out and laying of policies should be settled by the chief executive alone or by a committee of experts. Those in favour of a committee formulating the policy urge that a committee has the advantage of bringing in different angles of vision which a single individual cannot possibly possess, whereas on the part of those who advocate a single executive formulating a policy, it is emphasised that if that single executive is competent enough, he produces the best results; and that the committee decisions are not quick enough and most dilatory, whereas a single executive officer can arrive at quick decisions and carry them out without losing valuable time or money. Whoever is assigned the work of thinking out policies must be restricted to that work, and should not be allowed to discuss details of operation as to how the policies are to be carried out.

The Problem of Distribution.—The problem of distribution plays a very important part in connection with selling, as a proper and well thought out policy helps to increase sales. An article may be produced or manufactured to its perfection, and may carry an attractive price; but if its distribution and

transport is not scientifically arranged, its sales will be badly retarded. In this connection the cost of distribution plays a very important part and if economically handled is bound to influence sales favourably. Specialised agents are very helpful and are usually used by the salesmanagement. Brokers, sale agents, consignments, auctions, salesmen, etc., are the usual agencies through which sales and distributions are effected; and in some cases a manufacturer or even a wholesale company may incorporate a separate joint stock company to look after the selling side of its business. The use of wholesalers and exclusive sole agencies has already been considered in connection with distribution. The deliveries are made in various ways in accordance with the transport facilities prevailing between the selling firm and the buyer. In modern times the road transport through motor wagons has come into great prominence particularly in connection with shorter distances. This transport is quicker, and in many cases even cheaper, than road transport. It has been found that a bakery may cover a territory extending from 50 to 100 miles from its centre through motor transport for the purpose of delivery to regular customers. Motor trucks are also used for delivery from the central depot to the various chain shops of large chain organizations. In many cases salesmen, who are generally given cars to be able to cover their territories in modern times, carry small packages meant for dealers in their own motor-cars. In some centres a number of companies of wholesalers combine together and form a separate company for the purpose of what is called co-operative delivery, to their retailers, in which these selling companies purchase shares and get this transport company managed by a separate organization of its own under their supervision. Steamers and railways play an important part in connection with transport and physical distribution where long distances are to be covered.

Simplification as a Selling Problem.—The object of simplification and the essence of it happens to be that the policy of business management should be such as would enable the

conduct of all activities of the selling department to be performed in the least elaborate manner consistent with a given purpose. In short, the object should be to obtain the maximum of results with the minimum of efforts. Frequently simplification and standardisation are used as terms which are synonymous, though there are some who hold that standardisation connotes a quality or a standard of product or method, whereas simplification is said to apply to the design of the product. Simplification and standardisation are frequently used in connection with manufacturing ; but the selling department also uses these two terms in connection with its marketing policy. It has generally succeeded both in connection with manufacture and marketing. Instead of producing a large number of varieties the production is limited to certain most suitable articles with the result that the simplification has resulted in (1) lowering of production cost as the manufacturer has to concentrate on production of fewer articles in larger quantities on labour saving machines, (2) it has resulted in lowering also the selling cost because having fewer articles to sell, less capital is necessary, salesmen have to make a smaller number of calls, there is less risk in goods getting obsolete as well as in connection with price decline and deterioration, (3) it saves costs in connection with sales literature; (4) it has also resulted in improved quality through concentration on its manufacture and (5) in improved service and reduced prices.

After-Sales-Service.—In connection with articles such as motor-cars, machinery, radios, duplicators, typewriters, etc., the transaction is not complete after the sale is effected, because if there is no quick, efficient and cheap after-sale service available to the buyer by way of quick efficient cheap repair, that would retard sales. Many motor agencies, for example, in Bombay, do not seem to realise the value of efficient and cheap after-sale service because every time the motor-car is sent to them for repair, a large bill is prepared and frequently these sole agents are in a position of dictating their own terms because spare parts are exclusively retailed by them. They

unfortunately fail to realise that this course forces the customer to sell off his car, and in many cases he will prefer to deal in future with a firm where an equally good car can be purchased with a cheap and efficient after-sale service. This applies to almost every article which requires repairs and attention after it is sold. Many manufacturers make it a point to see that their own branch offices, as well as their agents, are capable of keeping efficient and cheap service ; and accessories are sold by them at almost cost prices with a small margin enough to cover the cost of distribution. It is common knowledge in the machinery trade that spare parts are actually sold at a loss by the manufacturers who are content with the margin of profit made on the sale of the machine itself. It is now usual in case of typewriters, duplicators, etc., to give one year's service free of all charge ; and a man is regularly sent round for cleaning and keeping the machine in order with or without the payment of a small monthly charge. Thus the principle to be remembered is that high service charges materially reduces sales.

Price Policies and Selling.—The next important problem is the fixation of price. The first consideration should be the price level in the market for the class of goods concerned. No doubt the cost of production, expenses plus overhead charges and margin of profit will be the first items in calculation, but if that price is higher than that charged by competitors for the same quality and class of goods, the seller would naturally be at a disadvantage. In case of reduction of prices with a view to increase sales, the factor to be considered is as to whether the competitors would follow the example: because if they do, the reduction would not increase the sale. In case of raising the price, also, the same factors will have to be taken into calculation: and thus the policy should be, as far as possible, not to indulge in drastic reduction or increase in prices. There are, however, circumstances where the salesmanager may find that through a lower price and increase in sales he might be benefited on the total profits ; where of course such price reduction may be seriously put into force.

Price cutting is generally speaking a most disadvantageous method of dealing and dealers all over the world have tried to combine in each locality or centre, and by mutual agreement maintain prices at a certain level. Many dealers and manufacturers through making their brands famous through advertisement have maintained the price of their products above the level of cut-throat competition. Dealers frequently arrange to maintain fixed prices to give extra service such as quick delivery, longer credit, personal efficiency, more liberal guarantees for repairs, etc., and cheap after sale service, and by these methods maintain a competition which is not objectionable from the selling stand-point. There are other similar methods used by dealers, *viz.*, that of supplying prize-coupons, or coupons with a certain quantity purchased which coupons, when a certain number are collected, may be exchanged for goods of a certain value.

Dealer Helps.—The modern wholesaler and manufacturer helps the retailer in various ways with a view to sell his product. This help is made up of supplying the dealers with show cards to be placed on the counters or at the windows. Price tickets specially prepared with the name of the manufacturer or wholesaler or his brand are also furnished, and frequently window dressing is done for dealers by specialists in the service of the wholesale agent or the manufacturers. Printed literature about the goods with selling points are specially prepared, which the dealers are requested to study and use in connection with their sales and sales talks. Salesmen are also given instructions to help the dealers to learn selling methods as well as sales talks in connection with goods they are selling. The other method by which they are helped is by the insertion of the name of the local dealer in advertisements in local newspapers indicating that the manufacturers, or wholesalers, proprietary goods could be had at the named shops. Sales literature containing names of these retailers is also forwarded to the residents of the locality where they are located which names and addresses are generally collected through the said the dealer.

Credit Policies in Selling.—In connection with selling, the other question of policy which is to be decided on is the granting of credit. Any carelessness in this regard might lead to over-trading and extravagance on the part of the retailer with the result that he ultimately fails ; involving the wholesaler and the manufacturer in a loss. However, a well thought out and moderate credit policy is highly important in influencing sales. Generally speaking, in each line of business the length of credit is more or less standardised, whereas in others cash terms are general. Where the goods are such that the dealers must sell them within a short period, credit allowed is naturally of a short duration, whereas in other cases it may be lengthened in consonance with the financial position of the dealer himself. In this connection, *i.e.*, when credit is given, cash discounts allowed are usually liberal, because in trades where credits are normal there is always a loading of the margin of profit to make up for loss of interest and through bad debts. This cash discount naturally depends on the custom of trade and the position of the selling firm. To put it briefly the policy as to credit and cash discounts will largely be decided on the basis of (1) the practice of trade, (2) reliability of dealers and (3) the capital which the selling firm itself can command. The other point to be remembered is that in cases where credits are given, an efficient collection department should be maintained with a view to keep down the percentage of bad debts as far as possible.

Sales Record.—All well organized sales departments of modern business maintain what is known as a statistical record of daily or weekly sales. This is done with a view to comparing the sales fluctuations from month to month in each department and also each district where these goods are sold. The sales as exhibited by this record fluctuate during each month owing to various causes, and the head of the sales department should keep himself in touch with these fluctuations. During what is called a season, when particular goods are largely in demand, the sales in that class of articles rise as compared to those of other months. The records of a particular month during the

current year as compared to those of the same months in the year preceding, will form an excellent guide as to whether the department is progressing satisfactorily. If these records do not exhibit satisfactory results, the management is in a position to investigate and take action as the circumstances and experience may suggest. The following sample-form will be a guide as to the form in which these records are made out.

Sales for the month ending 31st January 1939.

Department.	Bombay.	Central Provinces.	Madras.	Bengal.	Total.
Crockery ...	18000	10000	8000	7500	44500
Cotton Goods ...	6000	2000	1000	8000	12000
Cutlery ...	7591	6721	2115	2111	18588
Provisions ...	1126	659	858	200	2848

Sales on Consignments.—Besides the usual and ordinary sales against orders actually received, either direct or through travellers and agents, sales are also effected through the medium of consignments sent on account of the seller. This is done either with a view to introducing a particular brand or quality in a new market, or to get rid of the extra stock for which there does not seem to be a sufficiently encouraging local demand. The consignor makes out what is called a *pro forma* invoice for the goods forwarded, indicating the price he expects, and adds to the same the usual packing and other expenses incurred on these goods. Frequently, by a previous arrangement with the consignee, the consignor is able to draw a bill for a portion of the invoice amount by way of advance. The consignee on sale makes out a sale account, showing the amount actually realised, and deducts from the same his expenses and commission. The balance after deducting the advance payment that may have been made, is remitted by him in accordance with

arrangement. In this case the venture is entirely on account of and at the risk of the owner of the goods, the consignee here acting only as an agent for sale. In case any loss is occasioned through the failure of the buyer, that loss also falls on the consignor, unless an extra commission over and above the usual percentage is allowed, known as the *del credere* commission.

Many manufacturers, unknown in foreign markets have resorted to this method of introducing, or "forcing", their goods on new markets and frequently shipments have been sent to firms of auctioneers in foreign countries with instructions to sell at the best price offered. Even though these ventures result in losses, the loss is written off as an item of advertisement. If the quality of the goods is good in comparison to those of other known makes, this results in a demand which is nursed and converted into permanent business.

It may be added here that the merchants or agents who act as consignees are commonly known as "factors". Factors are mercantile agents who are entrusted with the goods they are asked to sell, and when they sell them they are authorised to receive cash and grant receipts in their own name. As frequently these factors are themselves dealers in the commodities consigned to them, the buyer seldom knows whether the goods sold to him by such a factor are his own or those received by him on consignment.

Brokers.—Brokers are engaged in wholesale businesses to effect sales. Each broker commands a sphere of influence of his own and his services are valuable in pushing the sales. The broker is in the first instance, the agent for the seller, and when he finds a buyer, he also acquires the status of being the buyer's agent. After effecting the sale, the broker makes out what are known as the "Bought" and "Sold" Notes, which are to be identically worded and signed by the broker. The "Bought" Note is then forwarded to the buyer and the "Sold" Note to the seller, which form binding contracts on both the contracting parties. These bought and sold notes bear the broker's signature. In law as he acts both for the buyer and the seller he signs as

the agent for both. Thus on the bought note he signs as the seller's agent and *vice versa*. These bought and sold notes are thus sufficient memoranda in writing as required by the English Sale of Goods Act in case of all contracts for sale of goods for £10 or over signed by the parties to be charged, unless there is part payment of the price or part delivery of the goods.

Sales Department : Account-keeping.—As to the record and account keeping in the sales department a system similar to that of the purchase department is followed. Sales are made by the firm either for cash, or as is most generally the case, on contracts. Whenever an order is received which is based on a contract, the departmental manager concerned has first of all to note as to what contract it refers. He then attaches his private "Memo" to the order, indicating the price which is to be charged and whether credit is to be allowed. He has also to state if any deductions by way of discount, etc., are to be allowed. The order is then passed round to the department to which it refers, and as soon as the goods are ready for despatch, or are despatched, the invoice is made out and initialled by a responsible clerk and is then checked and initialled by another clerk. The invoice is then press-copied in a special book kept for the purpose or carbon copied, and sent out in accordance with instructions on the "Memo" that was attached by the general manager to the original order. It is thereafter entered in the "Sales-Journal" which is ruled on the same lines as the "Purchase-Journal". A one line entry is here made with regard to the sale in exactly the same manner as in the case of the Purchase-Journal. The only difference being in the method of posting in the Ledger where the firm concerned is debited separately for the total amount of sales in the "amount" column and at the end of every month the various columns for the different departments are totalled up, and the departments concerned are credited with these totals.

Bills and Hundis.—With regard to bills and *hundis*, the rule followed has to be methodical and regular. It is the duty

of the head cashier and his assistants to see that all the bills accepted by the firm are punctually paid on the day on which they fall due, and for that purpose to see that ample cash is available. The general manager should be kept informed as to what bills have to be met from time to time. The cashier keeps a regular diary in which he enters the particulars of each bill on the page of the diary allotted to the date on which each bill falls due. This is done in case of bills accepted by the firm, *viz.*, bills payable, as well as that of the bills that are accepted by others and for which the firm is to receive money, *viz.*, bills receivable. Both these bills are of considerable importance and must seriously engage the attention of the cash department, because in case a bill is not paid for by the firm on maturity, the firm runs the risk of losing its credit in the bazaar. Bills of exchange enjoy a peculiar sanctity in the eyes of the mercantile community and the delay in payment of a single day may bring about serious consequences.

With regard to the bills for which we are to receive money, *viz.*, bills receivable, it is equally important that they should be presented for payment on the proper date of maturity. If this is not done by some neglect on the part of the cashier, and if the acceptor in the meantime fails, the holder of the bill loses his rights as against the drawer and all previous endorsers.

CHAPTER V.

RETAIL SELLING POLICIES AND OFFICE ORGANIZATION.

The Independent Retailer.—The bulk of retail selling is done, even in these days, by independent small and large retail shop-keepers, in spite of the fact that the department stores and multiple chain organization shops have been working for a large number of years. We shall deal with the last two a little later, and shall now take up the case of the independent retailer. The independent retailers belong to various classes, such as shop-keepers engaged in one particular trade as grocers, bakers, green grocers, fish-mongers, etc. ; or those who deal in miscellaneous articles. These retailers play a rather important part in commerce, inasmuch as they are established in every residential and other quarter where customers are available, and through their display and salesmanship create a demand, which demand is answered by them selling in small and large quantities as desired by the customer (which is not exactly the quantity in which the producers or manufacturers are prepared to supply them) and even grant credit to their customers by receiving the amount of their bills by instalments. These small retail shop-keepers are popular, and carry on a good business in spite of large organizations, such as department stores, competing against them, because they are in a position to give personal and detailed attention to the wants of the customers, and are frequently personally known to the customers living in the locality where their shops happen to be functioning. In connection with these retail shops there is an intense competition in connection with proprietary and branded articles belonging to various producers and manufacturers, which brands have become well known through advertising,

and publicity methods employed by the said manufacturers and producers. Many of these small retail shop-keepers make their business distinctive by dealing in one special set of articles, and making their shops, so to say, special shops in that connection. With these special shops they are able to give expert advice and offer the best article at a moderate price. There are some retail shops which make a specialisation of limitation of price range, *i.e.*, in these shops all articles sold are priced at not more than, say, Rs. 5. The idea here is to sacrifice business in goods outside these prices but to try to make up for that loss by selling a large quantity of articles under their own price limit. The small shop-keeper of course has a limited capital, and hence, granting long credit is not easy for him ; but he gives credits to approved customers known to him. When such credits are given, he naturally expects his suppliers to give him credit more or less to adjust his position with his own credit customers. The weakness of the small shop-keeper happens to be that much of his business depends upon the tenure of the premises, inasmuch as, if the shop rents are increased suddenly, or he is asked to go, he stands to lose his whole goodwill if he cannot get another shop within easy distance of the old one. Usually these retailers, having small capital, try to sell that type of goods which has a ready market and make no efforts of their own to introduce new lines. The retail shop-keeper frequently deals in a large quantity of perishable goods, and that is also one other reason why he is anxious to see that his turnover is rapid, so that he may not suffer loss through the stock getting stale.

Retail "Stores" on Large Lines.—The retail "stores" business has made rapid strides during the last few years in all the principal towns of Europe and America. In India, also, we find some efforts made in that direction ; but in the absence of a thorough grasp of the principles underlying this line of business, we have not made, as yet, any appreciable progress in this direction. We have, of course, a few stores run by European traders of the type of Messrs. Laidlaw, or the Army

and Navy Stores ; and indigenous enterprise has also brought into existence the now famous Swadeshi Stores ; but all these efforts seem to be insignificant and small compared to the gigantic scale on which similar business is carried on on the other side of the water. A large country like India, with its teeming population of millions, and its ever increasing demand for various articles of the class generally dealt with in this line, affords an excellent opportunity for the development of stores enterprises if run under expert supervision and organization.

- The stores may be organized and worked either on the principle of (1) departmental or (2) multiple shops or chain shops.

DEPARTMENT STORES.

In the case of department stores, the idea is to divide a huge shop, located at some prominent place, into so many smaller shops within its fold, each worked under a special manager and a complete equipment of salesmen. Efforts are then made through advertisements and other methods of practical publicity, to draw customers to the shop from all parts of the town, who are served by each of these departments. Usually the location selected for a large store is the one which is most frequented, or where a large number of people congregate during the best part of the day. It is said by many writers, that a building located on one corner of the street, facing two or three roads, should be preferred to one situated in the middle of the road. A situation in a business locality is no doubt preferable, whereas, a store in the heart of a locality where well-to-do people reside, is also likely to do a roaring business provided that appropriate articles of suitable variety and quality are offered. Again, a location near a central market place where crowds of people go for the purpose of shopping is also one suitable to a store-business. Thus the carefully selected location reduces the effort which would otherwise have to be

made in order to draw customers. A place frequented by a large number of people particularly for the purpose of purchasing is no doubt very advantageous, provided the rent which the proprietor is called upon to pay is not so heavy as would deprive him of the profits of the said advantage of the location. Again, as far as possible, situations should not be selected where competition is likely to be keen, and where there appears to be a decided want of a store of this character. Frequently, in a growing city these wants fluctuate with the size of the town ; and a scientific business man naturally watches his opportunities and opens a store in a newly developed area, thus trying to get the first pick of the likely customers in that location. The chief manager in these stores is no doubt the central figure who organizes and directs, but it is always best to make the manager of each department responsible for the working results of his department. In some cases, the actual profit and loss account of each department is made out separately, to which the direct expenses of the department concerned are debited. A proportionate charge is also allotted to each department out of the general expenses of the whole establishment. The prices of articles of each department are fixed by the departmental manager in consultation with the general manager, and here a fixed percentage is added to the cost of articles as per the scale suggested from time to time, by the general manager, in consultation with the board of directors. Thus, each departmental manager is responsible for the working results of his department, which is expected to be progressive. His promotion, as well as that of his staff, is made to largely depend upon the results thus exhibited.

The one great service the department stores give is through maintenance of a fleet of motor wagons which go round and deliver the parcels of goods purchased within a certain area of its location, free of charge. This appeals to the easy going temperament of the people of a particular class who can make all their purchases under one roof. Large department stores of Europe and America contain, not only all articles

of purchase which are generally sold at a retail market, but have their own restaurants where their customers can take their refreshments, tea and lunch when they are shopping. There are conveniences such as hair dressing both for men and women, writing rooms for their customers and facility for posting their letters on the premises. Purchases can also be made on the telephone, and deliveries are obtainable immediately. The department stores also exclusively advertise, and thus largely influence the mind of the bulk of the customers. They also do an exclusive mail order business with which we shall deal later.

Control, Management and Finance.—The department stores, generally, are large joint stock companies, functioning under the board of directors, general managers and departmental managers as we have seen above. The capital is thus obtained from the shareholders by issue of shares, and the purchases are made through the assistance of purchase departments, which are under the control of expert buyers. The department managers are responsible for the results of their own department ; and for the purpose of the organization, each department is treated as an independent unit or a separate shop, and thus is debited for expenses incurred on its purchases, salaries and certain proportion of overhead administrative charges.

The Staff Manager.—As the department store engages a large number of members of the staff, a special officer, known as the staff manager, is employed, whose work is to recruit the staff, to train and to supervise them. Thus the special work of recruiting and training is handed over to this staff manager, so that the departmental managers may be left free to concentrate their attention on the work of selling, as far as their department is concerned. In connection with transfer of staff from one section to another during busy season, and the engagement of temporary assistants the staff managers are very useful.

The Advantages and Drawbacks of Department Stores.

—The advantages claimed on behalf of the department stores are, that they are in a first class position to select goods for the retail market, and to offer them to the people at popular prices ; that the large variety of goods which they sell is a great convenience to a class of customers who wish to purchase all they want as far as possible under one roof, and the quick deliveries right up to their houses add to their comforts ; that as the store is made up of a number of departments, when a customer comes to buy in one department, he is frequently attracted by the articles offered in another, and thus one department is actively advertising the other.

The disadvantages are that the multiple shops sell to the people near their houses whereas the department store tries to attract them from a long distance towards its location, and a heavy sum has to be locked up in one central position. If that location or central position falls off, the department stands to suffer. The other disadvantage, as pointed out by many writers, is that in order to keep up a continuous demand by customers, the department stores have to lay out large amounts of money in advertising and staging what are called "sensational sales". The free service arrangement also is a burden on them.

The original idea in connection with the department stores was first conceived in France, and large stores such as the "Bon Marché" and the "Louvre" came into existence. In England they were introduced between the forties and sixties of the 19th century. They were introduced with a view to meeting the threatened competition of co-operative stores which were at that time a craze in Europe. In London the most prominent and successful department stores are Harrods, Selfridges, Whiteleys and Gamages. In the early days it was thought that these large stores would wipe out small retail shop-keepers, but experience has shown that it has not made any real difference to them. The department stores work on huge lines and the idea is to afford to customers an opportunity

to purchase everything he or she wants under one roof. It is an appeal to the naturally lazy temperament of human beings. There are, however, certain types of customers who take a delight in buying and prefer to go about in search of articles they want as well as prefer that personal attention and consideration should be given to them. This class of customers prefer small shop-keepers who make a speciality of various articles, and who naturally get to know their customers by sight as well as by names in some cases.

The Office Record.—The actual system of record employed is worked more or less on the following lines:—

Suppose that the department store with which we are concerned is divided into twenty departments, in each of which are grouped articles that admit of a uniform percentage of gross profit being added to the cost and to each of which is allowed a fixed location within the shop. We may group each of these departments under the designations of Boots and Shoes Department; Grocery Department; Cutlery Department; Hats Department; Silk Department; etc., with a complete equipment of salesmen and a manager at the head. Each salesman is known by a distinctive number allotted to him and each is supplied with a "Cash Memo" book bearing his number on the cover, as well as on each of the memoes. The memoes are consecutively numbered with duplicates for carbon copies and bound together with small marginal counterfoils. The salesmen of each department are instructed to serve customers only with regard to the articles allowed to their respective departments and to guide them to the proper department in case any item foreign to their departments is wanted. When a customer is served, the cash sale is entered on one of the memoes and a carbon copy is taken and the amount is recorded in the counterfoil. The customer is then asked if he wants to carry the articles himself. If so, they are tied in special wrappers supplied to them bearing the firm's name. These wrappers are issued alternately in different colours so that when bundles are taken out, the footman at the gate may notice them, lest

a shop-lifter should carry away stolen articles under the excuse of having bought the same. Some stores use coloured ribbons for this purpose. If the customer wishes the articles to be sent home, his name and address are taken down on a label, the label is attached to the packet and the packet laid aside in the proper heap arranged according to the location of his address in the town for the convenience of cartmen employed by the stores. The next step is to lead the customer to the cash desk at which the salesman is instructed to get all his sales paid. It may be noticed here that the cash desks are located at convenient places with an assistant cashier in charge, at each of which a particular set of salesmen are instructed to pay their takings. These assistant cashiers are constantly shifted from one desk to another to avoid their getting too familiar with the salesmen. When the customer is introduced by the salesman to the proper desk, the latter hands over the two memoes, the original and the carbon duplicate, to the cashier, who, on receipt of cash direct from the customer, signs and returns the original to the customer, retaining the carbon duplicate for his record. The cashier at his leisure fills up a form given to him for the purpose. These forms are bound in a book called the "Desk Summary Book" and are ruled as under :—

2			5			7			10			13			15			18					
Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.	Rs.	a.	p.			

It will be noticed from the above that the form is made up of the amount columns bearing numbers 2, 5, 7, 10, 13, 15, 18. These numbers indicate the numbers of the salesman in-

structed to pay at this particular desk. This "Desk Summary Book" is filled in and totalled daily at the close of the day, the totals indicating the total sales effected by each salesman on that day, which are checked with the returns furnished by each individual salesman on his form of sales which are written up by him from his record on the margin of his cash memo-book. The "Desk Summary Books", as well as the salesmen's sale forms, are sent up to the counting-house department which is located in a remote part of the office out of the public gaze, generally on the top floor or in a separate building. The books and forms written up for Monday, are forwarded to the counting-house on close of each day, and in return those of the previous working day, *viz.*, Saturday, are returned for record of Sales on Tuesday following. In other words two sets are used alternately. The counting-house checks the record of the previous day and the head cashier passes the appropriate entry in the cash-book, crediting the department concerned and debiting the cash account. From each salesman's record, after it is duly checked with the "Desk Summary Book" concerned, his commission on sales is credited to his account. This form of record not only affords a check on the salesman's sales and each assistant cashier's daily takings, but it also serves as an indicator to each head of the sales' department as to the individual capacity and activity of each salesman, who is congratulated on, or called for an explanation on the progress or retrogression of sales put through by him weekly. The departmental stores generally deal in cash, but there are instances where in case of some institutions, short credits are allowed to selected customers. For this purpose a list of approved credit customers is maintained and written up from time to time, which, when a salesman is asked to serve on credit he refers in case of doubt and after effecting the sale, he uses a distinct book furnished to him, called the credit memo-book, which is numbered, duplicated and marked on almost the same lines as the cash memo-book just noticed. The original of the credit memo is handed to the customer, the carbon duplicate with

the signature of the customer being retained by the salesman. These credit memo-books are forwarded to the counting-house department daily, with a separate record of credit sales by each salesman, two sets being used alternately on the same lines as in the case of cash sales. In the counting-house, the ledger clerks debit each customer in the customer's ledgers maintained on the principle of alphabetical division, and the head accountant passes one journal entry for the day for the total sales, debiting sundry debtors' account and crediting the different departments concerned. Here as we have already remarked, the credit sales being made on short credit and for small amounts, the alphabetical ledger,—which is a subsidiary book maintained principally for record, and quite distinct from the General Ledger, and not forming one of the books of the financial set—is divided and worked on the dictionary order. If for instance, the customer concerned is known as Robert Crew, the division of the ledger containing the accounts beginning with the letter C is opened and a one line entry is entered on the debit side stating the date in the "date column", address in the "address column", number of the debit memo-book in the next column and the amount of the sale in the "amount column". The credit side is left blank, to be written up when actual cash is received from the customer. This credit entry is frequently made in red ink, showing the date in the "date column," and the cash and discount in the particular columns, together with the desk memo number and the actual figure of the cash paid in the "amount column." The following will explain the entry:—

Dr.

Date.	Name.	Address.	No. of D.M.B.	Amount.			Date.	No. of C.M.B.	Amount.		
				Rs.	a.	p.			Rs.	a.	p.
Jan. 4	Crew, Robert	Hornby Rd.	55	234	5	6	May 12	Cash & Dis- count.	47	234	5 6

Stock Checking.—The check on the stock of the departmental store worked under this system is easy. As a fixed percentage of profit is added to the cost, of course varying in case of each department, but which is uniform in case of all articles dealt with by any particular department, all that need be done is to take the stock at the commencement of any period, to which is to be added all the stock supplied during the period under review. From this, when the sales at the cost price are deducted, the balance indicated represents the stock of that department at the cost price, ready to be checked with the actual inventory taken after actually counting the stock item by item. The following illustration will explain the point :

Supposing that our stock at the commencement as per last statement for the crockery department was Rs. 10,000, at the cost price, our supplies to this department since that time amount to Rs. 50,000, at the cost price and our sales during the same period amounted to Rs. 60,000 at the selling price, the stock check account will work out the stock on hand as shown below :—

CROCKERY DEPARTMENT.

Stock Check Account for half year ending 1930.

<i>Dr.</i>		Rs.	a.	p.		Rs.	a.	p.	<i>Cr.</i>
June, 30.					Sales at selling price ...	60,000	0	0	
Stock at commencement at cost ...	10,000	0	0		Less 20% profit on cost price ...	10,000	0	0	
December, 31.						50,000	0	0	
Purchase at cost ...	50,000	0	0		Stock on hand at cost on 31st December 1930 ...	10,000	0	0	
	Rs. 60,000	0	0			Rs. 60,000	0	0	

This amount shows a balance of Rs. 10,000, as the stock on hand ready to be compared with the actual stock inventory. If there is any material difference, the departmental manager can be called to account.

MULTIPLE OR CHAIN SHOPS.

The multiple or chain shop system originally developed through the success of retail shop-keepers. A shop-keeper opens one shop which, for example, becomes very successful ; with the result that he opens a second shop, and with the success of the second opens a third, and so on : and thus with the increase of shops he naturally wants more capital which he obtains by converting his organization into a limited company. Manufacturers, as we have seen, have also opened shops to sell their goods when they found that they could not be marketed otherwise. These multiple shop companies are never pioneers, and generally open shops in localities where there is an already existing demand. Multiple shop companies have shown a tendency of amalgamation of late, with the result that these amalgamations have made them very powerful, and give a great impetus to their business. The multiple shop organizations have to fight the local prejudice against independent shop-keepers, and have also to fight against other manufacturers who have no such chain shop organizations : because such manufacturers give special preferences to independent shop-keepers, and encourage them, because the multiple shop purchasers do not purchase from them at the same advantageous rates as in the case of small independent shop-keepers. The result is that the multiple shop or companies have begun to manufacture certain goods which they want in large quantities for their own purpose. Multiple shops also have the advantage over retail shop-keepers, inasmuch as one shop advertises the other.

Under the multiple or chain shop arrangement the dominating idea is not to concentrate the whole business in one centre and then attempt to draw the customers to it, as in the case of department stores. Here, an attempt is made to approach as near the customer as possible, by opening a large number of smaller shops in different localities under a manager in charge, and by directing the working of the same through the central office or depot. The other departure from the

department stores' practice, is to specialise in a particular set of articles in which the firm has chosen to deal, instead of, as in the department stores, playing the part of universal providers. The advantage claimed for this type of organization is, that as a certain line of goods is dealt in on large lines, the purchases are made from manufacturers on the most advantageous terms, and that specialisation enables the proprietors to make the best selection. They are able here to keep in close touch with the varying requirements of the market, and supervision becomes very easy on account of the simplicity of work resulting through dealing in one line of goods only. The method employed is to keep uniform prices for all articles after charging a fixed percentage of profits at the central depot or office. The individual shop manager is kept entirely in the dark as to the cost of the articles dealt in. He is supplied with the stores at the selling price and has to account for same on the same basis. Here, the stock taking is even simpler than in case of the department stores. A progressive result in sales and the lowest possible expense in proportion thereof is expected of him. An attempt is also made to create a sort of incentive to bring in as low a percentage of expense as possible through the offer of a bonus and promotion, as well as through the creation of healthy rivalry between the different shop managers. The system of record as to sales may be arranged on almost the same lines as that indicated in the department stores. There, the shops were all concentrated in one building under the designation of departments, whereas here, they are located at different places. The distinction therefore is but in name as far as account-keeping and records go.

It is also frequently contended that the multiple shop system is the manufacturer's answer to the increasing tendency of retailers who make either their purchases abroad, or who ignore certain factories in preference to others. If a manufacturer in one particular line, say, boots and shoes, wishes to put forward his own products on retail lines, he adopts the multiple shop system and opens up shops all over the town,

where the goods are offered for sale. Here an attempt is made to introduce personality in the shop fronts and name boards by adopting one particular design and seeing that the same design of shop fronts and name boards is used in the case of every shop in every locality. By special arrangement with the landlords the frontal windows are also altered to the pattern selected. Thus the manufacturer is entirely independent both of the wholesale middleman as well as the retail shop-keeper and deals with the consumer direct. The customer or consumer gets here a known quality of articles nearer his own house at the most reasonable price.

Mass Appeal and Shop Fitting Policies.—In the case of multiple shops, the dominant idea happens to be to sell articles which will be required by the mass, as against an appeal made by individual shop-keepers to select buyers or customers; and with this object in view, not only the location of the premises, but even the types of goods to be stocked are influenced by the policy of making this mass appeal most successful and attractive.

The next factor to be determined by the salesmanager of chain shop organization is the policy of shop fitting, and the work in this connection is entrusted to specialists on contract. Not only the inside fitting of the shop is designed and settled, which is of course uniform in all the shops of the company concerned, but also shop fronts are settled and designed, and a personality given to them, so that when a customer is travelling from one part of the country to another, the familiar shop front of the particular chain shop organization from which he is accustomed to buy immediately attracts his attention. The policy to be followed here is to get a dignified exterior which gives the maximum display, facility and value to the windows concerned. The maximum display space is also obtained by setting back the shop door-way, so that the shops may get sufficiently deep windows in which the goods may be displayed in large number and the practice is that on the provision side automatic scales are used, whereas on the

grocery side the balance scales are employed. The reason is founded on the psychology of the customer, because, according to the best writers, though the automatic scales are accurate as far as they can be, and are used in connection with various commodities such as butter, cheese, etc., the old fashioned balance scales are preferred for loose products like sugar, tea, etc., both by the customers and the shop-keeper. The store room, of course, should, as a matter of policy, be kept out of view of the outside customer, though handy enough to enable the shops to be supplied with goods from time to time without much inconvenience or loss of time.

Counter Display.—The furniture inside the shop should be so arranged as to give the greatest scope for what is called counter display. As we shall see later, in our chapter on Scientific advertising, window display is meant to attract attention of passers-by and to get people to come into the shop. The counter display inside the shop is meant to effect sales. Thus the object of the counter display is not only to maintain the interest awakened in the customer who has been attracted by the window into the shop, but also to enable the customer to see a large number of items out of which to select with the assistance of the inside salesman, who should be capable of giving efficient service in helping the customer to make his selection and close the purchase. Not only that, but the counter display, if properly carried out, is bound to attract the attention of the customer to other articles which were not displayed in the window, or did not catch his attention, and helps the salesman to induce the customer to make his second and third purchases. The display should be such that as soon as the customer enters the shop, it should give an impression of efficiency, cleanliness and orderliness. The show cases should be so placed as not to interfere with the customers' movement, at the same time not to lose their display value. The chairs as well as the furniture should be in keeping with the class of goods sold by them in size and in quality. The chairs for use of the customers should be light and strong, so

that they can be moved about easily from one place to another for their use. Ventilation, during the warm season, and heating, during the cold season, should also be provided for for customers' comfort. The stock should be so arranged as to enable the salesman to pick out the articles required without the slightest waste of time. The contents of the show room, as well as the counters, should be grouped suitably according to the quality, type, shape, size or make, *e.g.*, goods such as shirts, gloves, ties, collars should be so arranged as to be available immediately; and if they are kept in drawers they could be easily opened and withdrawn for the facility of the customers' inspection.

Lighting.—Lighting outside and inside the shop should also be arranged with great care. Outside lighting should be high enough to keep the window space clear; and the number of lights will naturally depend upon the length of the shop front. It is said that a powerful strong light is better than a number of small lights. Coloured and illuminated lights may be used for advertising purposes at the exterior of the shop. It is said that, from modern standards, outside lights must be kept covered, so that they may be free from glare but at the same time the light may be soft, powerful and widespread. Sometimes flood lights are used to enable a distinctive feature of a building or an advertising sign or placard to be visible in a conspicuous manner.

The modern method of lighting the interior is through hidden lights, and the open bright lights of old fashioned shops are fast disappearing. Frequently lights are fixed in the floor and made to reflect through thick glasses in the flooring, as well as on the sides of the pillars and the walls, so that the natural day light arrangement may be the result. In some shops miniature flood lighting is also used with great effect. The same rule applies in connection with lights on the window.

Marketing Prices and "Cypher" System.—In all modern shops the prices are generally fixed, as against the old fashioned bargaining method: which saves time and assures

the customer that he gets the right article at the right price. In case of bargaining, the customer is generally at a disadvantage, as the shop-keeper knows exactly the cost and value of the article, while the customer not being an expert in the line, does not. These prices are marked, as far as the window is concerned, with tickets: and also, in case of counter displays, frequently tickets are used for marking the price. Besides this, prices are also marked sometimes on the goods themselves, in such a manner that they may be easily rubbed off when sold. In the case of tickets, etc., the prices are openly marked in the usual currency of the country; but there are shops which mark prices in "cypher", so that the salesman may easily know the price at which he has to sell and which he has to quote. The "cypher" may be indicated by certain letters of the alphabet as A to J indicating 1 to 10: or some other device may be used which is known to the salesman in the shops, but which is a secret to the outsider. In the case of jewellery and articles of that character, even in European countries a certain amount of bargaining is allowed; and here the cypher price indicates to the salesman the limit under which he cannot go. Many retailers make use of "cypher" to indicate to him the cost price of the article so that he can quote keeping a fair margin according to the custom of the concern, cash or credit. The cypher is also very useful in connection with clearance sales when the shop-keeper must know exactly what concession he can fairly give in connection with the reduced prices to be fixed for clearance purposes.

Tied Shops.—These are shops which are working in connection with a manufacturer on condition that in return for certain assistance given by the latter, the former would exclusively or predominantly deal in the goods manufactured by the latter. Thus, in the case of the breweries trade in England, the proprietors of these breweries erect buildings and let them out as restaurants and hotels on condition that beer of their manufacture alone should be sold. The same is the case with large jewellery manufacturers who assist small retail

jewellers in various ways to set up a business, and in return make a condition either to exclusively sell jewellery of their manufacture or to do so predominantly.

MAIL ORDER BUSINESS.

Mail order business is carried on both by department stores as well as retail shop-keepers and others. The object sought to be achieved is that of attracting customers by advertisements and circular letters, as well as literature sent through the post etc., and orders may be attracted from different parts of the country through the post, and the goods may be sent either through the parcel post or railway or similar convenient deliveries. The sales literature is regularly distributed to persons on what is called the "mailing list". This mailing list is carefully prepared, containing regular old customers as well as other addresses collected through local dealers, directories, advertisements, enquiries, etc. This mail order business is done not only with consumers or users of articles, but even large wholesalers and manufacturers deal on the mail order plan with dealers, and thus save the use of travelling salesman in a large way. There is a class of dealers who prefer to have the salesman call at their doors ; but there is also a larger class who delights in sending out orders through the post and getting his delivery by rail or parcel post as the case may be. The largest quantity of this class of business is done with the consumers who may be situated in a locality where proper articles of proper quality at proper prices are unobtainable. This generally happens in the case of rural localities where the residents cannot obtain this type of goods at local shops either at the same price or in the same quality. The one drawback of the mail order purchase is that the goods are not open to inspection of the buyer before they are purchased, as in case of purchases made in a shop : and the customer thus runs the risk of receiving unsatisfactory goods. It is the experience of those in business that shopping goods are best suited for

mail order business, whereas bulky products, such as motor cars, etc., cannot be sold thus. Many dealers in mail order inspire confidence in their customers by offering to refund the price of the goods, as well as the postage incurred in despatching same, if they are not found to be satisfactory. The mailing list which we have referred to above is continuously kept up-to-date by adding and deducting from it names as circumstances may require. This mailing list is considered so valuable by this type of business concerns that there are firms in America which keep these mailing lists in fire proof vaults, and a copy of same is also kept in another part of the city under fire proof arrangement. Mail order business is done both on C.O.D., *i.e.*, cash on delivery, or V.P.P., value payable post basis: but an amount of mail order is also done with approved customers on credit. Preferably with the sales literature which is sent out, order forms should be enclosed, so that while ordering, details as to the goods and methods of supply at the address may be clearly written, and unnecessary correspondence in that connection avoided. Where limited lines are sold, order forms should contain the names of the articles against which the customer has to state quantities and class of goods.

HIRE PURCHASE TRADING.

Principles of Agreement.—The principle on which the hire purchase agreement is made in law, is that the purchaser who takes the article on hire has the option to pay a certain number of rents and after he pays the stipulated number of such rents he becomes the owner of the property. If, however, he stops paying any rent, he is at liberty to do so returning the property hired at any time he likes. Frequently an advance payment in larger amount is made and it is further agreed that a certain number of other payments, called 'rents' on 'hire', will be paid. The distinction between hire and purchase, and instalment selling is, that in case of instalment selling all the instalments must be paid, and the article purchased cannot

be returned because it is a purchase and not a hire. Being a purchase, the buyer becomes the proprietor of the article the moment he takes delivery of same, and may sell away the articles the same or the next day without being interfered with by the seller ; whereas in case of hire purchase, the article being hired, the buyer does not become the owner of the said article until all the rents are paid as agreed : and hence he cannot sell the property, and if he does so he commits a criminal breach of trust, and the seller can recover the article from the sub-buyer. It is this protection to the seller which makes him sell in a large way on the hire purchase system in preference to the instalment system.

Advantages and Drawbacks of Hire Purchase Dealing.

—The advantage of hire purchase dealing is that valuable articles such as furniture, motor-cars, pianos, machinery, radios, etc., are made available to the middle and lower middle class people on easy terms, and their sales considerably augmented, thereby profiting both the manufacturer and the dealer. The disadvantage, however, is that the buyer may go beyond his means in making too many engagements of this character and find himself unable to pay in the long run. The protection against this danger happens to be to take the first premium as the safest large payment, and thereafter, arrangement should be made to take small instalments. In such cases, the selling price has to be loaded with the cost of collection of these instalments for hire, as well as loss of interest on the capital locked up, as well as bad debts.

In connection with the article suitable for hire purchase system it is said that it should be a durable article, and one which is easily resaleable as second-hand article, in case of failure of the hirer to keep his contract. Of course the article should be of sufficiently high value to justify a hire purchase agreement. It is the usual custom with large trade dealers in hire purchase lines to take out a floating fire insurance policy covering the whole of their stock in the hands of their customers under these agreements. The amount of these policies is increased

every time more goods are sent out, and lowered as the agreements are paid off. On the death of the hirer the benefit of the hire purchase agreement goes to his heir provided he is able and willing to pay the instalments, otherwise the dealer has to take back the article. An insurance arrangement of a collective type is frequently made in this connection under which the insurance company pays the balance due by deceased hirers whose heirs are not able to fulfil the contract.

The risk which the hire purchase trade runs is in connection with the landlord's distress warrant, which may be taken out by the landlord on the hirer for non-payment of rent: in which case the landlord gets the right to seize all the articles on the premises, and recover rent due to him by sale of the articles under distress irrespective of the fact as to whom the property belongs. The other danger is that in case of insolvency, the hirer is taken to be the reputed owner of all the property belonging to him in his shop or in his home on the footing of which his creditors have loaned him money: and hence, the official assignee in India, and trustee in bankruptcy in England, who take possession of these articles and sell and distribute the proceeds among his creditors because here the property happens to be what in law is called "under order and disposition" of the debtor.

The goods thus kept in the shop or in the house of the hirer under the hire purchase arrangement are constantly under this danger in case the hirer becomes insolvent.

Finance Corporations and Hire Purchase Trade.—In connection with hire purchase trade, it may be added that, as the dealers find it increasingly difficult to provide capital or finance with a view to carrying on hire purchase trade which has become normal on certain markets, finance corporations were founded to assist them in this connection. These finance corporations buy up the hire purchase agreements from the dealers, either with their endorsements or without same, and undertake to collect the instalments themselves, on their own responsibility, charging certain percentage by way of their own profits on the

advance made. Of course when the dealer gives an endorsement, a much smaller margin is charged ; but where the company buys the paper on its own responsibility, it retains a larger percentage on loaned amount towards its charge or profit, as a reserve against bad debts besides their trouble of collecting the instalments. Frequently this reserve is returned to the dealer when the finance company receives payment in full. There are various methods by which these dealings are done: but the principle involved happens to be one which we have enunciated above. The dealers are thus relieved of worry and expense of collecting the small instalments in the first case, and also of loss suffered against bad debts in the other, besides obtaining finance under both the circumstances.

THE ONE PRICE SHOP.

The other form which the "stores" branch of trade has taken of late in Europe and America is working on the "One Price System". We are familiar with this type of trade done by a certain class of hawkers in German and Japanese cheap assorted articles, but the idea of the opening of a number of shops under a permanent organization mainly to deal on these lines, does not seem to have occurred to any of our enterprising business men. Here, the central office selects a large number of useful articles, which it buys on wholesale lines from those manufacturers who specialise in the manufacture of the same. The price fixed per article is the popular price of $6\frac{1}{2}d.$ or a shilling per article. In India two to six annas is the usual basis, and in some cases higher. The location of shops is arranged by the central office after careful deliberation. The shops have to be located in those places where a large number of people congregate, such as a bazaar, or near some large store which advertises largely and draws a large number of people, or in an exhibition, public fair, etc. Every possible opportunity is taken of opening temporary shops where people are likely to congregate, and by display and posters, attempts are made to

draw customers in for purchase. The location of each of these shops is constantly altered on a well regulated plan worked from the central office, and for that purpose, shops temporarily vacant in prominent places are taken on short leases of a month or two and made the most of. As these shops appear to outsiders to be constantly closing and shortlived, the general public is under the impression that this class of business is the least paying, the profit making possibilities being only known to those having a working hand in them. None the less, it is a well regulated business, substantial and permanent so far as the central depot goes, though the magic lantern slide arrangement in connection with the shops may create a misleading impression on those who are ignorant as to the system at work. The more recent development is that of having a large number of permanent chain shops on one price basis under one organization. These shops appeal to the bargain making instinct, otherwise known as "something-for-nothing" instinct, of the human race: and the result is that a large number of people go in and buy things they never wanted or are likely to want. The managers in charge of the shops keep the central office informed about the daily sales and guide them as to the class of articles mostly in demand. A number of assistants are also employed to report on new locations, where temporary shops can be leased, and as to the possibilities of the localities concerned. Before a new location is selected, all possible enquiries are made as to the number of people who frequent the locality, particularly that class which is likely to be attracted to these shops. The managers are instructed to bank their daily takings, and are furnished with cash from the central office for their expenses on the imprest system, for which accounts are periodically furnished to the central office. In certain localities shops may be maintained on a permanent basis if experience warrants the desirability of such a course being adopted.

The Art of Selling.—We have already seen, while dealing with the question of wholesale business, how important it is to select proper men to act as salesmen and travelling agents with

a view to canvass orders and push forward sales of the articles dealt in by the business men. In retail-store business of the type we have dealt with above, whether on the general stores, or one price shop principle, a large number of assistants both male and female, are generally employed to effect sales of articles in the various departments. The careful selection of these employees, and their proper training on scientific lines, has been engaging the anxious attention of store proprietors all over Europe and America, as it is being increasingly realised over that side of the world that proper salesmanship in a shop exercises potential influence on the volume of trade done through the medium of retail selling. Now-a-days these principles of scientific salesmanship are carefully taught in schools and colleges, and the employer in Europe and America selects men who have had this necessary theoretical training. This saves much time and expense which used to be thrown away in old days under the old system. The young man or woman, fitted with a theoretical knowledge of the principles of salesmanship, does not take much time to learn practical work, and generally develops into a very successful salesman, or saleswoman, with the help of a little experience; provided, of course, they have the aptitude, energy and perseverance for their calling. Some enterprising firms who own large stores have introduced a system of training salesmen with the help of cinema films. Here all the various steps through which a sale in a corner of a retail shop has to pass, is exhibited and commented upon by the teacher in charge. The approach of a customer, his reception by the salesman concerned, exhibition of articles in proper form and style, recording of order, offer of further articles, etc., are duly exhibited and commented upon. This practical demonstration through films, in which the most experienced salesmen and women are made to act, is said to have resulted in a most perfect training of the young aspirant to the position concerned. The idea as to the value of courtesy, and good manners, is carefully inculcated and the value of pleasant expression and sincerity in statements made

to customers is brought to the notice of the young pupils. Besides this, the management keeps on issuing circulars from time to time, pointing out to the employees, defects, if any, found in the working of the stores, exhorting them to observe certain rules in connection with their duties with a view to bringing about efficient results. A careful record of sales made, monthly or yearly by each employee, their habits as to regularity and punctuality, errors if any made, etc., helps the manager to reward the most deserving, thus keeping up a healthy spirit of rivalry between them, to the best advantage of the employee and the establishment concerned. If by any chance the sales employees of a large store could be taken to the factories where the articles are manufactured on a sort of educational visit, it would have a very beneficial effect. This is, of course, possible in Europe and America where large stores generally sell articles manufactured in their own country; but in a country like India, where a large proportion of imported articles are available for sale in such establishments, the only substitute would be a demonstration through the help of cinema films as to the processes of manufacture, failing which of course the old fashioned magic lantern slides may be resorted to. It is also found to be advantageous to hold a sort of periodical conference of these shop employees, if possible under the patronage and presence of the general manager, and suggestions should be invited, so that the manager may get an opportunity of benefiting by the knowledge of those who come in daily practical touch with the reality of retail selling. Suggestions that appear to be useful should not only be adopted, but the person making it should be rewarded by promotion at the first opportunity. The salesman should, while serving a customer, not only show the goods he is offering him for sale, but should also describe the goods in all their detail. Again, the most presentable form in which the goods of a particular type may be shown should be studied and followed. The idea is to create the customer's interest in the goods that he did not at first want, and then induce him to

buy. If the purchaser call for a particular type of article, his wishes should be carefully studied and complied with. In other words, the salesman should, as far as possible, follow the line of least resistance. In case of inquisitive customers making enquiries on the merit, or otherwise, of a particular article offered, the salesman should take care to be well-versed and ready to be able to answer all enquiries with a show of confidence and knowledge. In offering articles in addition to those which the customer wanted, the attitude adopted by the salesman should be not that of anxiety to get rid of more stock, but that of a desire of an admiring servant to serve his master to the best of the latter's satisfaction. This method will prove most enchanting, and the chances are that extra sales will be successfully effected.

Seasonal Alterations.—Again, for the purpose of seeing that the employees in the shop or a large store carry out their duties actively, some sort of inspection and supervision has to be arranged. The inspecting officer should see that articles in demand particularly during the seasons concerned, are appropriately kept in a prominent position, that each department keeps its goods properly arranged in a good and attractive condition and each salesman or saleswoman is present in their appointed places ready to serve customers. It is for him to decide whether, in a particular department a large number of employees are necessary because of the over-work all throughout the year, or during a certain part of the year, and if so additional hands should be employed or transferred from other departments. A careful note is also taken of the variation in demand, as to the various articles from the point of view of the pattern, style, colour, or make up and immediate steps are taken to get the store supplied with the right kind of stuff.

CHAPTER VI.

PRACTICE OF FOREIGN TRADE.

IMPORT TRADE.

Its Basis and the Circumstances which Make it Necessary.

—The import trade of India is largely made up of manufactured articles because India happens to be a large agricultural country, and it has, perforce, at present, to exchange its raw produce with manufactured articles which either it does not manufacture in this country at all, or which are not produced in sufficient quantity to answer the demands of the people. A country generally pays for its imports by its exports, as well as its debts through its exports, and thus India's exports can be either payment for imports or for her debts, or interest due on them plus services rendered to her by foreign nations, as shipping and carrying services, etc. These imports, in a few cases, are no doubt made directly; but most of our imports are effected through the intermediary of middlemen or individual firms or agents, who have arrangement in foreign countries for selecting the best quality in the best possible market with their expert knowledge, and are prepared to give, not only this service, but also various facilities in connection with favourable freight charges, insurance, etc.

Numerous European and Indian concerns carry on what is popularly known as the "Indent Business", either exclusively, or as one of the branches of their trade. The object here aimed at, is to serve as middlemen between the bazaar buyers in India and the manufacturers in Europe or America. Lately Japan has also entered within the folds of this market,

and indent firms are now largely dealing with that country also. The local indent firm secures orders from the local dealers for an article which is either of a well known brand, or on a sample which it receives from its foreign agent, and forwards the same to the latter to be placed with the manufacturer. If the indent is made out for a price quoted, or on a firm offer received from the foreign agent, the contract is immediately closed; if not, it serves as an offer from one side which has to be accepted by a formal confirmation from the other side. The profit made by the middlemen concerned is supposed to be made up of a commission varying according to the nature of the article indented. In the case of articles of well known brands the names of the makers, as well as the wholesale prices are "open", *i.e.*, known to all the dealers. Here, the percentage of commission arranged, forms the margin of profits for the middlemen; whereas, in other cases, particularly in trades where, beyond a mark or stamp as to the country of origin there is nothing to indicate the name or address of the manufacturer, the middlemen generally succeed in reserving an extra margin of profit, *i.e.*, over and above their usual commission. At first sight this type of combination appears to throw an undue burden on the dealer; but it is not so in practice. A large number of dealers in the East are not conversant with the intricacies of foreign markets—in fact the bulk of them are incapable of carrying on direct correspondence—who find it difficult, if not impossible, to replenish their stock without the assistance of indent firms. A good many of them find it impossible to arrange for a direct credit with the local or foreign bankers with regard to their imports. The presence of the foreign agent of the indent firm on the spot ensures the shipment of the proper article after selection, thus avoiding unnecessary delay and inconvenience. In case of claims as to breakage, inferiority,

indifferent packing, etc., they are in a position to lay their case before the manufacturer with greater effect through the assistance of the influential foreign agent on the spot. An energetic and influential agent in the country of origin keeps the dealer, through the medium of the local indent firm, closely in touch with innovations in the line, thus helping him to take immediate advantage of a cheaper article newly placed on the market. The foreign agent having acquired a special knowledge and experience as to the requirements of the Eastern Market, is in a position to lay his views before the manufacturers personally, as to the varying requirements of his clients. The foreign agent is also in a position to secure the most favourable terms for his clients as to freight and insurance, as he generally contracts in a large way with shipping and insurance companies on behalf of his numerous clients. There are also instances where the indenting firms hold sole agencies for certain brands and the dealer can secure these articles only through the medium of these monopoly holders.

Confirmatory Indent.—Frequently the terms on which the indents are sent are not acceptable or possible of being pushed through at the other end, thus a counter offer is sent to the indenter which may happen more than once and ultimately a final offer may be accepted, in which case a document is forwarded which is called “confirmatory indent” by the importing merchant through the indent office to the export agent in the foreign country.

The Form of Indent.—The indent firm employs a number of salesmen who are in close touch with the local dealers and report to the manufacturer from time to time as to the requirements of the market and the credit and standing of individual dealers. When they secure an order or indent either on a sample they have interested a dealer in, or in some known article, they get the same from them on a printed form of their firm which embraces clauses and

conditions of the contract. The form given below indicates the usual terms on which indents are taken in practice :—

Cowasji Brothers & Co.,
 Merchants & Commission
 Agents, BOMBAY.

Indent No. 1558.
 Code Cypher—*Calabash.*
 Bombay, 5th July, 1939.

On account of.....

To Messrs. *Cowasji Brothers & Co.,*

BOMBAY.

Dear Sirs,

I/We hereby authorise you to buy or instruct your Agents to buy for my/our account and risk the whole or any part of the following goods on the terms and conditions as named below and we agree to pay you a buying commission of *three* per cent for your service.

I/We hereby agree to take delivery of the goods on arrival direct from the Steamer and to pay all duties and charges incidental thereon and authorise you or your Agents to draw in sterling upon me/us for the total amount of the Invoice in a Bill or Bills of Exchange at *London.*

If the bill or bills be drawn in sterling I/We agree to pay interest on the amount thereof at six per cent from the date of the relative Invoice to the estimated date of arrival of remittance in London and further bind myself/ourselves to accept such bill or bills on presentation without any pretext, excuse or objection whatever and pay the same at maturity. No interest is to be allowed to me/us on part-payment of such bill or bills. Should I/We fail to accept or to pay at maturity such bill or bills I/We hereby authorise you as well as the holders of the bills to dispose of the documents or goods either by Private Sale or Public Auction on my/our account and risk, and I/We hereby bind myself/ourselves to make good any loss arising from such sale and all Sale Expenses and in addition to a commission of 5 per cent for yourselves on the gross sale price waiving all claims to any advantage thereon and I/We agree to accept your Account Sales as correct and consent to the same being used by you or your Agents in any Court or Courts against me/us without further proof.

Provided always that I/We hereby agree that in spite of anything that may be written on this Contract or elsewhere to the

contrary, you have the absolute right to refuse to give me/us possession of the Shipping Documents relating to this order or the goods until I/We have paid for the same as well as for all outstandings.

Should the goods for any reason be shipping in more than one shipment or for any reason a part or parts thereof be cancelled or left out I/We shall make no objection to take them just as they may be shipped.

In case of any dispute, you or your Agents are to have the option of (a) cancelling this order, or of (b) submitting the matter in dispute to two Merchants or their Assistants or the Referee appointed by them or of (c) submitting the matter to the Bombay Chamber of Commerce or the Indian Merchants' Chamber for arbitration under such rules as may at the time be in force, and I/We agree that the decision so arrived at shall be final and binding upon me/us.

Any claims or disputes whatsoever with respect to this order with regard to damage, shipment, deviation from samples, inferiority of quality or any other objections whatsoever are to be made in writing stating full particulars of complaint and the necessary arbitration fees deposited by me/us with you within 10 days from arrival of the vessel, after which time all responsibility is to be on my/our account and no claim will be made by me/us after the aforesaid period of 10 days and if I/We make it, it shall not be valid.

When goods are ordered from specified Manufacturers or Manufacturers' Agents I/We agree to take all risks connected with outturn both as to quality, delivery and in every other respect.

Any deviation from time limit not exceeding 15 days is not to be considered a breach of Contract. All goods which have been delivered up to time at Port of Shipment, shall be accepted as actually shipped within the limit of time stipulated and whatever your supplier writes in respect to this point is to be accepted as conclusive.

In the event of fire, or strikes among workmen, or of any *vis major*, or of the failure of your supplier to deliver through Bankruptcy or any other reason, you or your Agents are to have the option of cancelling this order, and in no case shall any action be taken against you or your Agents for loss of profit or otherwise owing to late shipment, non-shipment or non-arrival of the goods.

All risk of damage to oilman stores or any other goods of a perishable nature are to be borne by me/us.

Goods to be insured F.P.A. unless otherwise stated. I/We bear any loss which may arise in consequence of goods insured F.P.A. arriving late, water damaged, etc. Any war risk premium which may be incurred, to be in all cases payable by me/us.

You or your Agents are not responsible for any leakage or breakage of any sort.

Contents and terms of this contract fully read out and explained by me.

Sd. Sorabji Hirji, Salesman.	50 Pieces of Superior Linen Shirting at 8¼d. F. O. B. "A" quality. Each piece to contain 120 yds. Shipment before the end of next month D. P. Draft at three months' sight. (Sd.) Jaferji Suleman & Co.
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The Documentary Bills.—The above form duly filled in and signed is presented to the manager who gets the same properly filed and forwards a copy to the foreign agent in the country where the articles are manufactured. The foreign agent makes the purchase and looks to its packing and shipment in due course. The manufacturer's invoice, in case the manufacturer is disclosed, or the agent's own invoice is then prepared including charges by way of freight, insurance, packing and commission. A bill of exchange is then drawn out on the dealer for the full invoice amount according to instructions from the indentors, to which the shipping documents, *viz.*, the bills of lading, the insurance policy and the invoice are attached. This bill is then known as the documentary bill. The usual practice is to draw at 30 or 60 days' sight at the current bank rate of interest. This complete documentary bill is then handed by the foreign agent to his banker having a branch office or agency in the indenting country, against which the banker makes an immediate advance to the foreign agent, his remuneration being the interest which is to accrue and the profits on the exchange

when the amount is remitted from the other side. The draft of the documentary bill takes the following form :—



LONDON, 15th August, 1939.

EXCHANGE FOR £222-15-0.

Thirty days after sight of this First of Exchange (Second and Third of the same tenor and date being unpaid) pay to the order of Messrs. Cox & Co., the sum of *Two hundred and twenty-two pounds and fifteen shillings* sterling with interest at six per cent. per annum added thereto from date hereof to approximate due date of arrival of the remittance in London. Payable at the current drawing rate for sight drafts of the above Bank on London. Value received.

To

Messrs. Jaferji Suleman & Co.,

In Case of Need apply to :—

Messrs. Cowasji Bros. Co., (Sd.) J. Lyon & Co.,
Bombay.

The indent agents receive a direct intimation as to the shipment from the foreign agent which they in their turn communicate to the dealer concerned in a form similar to the one appended here. These forms are generally printed with space for the details left blank to be filled in on each occasion.

From—COWASJI BROTHERS & CO.,

BOMBAY.

Bombay, 20th August, 1939.

To

MESSRS. Jaferji Suleman & Co.

DEAR SIRS,

We have the pleasure to inform you that our Agents in London have reported by the $\frac{\text{Mail}}{\text{Telegram}}$ of 16th instant concerning

your esteemed order as follows, which we communicate to you without engagement of any kind:—

Indent No.	Article.	Remarks.
1185	50 Pieces of Superior Linen Shirting.	Shipped per s. s. "Rajput."

N. B.—All telegraphic reports are subject to further confirmation by receipt of mail letter.

We are, Dear Sirs,
Yours faithfully,
(Sd.) Cowasji Bros. & Co.

When the documentary draft is received by the local bank it presents the same to the dealer for acceptance and if the same is a D/A draft, *i.e.*, documents against acceptance, the bank hands over the attached shipping documents to the dealer on such acceptance and the accepted bill is retained by the banker till the due date of payment. If, on the other hand, the bill is drawn as a D/P draft, *i.e.*, documents against payment, the documents are not handed over on acceptance as in the former case, but are retained till the due date of payment and on payment either on the due date, or even before that, the discharged bill is handed to the payee duly cancelled. The foreign commission agent while drawing a bill takes his instructions from the indent agent as to whether the same has to be made a D/A or D/P bill. If on the other hand the dealer fails to accept the bill, or accepts the same and fails to meet it on the due date, the banker presents the same to the indent agent who is generally named on the bill as a "Case in Need". This "Case in Need" then accepts the same for the "honour of the drawer" and attempts to settle with the dealer any dispute or claim he may have set up. If he succeeds, the bill is paid on maturity by the dealer, if not, the indent agent pays the same and proceeds with his remedies at law against

the dealer. Where disputes arise as to damage through indifferent packing, etc., the same are settled through the medium of surveyors appointed by mutual arrangement between the indent agent and the dealer as per terms of the indent. It may be added that these foreign bills are drawn in sets of two or three, each bill of the set being known as a "via", on the settlement of any one of which the others stand discharged.

It may happen, as we have already noticed, that the dealer, when a price is quoted by the salesman, may wish to give a counter offer on the basis of a price which suits him, which is taken down, subject to approval and acceptance by the foreign agent, on the same indent form. The foreign agent on receipt of the same may either accept or reject it or send a counter offer himself. This might ultimately result in the business being put through at some price suitable to both the parties.

Packing, Freight and Marking.—The indent agent should keep himself informed about the various rates with regard to freight and shipment by different routes, in order to be able to guide the dealer as to the most advantageous route to be taken by his ship, considering the location and conditions of transit prevailing in the country of origin. For this purpose the various denominations as to packing ought to be carefully studied with a view to securing economy in the total rate of freight charged. With regard to packing, he should take care to instruct the foreign commission agent as to the most suitable form of packing from the point of view of the local market; of course never losing sight of the actual nature of the article which is to be packed. In this connection his past experience with regard to the class of goods imported will be the best guide. If the goods ordered are of a type which are likely to be affected by weather or sea water, they may be ordered to be packed in tin-lined cases. If freight is payable on the cubic feet basis, all possible care should be taken to see that the goods are packed in boxes of as small a size as possible, as all

unnecessary space taken up by a larger box has to be paid for by way of additional freight. It may be mentioned that there are firms who make a speciality of undertaking packing, and are experts in that line, who are usually engaged in these cases. All instructions given in the indent in connection with packing have to be strictly observed, and the requirements of the customs authorities concerned have to be carefully followed. In case of countries where the transit methods are not up-to-date, *i.e.*, the distance has to be covered on mules or by human labour, etc., the packing must not be too bulky. In a case where freight is charged on measurement, the maximum quantity of goods is to be packed consistent with safety, so that the minimum freight may be paid and economy effected in that direction.

CUSTOMS.

It would be quite appropriate to consider here the formalities required in connection with Customs in case of goods imported as well as exported from India. Customs is a term applied to a tax imposed on commodities imported or exported, as distinguished from Excise, which is a tax imposed on goods manufactured in the country itself. In India this tax is regulated by a Special Act known as Sea Customs Act of 1878, which has been amended from time to time up to 1924. In England the law is embodied now in the Customs Consolidation and subsequent Acts dealing with particular commodities.

The Customs is divided into Departments the most important of them being:—

- (1) The Import Department;
- (2) Export Department;
- (3) Appraisement Department where ^Ocases of wines, spirits, chemicals, etc., are examined by special appraisers to find out their strength, etc., with a view to arrive at the scale at which the duty may be levied; and
- (4) Preventive Department.

Bill of Entry.—On the importation into or exportation from any Customs port of any goods, whether liable to duty

or not, the owner has to prepare a statement on Form supplied by the Customs Authorities known as "Bill of Entry", in which he is expected to state the real value, quantity and description of such goods, to the best of his knowledge and belief. The Customs Authorities have the power to require from such owner or any other person who may be in possession to call for the production of Invoice, Broker's Note, Policy of Insurance and other documents in order to enable them to ascertain the real value of the goods, as well as the quantity and description. If the importer has all the particulars with regard to value, quantity and description of the goods, then he enters them in the Bill of Entry Form. These Bills of Entry Forms are divided into three classes, *viz.*, (1) Entry for Free Goods, (2) Entry for Home Use or as it is called in India "Entry for Consumption", and (3) Entry for Bond. In India all these entries are made on one Form, the free goods being marked "Free" on the Entry itself and the relevant columns left blank as we shall see later.

Ship's Report.—In every port, as soon as a Ship enters from a foreign port, the Master is required to deliver a report at the Port within 24 hours of its arrival. This is called the Ship's Report. The Report has to be made on forms prescribed, giving particulars as to the name of the ship, form of entry, nationality, Master, port, whence it came, number of crew and the nationality to which they belong, marks on goods, the description of the goods, whether he intends to land them all at the same port or some goods are to be carried to some other port. He has also to furnish an account of all stores in his possession, or that of his crew, which are liable to duty.

Details of the Bill of Entry.—The importer has to prepare Bills of Entry on the Forms given or furnished by the Customs Authorities in triplicate, generally these are in different inks, one in black to be retained by the Customs Department, the other in dark blue to be retained by the Port Trust or Port Department and another in violet to be handed over to the exporter. In the case of goods which are being removed for home consumption the Bill of Entry will be according to the Form given on pages 140 and 141.

Original BILL OF ENTRY

Vessel	General Manifest No.	Master or Agent	Colours
S S			

Packages		Details of goods to		
Number and Description	Marks & Numbers	Quantity		Description
		Unit	Amount	

Total No. of Packages [in words]

G. M. Clerk.

Index No. of 19	<i>For use in Cash Department</i>	ORDERS
COURT FEE STAMP		

FOR CONSUMPTION.

Port of Shipment	Country whence Consigned	Importer's } Name _____
		Address _____

Dalal No. Signature

be given Separately for each Class or Description

Real value as defined in the Sea Customs Act		Value on which duty is assessed			Duty	
Rate	Amount	Rate		Amount	Rate	Amount
		Tariff	Ad Val			
	Rs.			Rs.	Rs.	A.

Total Value Rupees _____

Total Duty Rupees _____

1. This Bill of Entry is presented subject to the Prior to Entry rules.
2. For the purpose of Sec. 37 of the S. C. A. it is expressly agreed that it shall be deemed to be delivered on the date when the order for inward entry is passed and the Bill of Entry shall in fact be so deemed to be delivered.
3. I/We hereby declare the particulars given above to be true.
4. I/We hereby declare that I am/We are unable from want of full information to state the real value and contents of the packages above marked and pray that they may be opened and examined in the presence of an Officer of Customs.
5. It is hereby declared that the acceptance of a deposit of duty calculated on the declared value and description of the goods specified in the Bill of Entry before examination and assessment shall not be deemed to imply acceptance by Government of such declared value and description or to affect right of Government under Sections 31 & 32 of the Sea Customs Act until the Appraising Department shall have finally accepted each declared value and description.

[This declaration to be struck out if not required.]

Bombay }
19 } Signature of Importer or his Authorised Agent.

If they are free goods they will be marked "free" after examination by the Customs Authorities and allowed to be cleared without payment of duty. This entry will be known as "entry for free goods".

In case of dutiable goods however, the various duties have to be paid according to regulations. The regulations of all Customs Authorities are based on the manner in which the duty is to be levied on particular groups of commodities. There is what is known as (1) SPECIFIC DUTY on the footing of so many rupees per Indian maund, or (2) TARIFF DUTY or *Fixed Values Duty*. This is charged in the case of certain laid down commodities according to the list, on the footing of values per pound which are laid down or tariffed by the Customs Authorities themselves irrespective of what their market value would be at the time. On this value the duty is charged *ad valorem* on the footing of percentage, and (3) Ruling Local Market Value footing; in this case the percentage is calculated on the ruling market price of the commodity which is being imported; (4) There are other cases where the duty is levied on the basis of invoice value instead of on Tariff or Market Value. This is generally done where the current market value is not available to serve the purpose of assessment. On this duty being calculated and fixed, in every case the importer either pays same in cash, or, as is done in good many cases, money is deposited beforehand by the importer, the amount of duty is debited to his account and recovered from his deposit. The importer is then permitted to remove the goods from the docks. In connection with the cases where duty is to be charged according to the ruling market rate, the date which is material is the date on which the General Manifest is noted in the Import Department which, according to regulations, is considered to be the date on which the Bill of Entry was presented.

Bill of Sight.—In case the owner or importer is not able accurately to mention the commodities he is importing in a bill of entry, owing to his information in connection with same as

received from the exporter being insufficient, he has to make a declaration to that effect, and the Customs Authorities would in that case permit him to open and examine the goods in cases, or packages, or bundles, as the case may be, in the presence of their officials, in order to enable him to make the entry. The declaration is made on a form known as Bill of Sight, in which is given all information which happens to be in possession of the importer and declares his inability to furnish same without sighting or inspecting the goods. The bill will then be passed over to the Officer-in-charge of the dock or wharf where the goods are lying, and the importer will then be permitted to make or complete or perfect his entry.

Bonded Warehouses.—Where, however, the importer does not wish to take away the goods either because they are not wanted immediately by him, or because he wants to be saved the amount of duty being locked up, or because he wants to re-export them, he has to prepare an Entry for Warehouse or Entry for Bond. Here in Bombay, the Port Trust Authorities undertake to store the goods in their warehouses on payment of specified charges, and the importer removes the goods from Port Trust Warehouses when he may require. If, however, the goods are dutiable, and particularly in the case of those carrying heavy duty, such as wines, spirits, tobacco, etc., the importer applies to the Customs Authorities to remove his goods to their Bonded Warehouses without his being required to pay the duty. Special Forms for Entry for Bond have to be filled in for the purpose according to the specimen given on pages 144 and 145.

Original **BILL OF ENTRY**

K. P. P.

To be Warehoused at

Vessels	General Manifest No.	Master or Agent	Colours
S S			

Packages Details of goods to

Number and Description	Marks & Numbers	Quantity		Description
		Unit	Amount	

Total No. of Packages [in words]

G. M. Clerk.

Index No	of	19	<i>To beware town on or before.</i>	ORDERS
COURT FEE STAMP.				

Assistant Collector

FOR BOND.

Bond No. of Dalal No. Signature

Port of Shipment	Country whence Consigned	Importer's Name } _____ Address _____

be given Separately for each Class or Description

Real value as defined in the Sea Customs Act		Value on which duty is assessed			Duty		
Rate	Amount	Rate			Amount	Rate	Amount
		Tariff	Ad	Val			
	Rs.				Rs.	Rs.	A.

Total Value Rupees _____

Total Duty Rupees _____

1. This Bill of entry is presented subject to the Prior to Entry rules.
2. † For the purpose of Sec. 37 of the S. C. A. it is expressly agreed that it shall be deemed to be delivered on the date when the order for inward entry is passed and the Bill of Entry shall in fact be so deemed to be delivered.
3. I/We hereby declare the particulars given above to be true.
4. I/We also apply for leave to deposit the goods mentioned here in the warehouse being a public warehouse appointed private warehouse licensed under the Sea Customs Act.

Bombay } Signature of Importer or his Authorised Agent.
.....19

Note :—Above Form is printed in India on Yellow Paper and is also known as a YELLOW BILL OF ENTRY.

This system of Bonded Warehouses is naturally a great convenience to the importer of heavily dutiable articles and the Indian Customs Authorities under special regulations even permit large importers on their special request to keep their own warehouses under the Customs Bond, for which a special license has to be applied for and obtained. The warehouse will then be known as a Private Bonded Warehouse, in which dutiable goods belonging to the importer concerned are ordered to be kept without payment of import duty until they are taken out for actual use or consumption. The warehouses have to be built and maintained according to the specifications laid down by regulations and are, no doubt, kept under observation of the Customs Department. When these goods are wanted they can be removed from the bonded warehouses of the Customs on payment of the relevant duty and the warehousing charges. Where public instead of private warehouses are used the Authorities who receive these goods in their warehouse, hand over a warrant or receipt for these goods, which in England are known as *Dock Warrants* and can be transferred on the sale of the goods to buyers, who thereby get the right to obtain the goods on the same footing as the original owner, *viz.*, the seller would have done.

If on the other hand the importer wishes to re-export the goods, the procedure is that he has to prepare what is known as a *Shipping Bill*, furnishing particulars of the goods, marks, numbers, etc., and the name of export ship and where she is lying. When this is passed by the Customs, the delivery note will be forwarded by them to the Officer-in-charge of the warehouse together with the shipping bill. When the officer furnishes the certificate that all the goods have been actually shipped for export the bond is cancelled.

Ambalal Virjibhai }
K P P }

SHIPPING BILL FOR

Indian produce.
Foreign produce to be re-exported.

Dalal No. Signature.

Piece Goods.

TRUE COPY OF CUSTOM SHIPPING BILL FOR BOMBAY PORT TRUST

Bunder Port, Bombay, Exporter's Name _____ Address _____

Name of Vessel		Masters or Agents		Colours	Port at which goods to be discharged			Remarks	
Packages		Details of goods to be given separately for each class or description							
Number and Description	Mark and Number	Quantity		Description	Value			Country of final Destination	
		Unit	Amount		Rate		Amount		
					Rs.	A. P.	Rs.		A. P.

Entered No. 19 . *LET EXPORT* I/We hereby declare the particulars given above to be true.

Bombay _____ 19 .

Assistant Collector of Customs.

Signature of Exporter or his Authorised Agent.

Practice of Foreign Trade

Export Duty.—Most of the exported commodities in India are free of duty, with the exception of a small number of articles on which an export duty is levied. The export duty here is generally charged on the nett weight, and the goods are shipped without delay after examination. Here also a shipping bill has to be prepared.

Excise Duty.—This is a duty levied on goods or commodities which are produced within the country. This tax under the British Empire came into existence for the first time in 1643 through the Long Parliament. The commodities on which it is generally levied are liquors or wines or spirits, salt, etc., manufactured within the country. The distilleries of these liquors and spirits are maintained under the strict control of the Excise Department, who charge duty on any of these items on removal from the place where they are manufactured.

Bounties.—Bounties are grants given by the Government to encourage certain industries with a view to enabling them to compete with the foreign articles either in the local or foreign markets. Of course, this payment is a burden on the local tax payer which is made with the predominant idea of encouraging new industries, during their infancy.

The Drawback.—This is a repayment of duty which had been paid when goods were imported at the time they are being re-exported, or on goods on which excise duty has been charged locally and which are now being exported.

Subsidies.—These are payments made with a view to encouraging industries like the shipping industry with a view to increase speed or for the carriage of mails, etc. Bounties are granted with a view to encouraging industries, whereas in the case of Subsidies they are paid in the general interest of the nation.

EXPORT TRADE.

Export Merchants.—The export merchants are large merchants who purchase goods locally in this country and

export them to foreign centres on their account and risk, instructing their branch offices or agents to whom they consign these goods, to sell them at these centres on their behalf. These merchants also have a large amount of business as export commission agents, by agreeing to purchase locally the goods required by their foreign constituents, and despatching them according to instructions, charging a certain commission for their services—plus freight and other incidentals. In India most of this export business is in the hands of large European firms, because the financing of imports and exports happens to be at present the monopoly of exchange banks in this country which are all European banks. The Imperial Bank of India has of late introduced a department of foreign exchange banking and it is hoped that this may lead to expansion of Indian exchange banking in the near future. The internal financing, however, particularly of produce and raw materials which form the predominant items of export from this country, is fortunately still in the hands of indigenous bankers and shroffs. They finance the crops from the point of produce to the point where they are brought to centres like Bombay, Calcutta and Madras, whence they are exported to foreign countries.

Export Price Quotations.—We have dealt with this in great detail in connection with the heading "Foreign Price Quotations" in Chapter III, which may be referred to.

Bank Guarantees and Letters of Credit.—Mostly the export transactions are financed through banks, and the use of letters of credit and documentary bills is frequent. Thus the export merchant who is asked to enter into contract for the purchase of produce from Indian merchants, and to send same by shipments to the foreign country concerned, asks for a letter of credit through a banker in London or any other centre where the exports are to be sent. Here the foreign importer wishing to open such a credit, approaches a banker in his own country and requests him to give him a letter addressed to the Indian export merchant or agent from whom he expects shipments of goods on credit. The banker gives this letter on

obtaining proper securities, which letter is addressed to the Indian export merchant or agent, authorising him to make the shipment and to draw the bill of exchange on the banker according to the tenure, and up to the amount, mentioned in the letter of credit which the banker giving this letter agrees to accept and pay on due date, provided the said bills are drawn strictly in accordance with the terms and stipulations covered by the letter of credit. The usual stipulation in the said letter of credit is that the credit has to be made use of within the period stated in the letter: usually six months.

If the banker undertakes to accept the bills drawn in accordance with such a letter without conditions, the document is called an "open" or "clean" letter of credit. If, on the other hand, the stipulation is that the documents of title to the goods covered by the bills drawn against shipment are to accompany the bills, the letter will be called a "documentary letter of credit". To take an illustration, supposing a merchant in London wishes to import from India cotton or seed, he arranges with a London banker to give him a letter of credit for a fixed sum, say £10,000, which is addressed to the merchant at the other end where purchase is to be made, say in Bombay. In this letter the banker authorises the Bombay merchant to draw upon him drafts at thirty or sixty days after sight, or at any other period agreed upon, to the extent of £10,000, against shipments of cotton or seed made by him; and the London banker agrees to accept same and pay same when presented in due course in London. It may be mentioned that the London banker arranges this accommodation on behalf of his customer either on his personal credit, or on some security lodged with him.

Revocable and Irrevocable Credits.—The credit thus given to the seller or shipper on the other side, may be either "revocable" at the banker's pleasure before the shipment is made, or "irrevocable" or "confirmed", as it is called. When it is "confirmed", it is known as "confirmed banker's credit" and when once so confirmed to the beneficiary, *i.e.*, the person

in whose favour the credit has been granted, the credit cannot be revoked except with the consent of the beneficiary, as otherwise the bankers would be liable to damages. The idea here is that the shipper in a foreign country wants his money paid to him in his own country against his goods which he is shipping outward. The merchant who imports, therefore, arranges with a first class banker in his own country, who is known in the country where the shipper is situated, with a view to lending his (banker's) credit to him through the medium of this document, relying on which the foreign shipper makes the shipment and draws the bill on the banker. Thereafter, the foreign shipper easily gets this bill discounted in his country, with his own bank, on the guarantee of the letter of credit he holds from the importer's banker, in which the latter undertakes to accept and pay the said bill. Thus the producer gets paid immediately against his shipment. When the said bill with shipping documents is received on the other side, the drawee banker accepts and pays same, his importing customer meanwhile having furnished him with funds, *i.e.*, before the due date.

FORM OF A CLEAN LETTER OF CREDIT.

No. 650.

The British National Bank, Ltd.
London, dated 15th May, 1938.

To

MESSRS. PREMCHAND NATHU & Co., BOMBAY.

DEAR SIRS,

You are hereby authorised to draw drafts upon this Bank at thirty days' sight to the extent in all of £10,000, say Ten Thousand pounds, and we hereby engage with the drawers, indorsers, and *bona fide* holders of all drafts drawn under and in compliance with the terms of this Credit, that the same shall be duly accepted payable in London, England, on presentation in order and that they shall be duly honoured on presentation in order at maturity.

This Credit will remain in force for six months from this date. The particulars of all drafts drawn against it must be indorsed on the back hereof, and the bills must specify that they are drawn under Credit No. 650, of the fifteenth day of May, 1938.

We are,
Yours faithfully,
For the British National Bank, Ltd.
(Sd.) JOHN MATHUSEN,
Manager.

FORM OF A DOCUMENTARY LETTER OF CREDIT.

No. 775. The British National Bank, Ltd.,
£15,000. London, dated 15th May, 1938.

To
Messrs. PREMCHAND NATHUCHAND & Co., BOMBAY.

DEAR SIRs,

You are hereby authorised to draw drafts upon this bank at thirty days' sight to the extent in all of £15,000, say Fifteen Thousand pounds, or invoice cost of goods to be shipped to Messrs. N. Green & Co., of this City.

This Credit expires, unless previously cancelled, six months from date. All drafts against it must be drawn and fully advised to us before that date, accompanied by Invoice, Bills of Lading issued to the order of the shipper and indorsed in blank, and Marine Insurance Policies.

Particulars of all drafts drawn under this Credit must be indorsed on back hereof, and the bills must specify that they are drawn under Credit No. 775, dated 15th May, 1938.

We hereby engage with the drawers, indorsers, and *bona fide* holders of drafts under and in compliance with the terms of this Credit, that against surrender to this Bank of the above-mentioned documents in order, the said drafts shall be duly accepted payable in London, England, on presentation in order; and that they shall be duly honoured on presentation in order at maturity.

We are,
Yours faithfully,
For the British National Bank, Ltd.
(Sd.) JOHN MATHUSEN,
Manager.

Revolving Credits.—In case of firms doing oversea trade all the year round in certain commodities, a system of credit, accompanied by a provision for its repetition, is opened, which is commonly known among merchants and bankers as "revolving credit". As an illustration, supposing that a credit was opened between two firms, one in England and the other in India, by which the Indian firm is to ship goods and draw bills against these goods on the English Bank, which the latter undertakes to accept and pay under what is called a revolving and confirmed letter of credit for a fixed period. We may further, for the purpose of our illustration, suppose that the credit is for Rs. 50,000. The Indian firm makes its first shipment for the value of Rs. 10,000, which leaves a balance in credit of Rs. 40,000. As soon as the bill drawn against this first shipment of Rs. 10,000 is accepted and paid for in England, the credit again shifts back to the original figure of Rs. 50,000 and so on, until the period provided for in the letter expires. Thus, what actually occurs in practice is that the clearance of one shipment virtually makes room for another of the same value, without fresh instructions being necessary; and this is the object sought to be achieved by this system of dealing. Much, of course, would depend on the construction of the letter in which the revolving credit is arranged on the question whether the fresh bills were to be drawn after the others fall due, or after they were actually paid for and settled. (*J. Burjorji & Co. v. International Banking Corporation*, (1925), 27 Bom. L.R. 27).

Trust Letters or Trust Receipts.—The usual practice of bankers in connection with imported goods on which they have advanced money by accepting or discounting documentary bills drawn against these shipments, is to arrange with warehouse-keepers to receive the goods, and keep them in the name of the banker, until such time as the customer on whose account the advance was made, pays the money. Some bankers do a large business of advances on shipments of this character, and maintain their own warehouses. There are cases, however, where

for practical reasons, the customer has to be entrusted with the goods with a view to enable him to sell, or dispose them off, and out of the proceeds to pay the banker his advance, interest and charges. This is, of course, done only in the case of approved customers in whose integrity the banker has complete confidence, after taking sufficient care to see that their money is secure. With this view, they get a document executed by the customer, commonly known as the "trust letter", in which the importing customer acknowledges receipt of the shipping documents concerned and undertakes to hold the goods represented by them, or the proceeds thereof, in trust for and as trustee of the banker. These trust letters, or receipts, as they are sometimes called, embrace stipulations by which the customer agrees to consult the banker at the time of the sale, as well as to apply the proceeds of the goods in the manner stipulated by the latter. The said letter also contains the usual stipulation on the part of the customer, to keep the said goods fully insured, and also to keep both the goods, as well as the money realised by their sale, distinct and separate. According to some writers, what actually occurs here is that the customer practically hypothecates the proceeds of the sale in discharge of the lien.

FORM OF A TRUST LETTER.

.....19 .

I/We hereby acknowledge having received from you for your account the undermentioned documents, viz.....

 and in consideration thereof I/We hereby undertake to receive the goods therein specified and to hold the same and the proceeds thereof, in trust on your behalf with authority to sell the goods for your account but not to make any other disposition whatsoever of the said goods, or any part thereof, and in case of any contemplated sale otherwise than
 for cash, or
 on the usual trade terms, viz., cash in.....days after delivery I/We agree to advise you to obtain your consent in writing to such sale.

I/We further undertake to hand you the proceeds of all sales as soon as received to be applied against.....
.....
and for the payment of any other indebtedness (whether certain or contingent) of mine/ours to you.

I/We agree to keep the said goods insured to their full value against fire and other risks you may deem desirable, and to hand you the evidence of such insurance, the sum insured to be payable, in the event of loss to you, and in case such insurance is not arranged to your satisfaction, you are hereby authorised to effect insurance, the cost of which I/We engage to pay.

I/We further agree to keep said goods stored to your satisfaction, and if requested by you to remove them at my/our expense to any other place of storage indicated by you.

It is understood, however, that you are not to be held responsible for the suitability and sufficiency or otherwise of storage or insurance, and that all charges and expenses in connection with such goods are for my/our accounts.

I/We further agree to keep this transaction separate from any other, and to grant you the sole and absolute lien on the goods until you have received full payment plus charges including your commission at.....per cent, and interest at the rate of.....per cent, above Bank Rate, minimum charge 5 per cent per annum, and you are authorised, if you shall think fit so to do, to apply for and receive direct from the buyers the proceeds of any sale, and I/We agree that as against me/us your receipt shall be a sufficient discharge.

I/We further agree that no failure or omission on my/our part fully to carry out any of the provisions of this or any similar agreement shall be deemed a waiver by you of any of your rights or remedies under any of such agreements unless such waiver shall be in writing endorsed hereon and duly signed by you.

It is further agreed that you may, at any time, cancel this trust and take possession of the said goods, or of any of the proceeds of such goods wherever the said goods or proceeds may be found, and that the trust agreement is without prejudice

to any of your rights or remedies for the recovery of the ultimate balance on any account between us.

Signed.....



.....

Bills of Lading.—A Bill of Lading is a document of title to the goods which are shipped from one port to another. In the case of a chartered ship, the contract of affreightment or hire is embodied in the charterparty, and therefore the Bill of Lading is a simple acknowledgment or receipt of the goods. In the case of a general ship where there is no charterparty, the bill of lading, besides being an acknowledgment of the goods, contains a contract of carriage; that is, the terms and conditions under which the shipping company concerned agrees to carry the goods to their destination. The usual practice is that when the goods are delivered on board, a receipt is issued known as the "Mate's Receipt". This is a sort of provisional receipt given by the mate or the chief officer which is thereafter exchanged for a regular bill of lading in proper form. Each shipping company has its own form which is filled in and handed over generally in a set of three. The idea of giving it in a set is to enable the shipper to send each of the first two copies through two different routes for safety and that the third may be kept by the shipper for record. The goods are described on the margin of the bill of lading and the marks as well as the numbers on the packages are also indicated there.

The peculiarity of a bill of lading is that it is a document of title to the goods and in case the goods are made deliverable to a particular person or to his "order" or "assigns", the bill of lading can be transferred by the original holder to anyone he chooses. This transfer can be made by endorsement or delivery, as the case may be, and the transferee acquires, by

such a transfer, all the rights as to the goods shipped that the transferor had, and is also subject to the same liabilities as those of the transferor. If, therefore, a bill of lading is transferred by the shipper to some other person, whether such a person is a buyer, or his mercantile agent lawfully entrusted with the bill of lading, and if that person, during the course of the transit of the goods, endorses the same in favour of some other person, who purchases the goods in good faith and for valuable consideration, the right of stoppage in transit of the original holder cannot be exercised against this last party.

A bill of lading is frequently described as a negotiable instrument, though it is not one in the strict sense of the term. There are, undoubtedly, many points of resemblance between a bill of lading and a negotiable instrument, *e.g.*, its transferability by delivery with or without endorsement and without any notice to the person liable on it, and also that a transferee of a bill of lading can sue in his own name and give a valid discharge to the person liable. Thus some authors have called it a *quasi* negotiable document. It differs from a bill of exchange on the point of negotiability, because in case of a bill of lading, a holder cannot give a better title than he himself has, whereas in case of a bill of exchange, a holder in due course, who received same for value and in good faith, receives same from all defences as to defect in title as could have been successfully pleaded against a previous holder, except, of course, forgery.

Marine Insurance Policy.—In modern times all shipments are insured against all marine risks, and policies of insurance are issued by private underwriters on Lloyd's in England, as well as by Insurance Companies. In India we have no private underwriters; and policies of insurance are issued by marine insurance companies. When it is specifically arranged that the goods should be covered by a marine insurance policy, the regular policy must be taken out: as the receipts of insurance are not acceptable by bankers and others through whom the shipping documents have to be negotiated.

In case of C. I. F. contracts also, where the buyer is bound to pay the price against delivery of shipping documents, the seller must deliver, besides the bill of lading and invoice, a regular policy of marine insurance and an insurance receipt will not do.

Dock Warrant.—This is a document which is virtually a certificate from the Dock Company that certain goods which are described therein are in their possession, which they agree to deliver to any person specified by the owner. In other words the goods are held at the disposal of the depositor. This document requires to be stamped. The usual form in which dock warrants are issued is the following:—

DOCK WARRANT.

(Stamp)

.....Docks Co.,
 No..... 19.....

Warrant for.....imported in the ship.....
 Masterfrom.....
 entered by.....on the
 deliverable toor assigns by indorsement
 hereon.....Rent commences on the.....
 and all other charges from the date hereof.

Rate charged.

Mark	Numbers	Weight	
		Gross	Take

Ledger No..... Folio.....
Clerk.
 Warrant Clerk.

The question as to the suitability of this dock warrant as a security for an advance largely depends on the integrity of the parties concerned, as well as on the reliability and the substantial financial position of the dock or warehouse-keeper concerned. The banker here has to rely on the integrity of both these parties, accepting the contents of the warrant as accurate, which lays down the specification of the goods concerned, on the valuation of which the necessary advance is made. The fact that these companies have a lien on the goods for their charges for rent, etc., has to be borne in mind, though, of course, this lien gives them no right to sell the goods. Against the deposit of this warrant a "memorandum of deposit" in the usual form, or a letter of hypothecation is taken. Proper conditions as to keeping the goods insured against fire by a correct type of policy has to be inserted in the documents.

Warehouse-keeper's Certificate.—This is a mere receipt, certifying that the goods are held by the warehouse-keeper, which is usually expressed to be non-transferable, though, in some cases it is transferable by an endorsement. The mere statement as to the holding of the goods on behalf of the owner in no sense makes it a document of title. It is for this reason that this certificate is not considered to be a proper security for loan by the bank. The form of warehouse-keeper's certificate is as follows:—

WAREHOUSE-KEEPER'S CERTIFICATE.

No..... (Stamp)

Not Transferable.

Messrs.

We hold at your disposal in our warehouse as per conditions
on back hereof..... ex S. S.....

.....
.....
Warehouse-keepers.

Delivery Order.—A Delivery Order, as its name implies, is an order on the warehouseman from the owner to deliver

the goods mentioned therein to a particular person. When a bank makes an advance on such orders it takes care to see that the goods are transferred to its own name before making the advance, as otherwise, the holder of a second delivery order in connection with the same goods, who has no notice of the banker's claim, may obtain the goods by giving his copy to the warehouse.

CHAPTER VII.
GENERAL OFFICE ROUTINE AND
MODERN APPLIANCES.

General Remarks.—In connection with office routine we have already dealt with some of the aspects of purchase and sale departments, and in course of this chapter shall confine ourselves to the other aspects, such as record of inward and outward correspondence, filing and indexing and office appliances used in modern offices to bring about efficiency and speed simultaneously, etc.

In connection with correspondence generally, the modern office has to be equipped on modern lines in view of the fact that hundreds, if not thousands, of letters are received and despatched daily by large modern organizations. Under these circumstances, the opening of letters by the proprietors or principals of the business, as is even this day done in case of small partnerships and sole trading firms, becomes impossible.

The gigantic proportions to which correspondence of large concerns has grown in actual practice, can be gauged from the fact that there are a number of businesses in London and New York, which maintain a separate sorting department to which cartloads of letters received early in the morning, and at fixed intervals during the day, are sent; with a view to sorting the firm's letters from those of thousands of employees, and then to distribute the firm's letters to the departments to which they belong. One can only imagine the enormity of the task of having to file these letters after they are replied to, so that they could be, through the assistance of a perfect index, traced whenever required for reference, or any other purpose; and unless this is done it would be impossible for any business to rise beyond a certain height. Do we not frequently hear our

Indian business men of the old school complain of their inability to cope with the increasing requirements of their business? Many of them have refused to expand by curtailing orders, though the business they manage is much smaller than that of their compatriots in Europe and America. Their difficulty is due to want of knowledge as to the scientific methods of filing, and indexing, not to speak of many other departments of office organization in which our people are equally backward.

Inward Correspondence.—The inward correspondence is generally made up of orders received and remittances sent, enquiries, complaints, etc., and it is absolutely necessary that the same should be not only attended to promptly but with care by competent officers. The sorting department, or the clerks to whom the work of attending to the inward correspondence is assigned, should be instructed to stamp or write on each letter the date and time of arrival, in order to guide the office as to any delay if that occurs. The letters are then separated and sorted according to the departments to which they belong. Many large concerns prohibit employees and officers from getting their letters addressed to their offices, particularly where the office correspondence is heavy; because otherwise the work of the sorting department may be made unnecessarily burdensome and expensive. Where such letters are allowed to be received, the same will be placed on the board where employees' letters are kept to be received by them. The other letters will be opened by the sorting department in the presence of a responsible officer deputed for that purpose. Letters containing remittances are taken charge of by the chief official who makes a note on the letter of the amount which the letter carries with it: and as such remittances are usually made up of cheques, the cheques will be immediately crossed with the name of the banker of the office concerned and made payable to the account of the office receiving it. Rubber stamps for this purpose are prepared by all firms and offices, which naturally are made use of. A list is prepared of these remittances on a separate paper and added

with the help of an adding machine or otherwise, and handed over to the cashier who checks same, and returns a duplicate copy of the list to the postal department to be forwarded to the accounts department by them for the purpose of checking same with the paying-in-slip prepared by the cashier for the banks to which the money is sent. Each department is assigned a letter of the alphabet which is stamped on each letter as it is being sorted out for the purpose of being sent to that department; and a serial number is given to the said letter. The series of the numbers are restricted to a particular number say 10,000 after which a new series is begun. The letters are then sent to various departments and those which only deal with remittances are handed over to the cashier. An inward mail summary is prepared prior to this distribution, a copy of which is sent to the manager or the chief official of the concern and one to each department concerned, including the filing department. The filing department has to see that after the letters are dealt with they are forwarded to them for the purpose of being properly filed; and thus this list which is sent to them forms a guide. In case any of the letters which refers to a remittance being enclosed is received without remittance, the head of the postal or sorting department makes a note of it on the said letter, and puts his initial thereon; so that the party concerned may be immediately informed of the omission of the cheque or other remittance which has been omitted from the letter.

Outward Correspondence.—In case of outward correspondence it is now usual to have carbon copies made, instead of being press-copied for modern convenience of filing. The outward correspondence of each department is looked after by officials or clerks to whom they are assigned. There are many letters which require the special and particular attention of the head of the department or his immediate assistant which are sent to the parties concerned; whereas there are others which only require stereotyped replies, which are taken charge of by junior officers. These stereotyped replies have been

originally drafted by a responsible officer and are copied by junior officers from the original copy. In connection with various questions or items that recur in course of normal correspondence of an office, special paragraphs are also drafted and maintained in a file or cutting book with an index which are copied as far as they are appropriate, or modified to meet the particular case and thus not only correspondence is simplified as far as labour is concerned but the hand of the expert official is kept visible in all the answers sent out to enquiries, etc. These paragraphs thus prepared for stereotyped replies are commonly known as "form paragraphs". While dictating a letter, the officer concerned only refers to the number of the paragraph to be copied in the file or the cutting book. The paragraphs, of course, are also given headings such as "acknowledgment of remittance", "acknowledgment of shipping documents", "reason for late delivery", etc. The correspondence in suspense is maintained in a special file, with memory ticklers, or slips stating when they are to be brought back to the notice of the official concerned who attends to that correspondence, whereas the completed correspondence is forwarded to the filing department to be dealt with finally.

With reference to the replies prepared and signed the same are packed and handed over to a special clerk usually known as the postal clerk who is responsible for this work, and for seeing that the letters are duly and safely despatched through the post. Care should be taken to see that where two or three letters are sent by the same department on the same day to the same firm, only one envelope is used, and thus considerable saving in postage is effected. A special clerk should be in charge of stamps, so that proper check on stamps may be kept; or else a special stamping or franking machine may be utilised. This machine is described a little later. One other particular care which should be taken by those who dictate letters is to see that at the foot of the letter the enclosures are specifically stated, so that the clerk who is in charge of sealing

envelopes and folding letters is able to see whether the relevant enclosures are attached to the letters. Instead of having to address a special envelope, frequently what are known as window envelopes are used. These window envelopes have a transparent opening in the front and letters are so folded that the name and address of the addressee to whom the letter is sent is seen through the transparent opening.

FILING.

We shall now proceed to deal with filing of letters but before doing so shall take up the old fashioned press copy book which is still in use in many offices.

The Press Copy Book.—This book is in use even in offices where the modern systems of indexing are worked side by side. This is because the press copy book affords the most useful evidence of the fact that a particular letter was written on a particular date, in the regular course of business. In case of large firms the press copy books may be divided either on alphabetical or geographical basis. Thus, one press copy book may record press copies of all letters written to customers whose surnames begin with letters "A" to "E", the other with "F" to "I", and so on. When, however, the number of letters is not so large, and the business concern has correspondents in different parts of the world, it may be found convenient to divide the press copy books on geographical basis, say, one or more may be reserved for correspondents in Europe, one or more for those in the Far East, one or more for correspondents in America, and so on. When more than one press copy book is used in connection with any one geographical designation, the alphabetical sub-division may also be advantageously applied. Thus in the case of the press copy books assigned to European correspondents one may be assigned to letters A, B and C, the other to letters D, E and F, and so on. In each press copy book letters are press-copied in order of date. Thus, if a letter is to be referred to and the date is known, one can easily

turn over pages of the press copy book concerned, and find out the letter required. If on the other hand, the date be not known, but the name of the party addressed is the only guide, the index attached to the press copy book should be referred to. This index is to be found in every press copy book at the beginning, or at the end. Here a number of pages made up of writing paper, as against the tissue paper pages of the press copy, are bound up in the press copy book and are divided according to the letters of the alphabet. While indexing these letters in the press copy book, the clerk in charge should write out the name of the addressee on that page of the index which is indicated by the first letter of the alphabet with which, in the case of a sole trader, the surname, and in the case of a firm or company the principal name, begins; entering in front of it the number of the page where the said letter is copied. All further letters addressed to the same party should be indexed by indicating the number of page before the said name. Thus, if, William Green is the trader whose letters are press-copied on pages 17, 24, 37, 55 and 65, the name would appear in the index under the letter "G" as follows:—

Green, William, 17, 24, 37, 55, 65.

When a very large number of names are to be indexed alphabetically, each letter is again sub-divided into five subdivisions, to represent each of the five vowels, *viz.*, *a*, *e*, *i*, *o*, and *u*. Thus in B division, names beginning with Ba, Be, Bi, Bo, Bu, would be indexed separately for facility of reference. This is called vowel indexing. Besides indexing of the principals, cross reference is also resorted to. This cross reference is indicated in full in blue or red pencil on each page of the press copy book, showing the page immediately preceding and that immediately succeeding, on which letters to the party as indicated on the page concerned, are press-copied. Thus supposing, that page No. 55 is the one on which a letter addressed to William Green is press-copied and the cross reference indicates 44/65. This means that the letter

immediately preceding the one in question addressed to this party, *viz.*, William Green, has been press-copied on page No. 44, and also that, the one immediately succeeding has been press-copied on page No. 65.

Pigeon-hole System of Filing.—This system of filing correspondence is one of the most ancient systems known which is still in use mostly in Government as well as lawyers' offices. Under this system nests of pigeon-holes, each consisting of at least twenty-six holes, one for each of the letters of the alphabet, are in use. Supposing that correspondence of a firm is limited and only one nest of pigeon-holes is in use, the system would be worked as follows:—

Each pigeon-hole indicates a letter of the alphabet, and thus, all correspondence with constituents whose surnames begin with the letter "A" are to be filed in the pigeon-hole "A". This filing is done by docketing the letters of each correspondent separately. Supposing that a letter is received from a constituent called "John Adams" which has been replied to. The original letter, plus either a carbon or press-copy of the reply, would be wrapped up in a thick hand-made paper and folded lengthwise. On this docket, *i.e.*, the wrapper in which this correspondence is wrapped, would be written in big black letters the name, "Adam, John 1930," followed by a short summary of the contents of the said letters in one line entries, plus the dates. The firm's correspondence during the year 1930 with John Adam would thus get accumulated in this docket, ready either for reference, or for being taken out of the office in an emergency. Where correspondence is heavier, as many pigeon-holes, or nests of pigeon-holes as circumstances may require, may be utilised for each letter of the alphabet. If necessary, sub-divisions on the vowel principle as indicated in the case of press-copy books may be usefully applied, and in case of large business firms having numerous correspondents all over the world, the geographical division may also be tacked on the alphabetical system with great advantage. At the end of

the year, the pigeon-holes are cleared, the correspondence tied up in bundles and stowed away in boxes, each box being labelled indicating the letters of alphabet as well as the year during which correspondence was carried on. Thus, at the end of the year 1930, bundles of letters of that year would be labelled as

Correspondence "A" to "B"	Correspondence "C" to "D"	Correspondence "E" to "F"
1930	1930	1930

It may be added that the process of folding the correspondence in a wrapper with the name of the constituent, plus the year and a brief reference as to the date and contents of each letter written on it is known as "docketing".

Flat System of Filing.—In case of the flat system of filing, which is undoubtedly an improvement on the pigeon-hole system, either card-board covers, or drawers of specially made cabinets may be utilised as files. In cases where the card-board covers are utilised, files known as "Pilot" files are used. In the case of the pilot file, a pilot in form of a metal holder made of wire with a mechanical contrivance for fixing and detaching one end of the pilot which enables letters being removed or inserted at pleasure, is used. The files are neatly prepared and artistically finished. On the outer cover of this file labels are attached, or pasted, on which the alphabetical, or geographical division concerned may be indicated and kept in shelves-ready for reference. Supposing that a firm uses a number of files divided according to the alphabetical arrangement, the method employed for filing letters would be as follows:—Letters received from William Baker, together with a carbon copy of our reply to him would both be inserted in the pilot file concerned, by detaching the ends with the help of a lever which is attached to the "Pilot". On the top of this letter a thin card-board page bearing the name of William Baker, would be inserted to mark the segregation to Baker's correspondence from that of others in the same file. For the purpose of insertion two holes are

punched in the letter with the help of a puncher sold together with this file. In the same way, letters from Robert Blaney, another correspondent whose name begins with the letter "B" and replies to him, would be inserted in the same file and so on with all correspondents whose surnames begin with letters of alphabet indicated by this particular file. The advantage of the pilot system is that, if, at any time a particular letter of a particular correspondent has to be removed from the file, that can be done without disturbing the other letters filed there through the help of the lever attached to the metal pilot in the file. In the case of firms having a large number of correspondents, one file or a number of files, may be assigned to a single letter of the alphabet, and if necessary, the sub-division according to the five vowels, *viz.*, A, E, I, O, U, may be resorted to as in the case of the pigeon-hole system. Frequently, it is found convenient to sub-divide the files on the geographical plan. Thus a firm may have a number of files, say, for correspondents in the United Kingdom, Germany, France, United States of America, China, Japan, etc., besides having a set of files for home use, say for correspondents in India. It would thus be seen that pilot files can be used with advantage by firms having a large number of letters to deal with and the neat get-up permits of their being kept in book-cases; thus improving, if anything, the general appearance of the office. There are cases where in place of the card-board pilot files, filing cabinets with a large number of drawers of suitable size, with the pilot fixed in each, are used, so that the correspondence lies flat in these drawers. The drawers may be alphabetically indexed in the same manner as in the case of card-board files. These two systems of filing are called the "flat system" of filing, because here the letters lie flat.

Vertical System of Filing (Alphabetically).—The vertical system of filing, otherwise known as upright filing, is a system in which a cabinet or a number of cabinets with drawers are used. The drawers are so made as to admit of the letters being kept in a vertical or upright position. Each of the drawers

is alphabetically numbered, and when correspondence is small, a number of letters of the alphabet may be assigned to one drawer, whereas, in cases where the same is large, a number of drawers may be assigned to a single letter of the alphabet. The letters received from each correspondent, together with carbon copies of the replies sent out to each of them, are arranged in order of dates and placed in a separate folder. The folders are numbered. Thus in the drawer indicating the letter "D" folder No. 1 may indicate Dunner, W.'s Correspondence, No. 2, David, R., No. 3, Dunlop, P., and so on. If, however, this drawer is assigned to more than one letter of the alphabet, say to letters, D, E, and F, folders containing letters relating to the correspondents beginning with the letter "D" would be kept in one group, letter "E" in another group and those with letter "F" in a third group; each of the divisions of the group being separately indicated by thick card-boards with a projecting end bearing the letters of the alphabet concerned. It will thus be seen that whenever a letter from the correspondence relating to a particular correspondent has to be referred to, the same may be easily traced in the respective folder which contains all letters, plus the replies, in the proper order of dates. At fixed intervals these folders are sorted, and old, out of date correspondence removed, tied up in bundles and labelled as described in the case of the pigeon-hole system.

Vertical Filing (Numerically).—Card-indexing is generally applied here. This is a system by which, through the help of cards, one is able to index correspondence (besides many other items with which we are not at present concerned) particularly where the number of letters received and sent out by a particular firm is very large. For example, if in the case of the vertical system which we discussed above, correspondence is heavy, and a very large number of correspondents whose names begin with a particular letter of the alphabet have to be attended to, making it necessary for a number of drawers being used in connection with a single letter of the alphabet, indexing of letters on the simple plan of an alphabetical division of the

drawer will not be found to be working satisfactorily. In this case the numerical system will have to be applied, with card-indexing attached to same. This will be done by assigning to each drawer numbers, as 1 to 25, for the first drawer, 26 to 50, for the second, 51 to 75, for the third, and so on. Each correspondent will thus be known by a number and one folder bearing a particular number will be assigned to each of the said correspondents. The card index would thus record the full name and address of the said correspondent, plus the number of the folder in which his correspondence is kept. Supposing that "Robins, William" has to be indexed, and we find that the folder No. 575 is empty and ready for use, we place "Robins, William's" correspondence in this folder, which is made up of letters received from him and the carbon copies of our replies, and place the folder in the correct drawer which indicates No. 575. We thus take the card used for indexing the parties and write out on that card the full name and address of "Robins, William" plus his number as follows:—

ROBINS, WILLIAM, No. 575,

557, Clive Street, Calcutta.

The above card is then placed in a drawer which contains all cards containing names, addresses and numbers of the correspondents. These cards are kept in a specially made drawer and the sub-division of the alphabetical number is indicated by the index card on projected ends. Thus our card in connection with "Robins, William" would be placed among the cards which are to be found in the group covered by the index card "R." But in case the card "R" has to be subdivided according to the five vowels, A, E, I, O, and U, there may be cards indicating Ra, Re, Ri, Ro and Ru. These cards are kept in their correct places by a rod inserted in the drawer from outside which runs right through them. Where correspondence is small, one drawer may be sufficient to hold all these cards, if not, a number of drawers may be used, sub-

divided into so many alphabetical divisions. Frequently with advantage these cards carry, besides the names of the correspondents with their folder numbers, their complete addresses; and are thus very convenient for use as a sort of address index, ready to be handled in connection with circular letters, price lists, catalogues and follow up letters.

The Loose-leaf or Perpetual Ledgers and Card Ledger Systems.—This is a method of keeping accounts, on double entry principles, by means of books composed of detachable leaves, or loose cards filed in drawers, instead of the usual bound books. Loose-leaf ledgers consist of sheets, ruled like the pages of an ordinary bound ledger, such-sheets being inserted in, or taken from an expanding binder, as and when required. The binder or cover is provided with means for expanding the back so as to hold varying number of leaves. These leaves, are punched with uniform holes and after the necessary leaves are placed within the binder, by a mechanical locking device they are held strong and secure in their places; and no leaf thereafter can be inserted or removed without the lock being opened. Card ledgers are on exactly the same principles, except that the cards are kept in special trays or drawers. Every card has a hole punched through it. The trays or drawers, in which the cards are kept, are fitted with a metal rod which can be inserted through the cards, and thus every card gets automatically locked in position.

Loose-leaf ledgers or card-ledgers are very largely used in business houses and manufacturing concerns, in preference to, or partly with, the usual bound books. Though it cannot be contended that in every single instance, these are better than fast bound books, it is generally agreed that accounts and records of the majority of businesses can be more efficiently and economically kept in loose-leaf books under proper safeguards.

In loose-leaf ledgers, each account is given a separate leaf. No blank leaves are reserved in the middle for extension of any account beyond one page. Leaves when full, can be removed and replaced by fresh blanks; and dead accounts can also be

removed, thus maintaining the ledger to contain only **current or live** accounts. All full pages and dead account pages, removed from the ledger, are kept in a transfer binder, with similar locking devices, so that whenever a reference to past or closed record is necessary, it can easily be had.

The advantages as claimed on behalf of loose-leaf or card-ledger systems over the fast bound ledgers are:—

- (1) The current ledger is not cumbered with dead or closed accounts as these are taken out and filed in transfer binder. It does not even contain a number of blank pages. The ledger thus contains, at any time, only live accounts, and is never unwieldy nor does it ever get old.
- (2) No frequent opening of new ledgers and every time fresh indexing is necessary. The loose-leaf ledger is a continuous record of all live accounts from year to year. This saves a great deal of waste of time and material.
- (3) Any number of leaves referring to one account can be kept together, consecutively, in the transfer binder with an uninterrupted record, instead of being scattered about in several books.
- (4) There is no need for an index as the leaves and cards are arranged and also can be, at any time, altered and rearranged alphabetically or numerically as required, and new pages and accounts can always be inserted in their proper place of index. Again, alphabetically indexed pages can be easily reindexed numerically or geographically or vice versa, as required.
- (5) The work of +posting rendering statements or taking out balances can be distributed to a number of persons, by unlocking and distributing pages, and thus time is saved; again, as there are no dead or closed accounts or blank pages to intervene, a trial balance can be prepared more quickly.
- (6) Though the system seems costly in its initial stage, it is very economical in its yearly upkeep. The only expenditure required from year to year being a fresh supply of leaves to replace the dead or useless matter. Again, there is not a single blank page cast away unutilized in "Old Ledgers" as is the case with bound books. The system is thus less expensive than ordinary bound books.
- (7) The despatch of monthly statements and trade circulars is expedited.

It is contended on the other hand, that unless there is efficient check and supervision upon the stock of loose-leaf or cards, upon their issue, insertion, or removal, the system is open to grave disadvantages.

Disadvantages in absence of extra and efficient supervision are:—

- (1) Cards or leaves may be accidentally or wilfully lost or destroyed or substituted to commit or conceal a fraud.
- (2) The uncertainty whether such ledgers would be recognized in a Court of Law, as an evidence of correct record.
- (3) Its comparatively heavy cost in its initial stage.

The safeguards which are suggested, to counteract these disadvantages are:—

- (1) Scientific system of internal check.
- (2) Keeping the ledgers on self-balancing system.
- (3) Stock of all blank leaves or cards should be under responsible control, *i.e.*, in the hands of a manager or secretary, unconnected with the accounts department. The issue of fresh leaves as well as supervision, re-insertion or removal, both in case of current as well as transfer binders must be in the same hands.
- (4) Keys of the locking devices of all ledgers should also be kept with the same manager or secretary who would thus have a complete control over the blank as well as written up leaves or cards.
- (5) Special marks may be stamped on the cards used or loose-leaves may have special water marks or otherwise be given a distinctive character.

The loose-leaf ledger principle may be extended to subsidiary books also, with great advantage. Separate binders are kept for Sales Book, Purchase Book, Cash Book, Stock Book, etc., both for current work and completed work. As leaves are detachable, posting of past transactions can be distributed among clerks without disturbing the current account. By carbon or typewriting duplicating process, exact statements of customers' accounts, as they stand in the ledger, could be rendered from time to time, without any extra labour.

TELEGRAMS.

A business office has frequently to send out telegrams as a speedy medium of communication. In this connection it need hardly be pointed out, that every word in a telegram means so much money, and thus, in the drafting of telegrams, particularly to foreign countries, great care and ingenuity has to be employed. Not only brevity is the ideal to be kept in view in this connection, but ambiguity has to be carefully avoided, otherwise the result would be worse than that sought to be avoided. What is wanted is both clearness and brevity, irrespective of correctness of style or language. The object of the writer of a telegram is to make his meaning clear in as few words as possible, and therefore, he should not bother much about the grammar or the style of literature. The best that could be done by the would-be sender of a telegram, is to write the full message on a piece of paper in his usual style, and then to knock out all words which appear to be unnecessary in order to express the idea covered by the message. In the case of large firms who are constantly in communication with others through the medium of cables and telegrams, the usual practice is to use telegram codes. The telegraph offices are prepared to take inland telegrams which are not of an objectionable, or alarming character, and which are written in plain language, *i.e.*, one "which offers an intelligible sense, in English or in any European or in any of the vernacular languages, and is counted at the rate of one word for each fifteen characters, plus one word for any excess. Plain language inserted in the text of a telegram containing words in code language is counted at the rate of one word for each ten characters," whereas in the case of foreign telegrams, it is provided that, the International Telegraph Convention to which the Government of India is a party, has the power to stop the transmission of "any private telegram which might appear dangerous to the security of the State, or contrary to the laws of the country, to public order, or decency". In this case it

is provided that "telegrams in plain language composed of words, figures and letters, which offer an intelligible meaning" will be accepted. "They may be expressed in any of the principal European languages and certain others. They must be written in Roman characters."

Telegram Codes.—Firms having frequently to exchange telegrams for business purposes, generally arrange to do so through the medium of telegram codes. These telegram codes are made up of real words, or pronounceable groups of letters having the appearance of real words. Each of these words is given a distinctive sentence, or message, so that when a particular message is to be sent, the same may be communicated in a single code word indicating the said message. Many firms get their private codes specially prepared, whereas, there are in use what are called public codes sold on the market, such as, the "ABC", "Anger's", etc. The preparation of a private code requires ingenuity, as well as experience of the nature of the business concerned which makes one familiar with the nature of the messages which are frequently exchanged. Generally speaking, the code is divided under headings, such as, "Offer", "Acceptance", "Shipment", "Prices", "Complaints", etc. Under each heading the group of messages that are likely to be requisitioned in the course of the business concerned are written out, to each of which a word selected in the dictionary order, which is not likely to be used in connection with the business, is assigned.

We shall illustrate this by an example. Supposing that the following messages occur under each of the headings indicated above, to which specific words are assigned as follows, the code will read as under :—

OFFER.

- | | |
|-----------|--|
| Aerigerm. | We offer firm. Reply immediately. |
| Aerolite. | We quote but cannot offer. |
| Aeronaut. | We offer firm subject to your reply within a week. |

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- Afamish. We shall offer by next month.
Affinity. We cannot offer because we are not on the market at present.
Afforce. We cannot offer but can procure offer at your risk.

And so on.

ACCEPTANCE.

- Bable. We accept your offer received to-day.
Baboon. We cannot accept your offer received to-day, but counter-offer.
Babylonian. We can accept only half the quantity offered at the rates quoted. Please confirm.
Bacillus. Your offer too high for acceptance looking to our market rates to-day.
Baculine. Market closed ; so offer cannot be considered.

And so on.

SHIPMENTS.

- Cabriole. Early shipment wanted.
Cadres. Shipment early in the month of
Caducous. Survey of shipment delayed through accident in the factory.
Calamander. Cannot get freight for shipments till the end of the current month.
Calamite. January shipment.
Calemus. February shipment.

And so on.

PRICES.

- Daggle. Prices remain unaltered till further notice.
Dalala. The prices have risen by 8 annas per dozen.
Daman. Prices have fallen by 8 annas per dozen.
Daunt. Rupees 15 per gross.
Dauphin. " 16 " "
Dawdle. " 17 " "

And so on.

COMPLAINT.

- Edanta. Goods per last shipment arrived damaged.
Report follows.
- Effani. We have no advice of shipment from you yet.
The buyers are getting impatient.
- Effigy. Goods received being inferior quality, please
name your surveyor.
- Effahix. We regret shipment was not accepted as
arranged; shall hold you responsible for
damages and sue on it.

And so on.

Cipher Telegrams.—The cipher telegram is generally composed of group of letters or figures. The telegraph authorities consider it desirable that the public should avoid, as far as possible, the use of letters in a cipher, because it is less easy to transmit the group of letters which cannot be reduced to pronounceable words, and are thus more liable to error. Generally, the ciphers are made up of a group of Arabic figures, the figures indicating a certain message. A combination of plain language, code or cipher, formed by running together two or more real words is prohibited. Besides, the cipher should be either wholly of letters or wholly of figures.

Telephones.—The telephone is now used all over the civilized world particularly by the business community. These telephones are now increasingly worked on what is called the automatic system, under which the subscriber who wishes to call any other subscriber has not to communicate with the exchange but on moving the disc he can get the required number to talk to him. In other cases where this automatic system is not applied the exchange has to be called up in order to get the number wanted. Besides telephoning within the limits of the town, arrangements are made on what are called the trunk system, under which the most distant places can be brought within the reach of the message on the

telephone. This would be a more convenient method of negotiation compared to telegrams were it not for the fact that the trunk system costs much more than the ordinary telegram: but we trust that time may come when the cost will be reduced to normal limits with a view to bringing the Telephone trunk system within the easy and daily reach of the business community.

In many offices where a large number of telephone messages are received there is generally a telephone clerk who attends to them; and frequently private lines are taken leading to the desks of various heads of departments.

MODERN OFFICE APPLIANCES.

We shall now proceed to consider the modern office appliances that have come into great prominence and are largely used by all important offices.

Typewriters.—These machines are familiar to all who have had anything to do with a business office, and have now entirely superseded the pen. The use of these machines not only makes it possible for the business man concerned to produce letters which are neat, but also to produce them at a rapid rate through the assistance of expert operators. Duplication through carbon papers in the case of typewriters is also made much more easier than in the case of pen. The typewriter is also made more useful through the introduction of special Key Boards which makes it possible to get the most intricate typewriting work done on it. There are typewriters for standard office use for the purpose of correspondence, as well as those specially adapted for typewriting invoices, statements of accounts and for doing columnar and tabulating work. Portable typewriters are also specially manufactured for the business and professional men who travel. There are special typewriters also made for mechanical accounting. Frequently typewriters are used for the purpose of writing cheques. In such cases care should be taken to see that a black copying

indelible ribbon is used, as the ordinary purple carbon, green or blue ink can be easily removed through the use of acid.

The other purpose for which the typewriter is used is for cutting stencils for duplicators. Here the typist should see that each type strikes the stencil squarely with equal force, with a view to producing uniformity and a neat result. Electric power is now being used on special typewriters called 'electric typewriters' where the actual typing is done by hand, but the carriage return and spacing is done by power, thereby considerably augmenting the speed.

Dictating Machine.—The shorthand writer who facilitates the work of dictation and transcription of business letters, is now threatened with extinction by new inventions on the market of dictating machines. These make it possible for a business man to dictate his letters, reports, etc., at his leisure and at all convenient times, whether in his office or while on tour or while resting in the peaceful surroundings of his house. The machine faithfully records the dictation on a special record which is then sent to the typist, who, by fixing it on the reproducing machine, gets the dictation repeated to him on the same principle as that of a phonograph. This machine can be regulated as to the speed of the dictation to suit the typist. The records are made in the form of wax cylinders, and are capable of recording 1,000 words. The dictation can be given at any speed the dictator desires, and the typist in his turn, can regulate the receiving machine in a manner that would suit him, *i. e.*, his speed on the typewriter. While dictating, if the dictator wants to make any alteration, there is an arrangement by which he can hear what he has himself already dictated, or any part of his dictation, and make the necessary amendment. The cylinder on which the dictation is taken, after it is used up, can be placed on a machine called a "shaving machine", on which the dictation is wiped off and the cylinder can be used again. Thus the time of the typist is considerably saved, as he or she has not to take down the

shorthand notes but only to continue to type from the dictated cylinders handed over for the purpose.

Telephone plus Dictating Machine.—A new device is now perfected, by which the telephone can be harnessed to a dictating machine, so that the actual telephone conversation on both ends may be taken down on the dictating machine where it is desired that such telephone conversation should be kept on record. Long telephone conversations of important character can be thus placed on record for future reference ; and by the use of what are called win cylinders, the continuous conversation for an indefinite period may be recorded without interruption. These machines are particularly of great importance to newspaper offices for the purpose of press reporting. This not only conveniences the newspaper offices, but in case of trunk calls, this device saves them an amount of money, because the party sending the message is here able to talk as fast as he desires, and thus give the message in the shortest space of time. Where the telephone conversation has to be heard by a board of directors or committee, or even in the case of public meetings, microphones are connected with the dictating machines.

The railway companies have now provided special dictating compartments on some of their long distance trains, so that commercial travellers may dictate on the machines kept by the railway offices, on their own cylinders, while they are travelling, which dictation may be type-copied thereafter.

Duplicating Machines.—The various types of duplicators are used in business offices for the purpose of duplicating documents, letters, circulars, etc. There are, for example, what are called the old fashioned gelatine duplicators, on which a limited number of copies may be obtained. In the case of stencilled duplicators, the Gestetner and the Roneo are the best and universally used duplicators. Both the Gestetner and the Roneo are built on what are known as a rotary model, and the stencil is placed on a cylinder drum. The stencil is to be

prepared on a typewriter by the typist typing the material on the said stencil, having in the first instance removed the ribbon from the typewriter (almost all typewriter manufacturers claim that their machines are designed to cut perfect stencils) after which the stencil is fixed on the machine. These machines may be moved by the handle or through electric power. A heap of papers on which the stencil matter is to be printed, has to be fixed on one side, and in the case of automatic machines they are printed one after the other automatically, whereas in the case of non-automatic machines, an intelligent clerk has to feed in each paper for each print. These automatic duplicators considerably reduce the time and work of the operator, and can be handled either by junior clerks or even intelligent office peons. There is a special indicator fixed on these rotary duplicating machines on which, automatically, the number of sheets printed are counted, so that the operator can stop as soon as the indicator shows that the requisite number has been printed.

Addressing Machine.—The addressing machine, or the addressograph, as it is frequently called, is used for printing addresses on envelopes, wrappers, as well as in the inside of circulars. They are of considerable assistance to offices which have to address a large number of old customers at frequent intervals, either with a view to sending out price-lists or circulars or booklets; or notice of premiums due in the case of insurance companies; annual or half-yearly reports of joint stock companies to its shareholders, or to the members of a large club or association, etc. These machines convert the work of addressing to a mechanical process, requiring only a menial operator, if there is no facility for an electrical power adjustment in the office. In cases where electric power can be used, special machines which can be automatically worked with electric power are also available. The operator of the machine can see each address as it is printed, and there is a special arrangement for repeating an address, or skipping one which is not wanted to be printed. It is said that in case of

electrically operated machines, as high a speed as 3,000 per hour in printing addresses may be attained.

The addresses of the parties concerned are either embossed on metal plates, or perforated on specially prepared fibre stencils. Thus a joint stock company which wants to maintain the addresses of its shareholders, may get these metal plates or fibre stencils made for each new shareholder entered on the list ; or in the case of an insurance company, as each new policy-holder is placed on the policy-holders' register. These plates are filed in special cabinets with drawers, each of these drawers holding about 200 addresses.

Adding and Calculating Machines.—There are adding and calculating machines of different types on the market. Additions and calculations are made on these machines by clerks specially trained and experienced with great perfection and accuracy, and with considerable saving of time. Machines can be obtained for calculations of almost any type such as in money, weights, measures, etc. The calculation of interest, percentages, discounts, exchange, apportionments, stock sheets, invoices, etc., may all be made on machines specially made for the purpose.

Cheque Protection and Signing Devices.—The object of this machine is to prevent the lateration of, or forgery, and other misuse of cheques. The crossing and the wording made by ink or rubber stamps can be easily erased by chemical solutions by a dishonest forger ; and to prevent that, the modern business world is now enabled to use machines for the purpose of cheque writing or cheque protecting as may be necessary. The operation of the cheque protecting machine "shreds" the paper as the machine writes on it, so that the colours of the acid proof ink are forced into the cheque paper through its fibre. These machines write the full amount in words as well as complete crossing in any form desired. Many of the enterprising companies which manufacture such machines even issue to the purchaser an insurance policy free of charge.

covering the buyers against any possibility of loss through the forging or alteration of the cheque, on which their machines are used. The cheque writing machine is an elaboration of this cheque protecting machine on which the whole cheque may be written.

Besides cheque writing machines, there are what are called cheque signing machines. These are used by those who have to sign hundreds of cheques daily, as is the case in the case of large joint stock companies, corporations, etc. These machines are known as "signagraphs", by the help of which a person can sign a number of cheques or letters in one operation. This is done by the signer using a special penholder in the same manner as an ordinary pen, but the operation of signing causes from five to twenty-five fountain pens, set in two parallel rows, to move simultaneously. Thus through an automatic system of numerous chains and turns of handle, fresh lots of documents are brought into position and signed simultaneously. It is said that in case of some models of these machines as many as 10,000 signatures per hour may be affixed. There are special machines on the market for endorsing of cheques also.

Franking Machine.—Franking machines are machines with print impressions which the post offices have agreed to accept as equivalent to postage stamps on international mails, provided that the amount of postage was clearly indicated. The machine has a meter which must be taken to the post office to be set to any number of impressions required, against payment in cash for the amount. The meter is locked thereafter, and sealed by the postal authorities, and can be replaced in the machine and used for the number of impressions for which the same has been so accepted. Thus the post office revenue is not only safeguarded, and fraud made impracticable, but the printing expenditure of postal stamps by the post offices is also saved. The machines are made to operate either by hand or through electric power. The offices which use these machines not only save labour and expense of operatives, who have to

lick or paste the postage stamps, but an amount of money which may have been lost through the careless use of stamps is saved. The accounting of stamps by special clerks in large concerns is not now necessary.

Book-keeping Machines.—Many of these machines are a combination of a typewriter and adding and calculating machine, and result in great saving of time as well as increase in accuracy and legibility. The other advantage is that one machine can, at the same operation produce a number of documents by means of carbon copies and careful planning of forms. On these the receipt, the ledger posting slip and the cash book entry can be made at one and the same operation, and the cash book totals accumulated at the end of the page and at the end of the day. The object sought to be achieved by these machines is the adaptation of mechanical accounting to the old system of book-keeping, and through the help of its calculating and balancing machines the tremendous waste of time and labour which had, otherwise, to be employed in the case of double entry book-keeping, in the balancing of accounts at the end of every month, has been greatly obviated. Under this system what is sought to be done is to avoid keeping a sales day book and journal, and to post entries directly into the ledger from carbon copies of invoices to the sales ledger or to the purchase ledger as the case may be. It is claimed that the necessity of having first to write the sales or purchase books from the invoice and documents and thereafter to post these from the latter books into the ledger affords a number of opportunities of making mistakes which are thus eliminated, and time is saved. There are various types of machines which operate on a little differing principle, and mechanised accounting is now coming slowly and gradually to the forefront. It is claimed that these machines can be adapted to any line of business.

Miscellaneous Machines.—There are other miscellaneous machines such as the letter opener, letter folder, envelope sealer, time recorder, cash register, which are used for the purpose clearly indicated by their names. The cash register is

now to be found in almost every retail shop, including tea shops and restaurants in Bombay and other important centres of India.

In the case of the time recorder also, there are numerous types of machines on the market from which a suitable machine can be easily selected. These recorders generally work in conjunction with a clock and each employee is allotted a number and by means of a key or a pointer or by pressure according to the system involved the clock automatically records against each workman's name on the card the actual time of arrival and departure. The record is also automatically written within the case of the clock from which the wages clerk prepares his time sheet. This machine enables an accurate record to be maintained, and eliminates the risk of overpayment or underpayment where employees are paid according to time. It also reduces the cost of maintaining a special clerk to actually record the time of these workmen's arrival and departure.

Business Reply Envelopes and Cards.—The post office has introduced a system with a view to facilitate business men as well as others who desire a reply from those whom they have addressed without making the parties who reply pay for the postage. This not only facilitates replies, inasmuch as the party addressed to has not to pay the postage, but the sender of the letter, in absence of such an arrangement, had, in the past, to send actually addressed envelopes or names with postage stamps affixed, a good proportion of which stamps were wasted where no replies were sent. Now-a-days, by a simple arrangement with the post office, a license may be secured by paying a certain amount in deposit, which gives the party so depositing the privilege of getting unstamped replies in envelopes or on cards, on which the normal and ordinary postage is payable against delivery. In India the fee for the permit or license is Rs. 10, payable in advance, together with the application for such a permit. The permit or license remains in force for one year only from the date of issue, but may be renewed for further period of one year on payment of a fee of Rs. 10 in

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respect of each renewal. The business reply cards, as well as envelopes, have to conform in size, form, etc., with the conditions prescribed by the post offices for post cards of private manufacture. These cards and envelopes must bear on the address side:—(1) the principal name and address of the person or concern to whom they are delivered, (2) the permit number, (3) the name of the post office issuing the permit, (4) the words "business reply envelope", (5) the inscription "no postage stamp necessary if posted in India" and (6) the words "postage will be paid by the addressee".

Sufficient space must be kept for post marking at the top of the card or envelope. Business reply cards may also be sent out as reply portions of double post cards, but the reply envelopes must of course be enclosed with other matter.

CHAPTER VIII.

COMPANY WORK AND PRACTICE.

The Early History.—Joint stock companies originated in England through the early idea of raising money for financing the Government and securing in return some monopoly or special privileges for themselves. The original East India Company was established in 1600 A.D. by the grant of a Charter by Queen Elizabeth. Its business was made up of financing the Government, and at the same time carrying on its own trade. The Hudson Bay Company was also founded in 1670 A.D. under a Royal Charter. The Bank of England was established in 1694 A.D. under a Royal Charter to finance the Government of William III. The whole of its capital of £1,200,000, was lent to the State at 8 per cent. per annum, plus £4,000 a year for expenses of management. In return the Bank secured the right to issue notes to the extent of £1,200,000. All these old companies considered some sort of a monopoly as absolutely essential to their existence and well-being. Even Adam Smith thought that, with the exception of certain class of enterprises such as banking, canals, insurance, etc., monopoly was essential to the very existence and success of a joint stock enterprise. In his opinion a joint stock company could not long carry on any branch of foreign trade without a monopoly. "To buy in one market, in order to sell with profit in another, when there are many competitors in both ; to watch over, not only the occasional variations in the demand, but the much greater and more frequent variations in the competition, or in the supply which that demand is likely to get from the public, and to suit with dexterity and judgment both the quantity and quality of each assortment of goods to all these circumstances, is a species of warfare of which the operations are continually

changing, and which can scarcely ever be conducted successfully, without such an unremitting exertion of vigilance and attention, as cannot long be expected from the directors of a joint stock company." This theory has long been disproved to a large extent by subsequent experience, though some of the defects inherent in this type of combination still exist and can only be remedied by providing for an efficient and experienced management. The second part of Adam Smith's opinion is applicable even to our times. He states that in case of enterprises where routine work predominates the company system succeeds, but where, as in a trading enterprise, vigilant care and attention to details are necessary the company system is not very successful. Besides, joint stock companies in old days could only be incorporated in England by the grant of a Royal Charter, or an Act of Parliament, and in some cases it was also enacted that the liability of the members was to be limited to the extent of their stake in the undertaking. An Act was however passed in 1844 which made possible the formation of joint stock companies on the simpler basis known to us at present under our modern Acts, and in 1855 one more Act made the incorporation of trading companies under the limited liability principle possible. This principle was however not extended to banking associations, as it was thought undesirable in those days to do so, because banks stood in a peculiar position owing to their indebtedness to the public in large amounts. The severe banking crisis which followed in 1857 however modified that view. In this crisis, several banks—particularly the Western Bank of Scotland—failed with heavy liabilities, which involved the ruin of many wealthy shareholders, with the result that persons of wealth, influence and position declined to hold shares in a banking company. An Act was therefore passed in 1858, extending the privilege of limited liability to banking companies, with the exception that in the case of notes issued by such banks the liability of its shareholders was to remain unlimited to the extent of such an issue. Many large banks however hesitated to take advantage of this provision, fearing

lest their credit with the public might suffer, but the failure of the City of Glasgow Bank in 1878 forced them to convert themselves into limited liability companies. A further Act was passed in 1879, providing for the creation of a "reserve liability" by an increase in the nominal amount of the shares of a company, with a condition that the whole or a portion of such an increase was to be called up only in the event of liquidation of the company. Reserve liability is that portion of the value of each share of a limited company which it is agreed cannot be called up except in case of liquidation. To take an illustration, supposing a company is formed with a capital of Rs. 10,00,000 with shares of Rs. 1,000 each, and it is proposed to create a reserve liability of Rs. 2,00,000, this can be done by declaring that Rs. 800 per share can be called up by the directors; but the balance of Rs. 200 per share cannot be called up except in case the company goes into liquidation. Thus, though the shareholders' liability was limited to the nominal amount of shares they had subscribed for, a certain uncalled amount on each of the shares afforded a sort of reserve, or security, to the creditors in case the venture proved a failure and had to be liquidated. Since then a series of Acts amending and codifying the Company Law of England were passed, till finally in 1908, the Companies Consolidation Act was passed. In India, the Indian Companies Act of 1913, brought our law with regard to joint stock companies almost on par with the English Act of 1908 and in some particulars, particularly with regard to the qualification of Auditors, it is a step in advance of that Act.

In England they made further advance and after careful consideration of the defects of the Companies Act, 1908 through the medium of two Committees appointed to investigate the question and take evidence, *viz.*, the Wrenbury Committee and the Green Committee, the New English Companies Act, 1929 was passed which is now in force. This Act extensively modifies the original Act through drastic alterations in many particulars. It is, however, thought in England in spite of these modifica-

tions that there are many points on which the Act does not go far enough. We in India also carefully considered our position, on repeated representations by the Bombay Shareholders Association on behalf of shareholders and investors in joint stock companies, in a special Committee appointed for the purpose by the Government of India, known as the Indian Companies Act (Amendment) Committee of 1936, on which the author had the privilege of serving. The report made by this Committee, as well as by a Special Law Officer appointed by the Central Government, resulted in an Amendment Act known as the Indian Companies (Amendment) Act of 1936, which Act made drastic alterations and additions to our present Act of 1913, with the result that not only the Indian Companies Act has been brought on a par with the English Companies Act of 1929, but we are to-day in many particulars, in advance of the English legislation. We have also taken the opportunity of specifically providing for special and peculiar conditions that prevail in this country by legislating specifically for them: a type of legislation which is naturally unknown to England or English practice. For the first time in the history of Indian Company legislation, the managing agent has been defined, and his powers as well as limitations provided for within the sections of our Act. The subsidiary and parent companies are now defined and their organization and working are brought within the purview of the Act by relevant sections which, in some particulars, happen to go further, even, from the sister English legislation, in view of the experience of the working of that legislation since the year 1929 when the English Act was passed. The Law applying to the meetings of shareholders or members has also received careful consideration in the course of these amendments. There is also a well-thought-out alteration of law applying to the formation and working of the Boards of Directors and their constitution. The minimum subscription is now placed on a more or less similar basis to the English Act of 1929. In connection with account keeping, also, it is now made compulsory to circulate a Profit and Loss account displaying certain specified

items of revenue and expenditure along with the balance sheet and the directors' report as to the state of the company's affairs, before the periodical meetings of the company, as provided for in sec. 131. The Form F of the Balance Sheet has also been considerably modified.

Voluntary winding up is now divided into two divisions, *viz.*, the members' voluntary winding up and the creditors' voluntary winding up, more or less along the lines of the English Act of 1929; and the old Act has been considerably modified in this connection.

Banking companies are now given a special chapter in the Act embracing special sections applying to joint stock companies doing banking business in India. A Banking company has now been elaborately defined in a special section.

Speaking generally, the new Indian Amending Act of 1936 has considerably modified the old legislation; which is bound to exercise a very healthy influence on Indian company organization of the future, and check, if not absolutely eradicate, various abuses which have become so notorious under our company system of management.

THE PROMOTION.

A General Survey.—A joint stock company is promoted either with a view to taking over and expanding a going concern which has so far been worked under the partnership combination, or to float an entirely new enterprise. In the first case the proprietors of the old concern take an active part in the promotion, whereas in the second, a set of men, either professional promoters of the type we have dealt with in a previous chapter, or a firm of secretaries and agents as already discussed, take up the work. In the case of a new enterprise, say the working of the patent for a new invention, or of a mine which has been discovered and prospected upon, the inventor or the prospector has also to be paid. This payment usually takes the form of a part consideration in cash and a part in fully or partly

paid shares of the new company. If a going business is to be converted, the old proprietors are to be paid a purchase price, which includes the value of the tangible assets taken over, minus the liabilities, if any, transferred, plus the value of the goodwill of the concern bought. Here, also, the usual arrangement is to pay a part of the purchase price in cash plus shares fully or partly paid. The promoters arrange all these preliminaries, pay the preliminary expenses, select the directors, draft the prospectus and engage the services of brokers and auditors of the company. They select for it a name. They usually buy up the property or patent rights that are to be acquired by the company, and then agree to sell them to a person appointed to act as a trustee on behalf of the company, reserving a margin of profit for their troubles.

PROMOTERS.

A company is generally brought into existence by a person, or a number of persons, who are commonly known as "Promoters".

For the purpose of sec. 100 (5) (a) a promoter is defined as one "who was a party to the preparation of the prospectus, or the portion thereof but does not include any person by reason of his acting in a professional capacity for persons engaged in procuring the formation of the company".

Definition and Work of Promoters.—The term "promoters" has been defined by various learned judges in different language, but the gist of all the definitions is to the effect that any individual, syndicate, association or partnership, etc., which puts into motion a machinery by which a company is brought into existence, may be described by that designation. *Bowen, L.J.*, defines the promoter thus:—"the term promoter is a term, not of law, but of business, usefully summing up in a single word a number of business operations, familiar to the commercial world by which a company is generally brought into existence." These promoters generally get the original

documents, like the memorandum and the articles, as well as the prospectus prepared, take an active part in the selection of directors, as well as in the purchase of some property by the company for the purpose of carrying on its proposed business, and generally speaking float or assist in floating, a company, or do any one or more of these operations.

Acquisition of a Running Business.—The promoters may be forming the company on the basis of some concessions, or acquisition of some running business with a view to enlarge its scope, or it may be the formation of an entirely new company to start an entirely new business. For acquiring an old business, a detailed enquiry has to be made as to the value of assets which are to be taken over, the liabilities and the past profits, for which experts have to be engaged who have to go into these questions in detail and report or certify the results of their investigations. The expression "expert" includes engineer, valuer, accountant and any other person whose profession gives authority to a statement made by him. These certificates of experts are of considerable value in connection with the statements in the prospectus, because the promoters and directors are responsible for any misstatement, or wrong statement made in the prospectus on their responsibility; whereas if they rely upon the report of experts, and if the statements made are extracts and quotations from these reports or certificates, they are safe and well fortified. Thus accountants, engineers, architects, etc., will have to be engaged for specific work suitable to their professional ability. The usual practice in such cases is to enter into agreements under which the vendors of these businesses agree to receive in consideration of the sale of the property, a certain amount in cash and a certain amount in fully or partly paid shares. In some cases, the vendors also agree to pay "underwriting commission", or a part of the preliminary expenditure. The vendors may either join the board of directors or may not. It is frequently necessary, particularly where goodwill of the business is also transferred, to see that in their agreement a specific clause is inserted preventing them from carrying

on the same type of business within a certain radius and for a specific number of years. It may be that the business carries with it patented inventions, trade marks, secret processes, registered patterns, etc., in which case the same have to be transferred to the company through this agreement.

Agreements with Promoters and Vendors.—It may be added that the promoters may be proprietors of the old established concern itself, or outsiders. In the case of the outside promoters, promoting either an old established business, or an entirely new company, it is the usual thing for them to be remunerated for their labour, skill and ingenuity in connection with the formation of the company. This remuneration may be in form of cash or partly in cash and partly in shares or wholly in either. The remuneration which the promoters take should be fully disclosed in the prospectus: and that under no circumstances any secret profit at the expense of the company they promote is permissible, because in case they were to make such profits, the company may compel the promoters concerned to surrender the same to it.

Promoter Companies.—Frequently one company promotes another under the Indian Companies Act of 1913. There are occasions when a special promoting company with limited liability is formed by a syndicate with the specific object of forming some particular company. Here the promoters arrange to hold shares in the promoting company, but as soon as the company they projected to promote is floated, the promoting company is wound up and the net proceeds are distributed among the shareholders, *i.e.*, the members of the syndicate. This course is adopted with the two fold object of concealing the identity of the promoters, and at the same time of protecting themselves against personal liability and other dangers. This object is effectively achieved as far as the civil liability is concerned, because shareholders of this promoting company are not personally liable for contracts made by the promoting company, which, as we have noticed, is a limited company: but where this promoting company commits a breach of duty or fraud,

the directors of such company are liable personally. On the same footing the directors of this promoting company will be liable for not disclosing profits made by the promoting company in the prospectus, because that course is tantamount to a breach of trust or fraud. If, however, this syndicate or promoting company formed to promote had made illicit profits from the company so promoted, they could be followed even in the hands of members of the promoting company.

PRIVATE COMPANIES.

Their Peculiarities.—Joint stock companies may be incorporated either as "Private" or "Public" companies with or without limited liability. Private companies should consist of not less than two and not more than fifty members exclusive of those in the employment of the company, whereas, public companies must possess at least seven members, though no limit as to the maximum number of members is laid down. The privileges enjoyed by these private companies are made up of the following exemptions:—

- (1) They need not file statement in lieu of prospectus.
- (2) They can commence business and exercise borrowing powers as soon as they are incorporated and need not comply with the other requirements enforced from public companies.
- (3) They are not to forward a statement in the form of a balance-sheet to the Registrar.
- (4) No reports are required to be filed by them as in the case of public companies.
- (5) Their profit and loss account and balance sheets need not be audited and certified by auditors of requisite qualifications as is the case under the Indian Law with public companies. In English law any one, irrespective of his qualifications, can be an auditor in both public and private companies. In English law, it may be also noted that profit and loss account has not to be compulsorily circulated among the members. The new Indian Act has made that compulsory now both in case of private and public company.
- (6) The requirements as to "minimum subscription" do not apply to them.

- (7) They are free from the requirements in regard to the appointment of directors by the articles, as well as their consent to act as such, and to take up and pay for the qualification shares, if any, as applying to public companies.
- (8) They are not required by law to file their annual profit and loss account and balance sheets with the registrar, but they are required to disclose the amount of the paid-up capital and their indebtedness secured by mortgages and charges.
- (9) Though they must hold the Statutory Meetings, they are not to file their Statutory Report with the Registrar.

Their Advantages.—The private company arrangement is full of promise, bringing as it does within the reach of partnership the blessings of limitation of liability, at the same time affording all possible facility for the raising of a fairly large capital, with an efficient and select combination of persons up to the limit of fifty. Here, though the partners retain a substantial interest in the fortunes of the enterprise, they are relieved from the anxiety of being liable to the creditors to their last penny in case of unforeseen losses. The circumstance which makes these parties sure of their total stake in the company in case of failure, is likely to induce a large number of men of means to launch out in risky enterprises and new experiments with courage. Besides, in the case of a private family business, the owner of the business may safely retire, or take it easy, by converting his firm into a private limited company with a fixed capital outlay, leaving his sons and trusted old servants to look after the same. He knows his actual stake in the enterprise and feels secure as to the balance of his saving. Here he takes over the bulk of the shares as fully paid in consideration of the purchase price, distributing the rest among his sons and assistants. Thus the old business is run on the same old lines, by men experienced and interested, under the fostering care and general supervision of its parent. This form of incorporation has proved so popular in England that nearly six thousand companies are being annually registered since their formal recognition by the English Act of 1907.

Our Indian Act of 1913 has fully adapted this recognition, and an increasing number of companies are being incorporated under this arrangement as our business men are gradually realising its possibilities. This form of incorporation also appeals to those interested in a number of private businesses, as the possibility of the failure of one business involving the ruin of others through the unlimited partnership liability is absent. Again, a private firm, cannot always claim a monopoly as to its name, whereas, an incorporation in the form of a private company secures that monopoly, without sacrificing the private and personal nature of the enterprise. A continuity is also secured by converting a firm into a private company, as the death or retirement of one of its members does not dissolve the concern as in the case of a partnership. In the case of a business comprised of branch offices in distant parts of the country or the Empire, the private company arrangement affords a medium for giving the local managers or partners, a greater personal interest, which can be done by converting each firm into a private company with limited liability, and giving a greater stake in its capital to the member on the spot, at the same time keeping the most prominent members of the joint formation common to all the companies in the garb of directors.

Though there is a limit as to the number of members that a private company should be possessed of, there is no limit laid down by law as to the amount of its capital. In England private companies are in existence with capital as low as £100 and as high as £1,000,000. It is no doubt difficult to secure a huge capital on the scale of some of the public companies in existence, for this class of company; but the purpose which this class of combination is expected to serve, and does serve, is to afford a medium for a distinct form of combination of individuals on the joint stock plus limited liability principle, who do not wish to take the outside investor within their fold. In short, both the *private* and the *public* methods of joint stock combinations command their separate spheres of activity within which they render an excellent service to industries and

commerce. It may be added that if at any stage of the career of a private company, it is thought desirable to convert it into a public company, with a view to be able to secure a larger capital by the issue of an invitation to the public, the same can be done under sec. 154 of the Indian Companies Act of 1913. All that need be done here is to get a special resolution passed, a copy of which resolution is to be filed with the Registrar of Joint Stock Companies, together with a statement in lieu of prospectus (as in the case of a public company as dealt with later in this chapter), together with the other documents necessary in the case of a public company. The articles of association may also be altered by a special resolution deleting the clause which restricts the membership to fifty and modifying the restrictions on the transfer of shares.

PUBLIC COMPANIES.

Their Incorporation.—In the case of public companies, the incorporation is secured by filing with the Registrar the following:—

1. The memorandum of association.
2. The articles of association, if there be any. In the absence of special articles, Table A attached to the Companies Act, 1913 will come in force as the Company's Articles.
3. Notice of the situation of the registered office of the company.
4. Consent of the directors in writing to act as such directors, and, in the case of a company limited by guarantee and not having a share capital, every director shall have either signed the memorandum for a number of shares not less than his qualification shares (if any) or signed and filed with the registrar a contract in writing to take from the company and pay for his qualification shares (if any).
5. A list of persons who have consented to be directors.
6. A declaration by an Advocate, Attorney or Pleader entitled to appear before a High Court who is engaged in the

formation of a company, or by a person named in the articles as a director, manager or secretary of the company, of compliance with all or any of the said requirements. In England a Statutory declaration by a Solicitor engaged in the formation of the company or by a person named in the articles as a director or secretary of the company of compliance with all or any of the requirements of the Act must be produced to the Registrar who may accept the declaration as sufficient evidence of compliance.

After the grant of this certificate of incorporation, which in law makes the company a body corporate by the name mentioned in the memorandum, the company proceeds to ask for the subscription of its shares from the public. It shall not, however, commence business or exercise its borrowing powers, unless it obtains a further certificate from the Registrar declaring that the company is entitled to commence business. The certificate will be granted on the following further requirements being fulfilled:—

(1) Shares held subject to the payment of the whole amount thereof in cash have been allotted to an amount not less than the minimum subscription.

(2) Every director has paid for on each of the shares taken or contracted to be taken by him, and for which he is liable to pay in cash, a proportion equal to the proportion payable on application and allotment on the shares offered for public subscription, or in the case of a Company which does not issue a prospectus inviting the public to subscribe for its shares, on the shares payable in cash.

(3) There has been filed with the Registrar a duly verified declaration, by the secretary or one of the directors in the prescribed form, that the aforesaid conditions have been complied with, and

(4) In the case of a company which does not issue a prospectus inviting the public to subscribe for its shares, there has been filed with the Registrar a statement in lieu of prospectus.

The Memorandum of Association.—The memorandum of association must state :—

NAME CLAUSE.

(1) The name of the company (with the word **LIMITED**) if it is going to be a Limited Company ;

SITUATION CLAUSE.

(2) The place of business of the company ;

OBJECTS CLAUSE.

(3) The objects for which the company is formed—a clause which requires to be drafted with great care and ingenuity. This is because of all the documents one which is the most difficult to be altered at law, is the memorandum of association of a company and of all the clauses of the memorandum of association, the clause which is the most difficult and inconvenient to be altered, is this "Objects" clause. This clause should include all the possible branches of business in which the company is likely to be engaged and these should be stated in all their details clearly and carefully, otherwise the directors might find that they are unable to act on some important question because they have not the necessary power. In other words the action contemplated might be found to be *ultra vires* the Company ;

LIABILITY CLAUSE.

(4) Whether the liability of the members is to be "limited" ;

CAPITAL CLAUSE.

(5) The amount of capital of the company, with its proposed division, if any, into shares, classifying these shares under the headings of (a) cumulative preference, (b) preference, (c) ordinary and (d) deferred, and stating the amount which is to form the value of each of these shares. The memorandum of association has to be signed by at least seven members who are generally the Directors of the Company and each of these members has to state before his signature the number of shares he agrees to take up.

The following is the form in which a memorandum appears in actual practice:—

THE INDIAN COMPANIES ACT 1913.

COMPANY LIMITED BY SHARES.

MEMORANDUM OF ASSOCIATION

OF THE

BOMBAY SPINNING AND WEAVING COMPANY
LIMITED.

1. The name of the company is the Bombay Spinning & Weaving Company, Limited.
2. The registered office of the company will be situated in Bombay.
3. The objects for which the company is established are :—
 - (a) To do business as spinners of yarn and weavers of cloth and for that purpose to purchase and acquire land and other properties and erect factory or factories, mills, etc., containing cisterns, pipes, engines, tanks, machinery and appliances as may be required for business or expedient for the purposes of the company and to purchase, take on lease or otherwise acquire and hold, use, occupy and otherwise deal with any now existing mills and factories of a similar nature.
 - (b) To acquire, purchase or lease or otherwise any lands, hereditaments, rights, privileges, easements, user of water, liberties or licenses which may be deemed by the company requisite or expedient for the purposes of the company.
 - (c) To acquire rights of trade marks by purchase or otherwise relating to any business of the company and to turn same to account by using same or by granting license or otherwise.
 - (d) To raise money by issue of debentures, obligations, bonds, or otherwise in such manner as the company may think fit for the purposes of carrying on the business of the company.
 - (e) Generally to sell, improve, manage, develop, lease, mortgage, dispose of, turn to account or otherwise deal with all or any of the property of the company.

(f) To do all such other things as are incidental or conducive to the attainments of the above objects.

4. The liability of the members is limited to the nominal value of the shares they hold.

5. The capital of the company is to be Rs. 20,00,000 divided into 2,000 shares of Rs. 1,000 each.

We, the several persons whose names and addresses are subscribed are desirous of being formed into a company in pursuance of this memorandum of association and we respectively agree to take the number of Shares in the capital of the company set opposite our respective names.

Note :—This last paragraph is known as "Association clause".

Names, Addresses, and Descriptions of Subscribers.	Number of shares taken by each Subscriber.
Dorab Rustomji Cama, 53, Malabar Hill, Baronet. ...	One hundred
Solomon Issac, 15, Reclamation, Knight	Fifty
William Jordon, Apollo Bunder, J.P.	Ten
Thackersey Gordhandas Cutchi, Mandvi Bazaar, Rao Bahadur	Ten
Brahim Ludha, Cumballa Hill, J.P.	Ten
Janardhan Fadke, Girgaum Road, Doctor of Medicine	Ten
Chunihal Desai, Walkeshwar Road, Vakil, High Court	Ten

Dated the 21st day of August, 1939.

Witness to the above Signatures.

JAMSHEDJI PESTONJI, SOLICITOR

OF MESSRS. JAMSHEDJI, HIRALAL & CO.,

BOMBAY.

The Articles of Association.—We have already seen that the memorandum of association of a company is its charter, whereas, the articles of association form the bye-laws, or regulations, which govern its internal management and embody

the powers of the directors and officers of the company, as well as those of shareholders or members of the company as to voting, etc. The articles, unlike the memorandum, can be altered by special resolutions; but the alterations should be restricted within the scope of the company's powers as laid down by its memorandum. This statutory right to alter its articles is one from which the company cannot, by any device, contract itself out. In case a company does not possess a special set of articles of its own, the regulations as laid down, in Table A, which is a Schedule attached to the Companies Act, shall apply. It is further provided that in the case of companies registered with a special set of articles, if the said articles are silent on some points, the provisions or regulations contained in the Table A shall apply to the same extent as if they were embodied in its own articles, unless in the articles specially framed, there is a change expressly excluding the Table A as is usually inserted. In case of companies limited by guarantee, or unlimited companies, the articles of association must be registered with the memorandum of association. There are also instances where companies do not file a special set of articles, but draw out a set of regulations embodying special powers which they wish to reserve, and file same with a declaration to the effect that "Table A shall be the articles of association of this company except in so far as they are modified by the following rules." The bulk of companies, however, prefer to be registered with a special set of regulations. It may be further added that in case where articles are not registered, the memorandum has to be endorsed "registered without articles of association".

After these two documents, *viz.*, the "memorandum of association" and the "articles of association" are filed with the registrar of joint stock companies and the necessary fees are paid, the registrar issues a "certificate of incorporation" declaring the company to be duly incorporated under the Indian Companies Act.

THE PROSPECTUS.

The Indian and English Companies Acts lay down conditions and stipulations as to the contents of the prospectus of a company which is to be issued to the public with a view to invite applications for shares which ought to be carefully mastered. The prospectus is defined by sec. 2 (14) as "any prospectus, notice, circular, advertisement or other invitation offering to the public for subscription, or purchase, any shares or debentures of a company *but shall not include any trade advertisement which shows on the face of it that a formal prospectus has been prepared and filed.*" The words in italics were added by our Companies (Amendment) Act of 1936, and do not find a place in the English Companies Act of 1929. This prospectus is generally issued where it is intended to appeal to the public for subscription of share capital. A private company cannot issue a prospectus, or file the statement in lieu of prospectus, since it cannot invite the public to subscribe for shares; but in the case of a public company it is laid down that the prospectus must be issued in a proper form, giving the information as laid down by the Act; or in the absence of such issue, the statement in lieu of prospectus duly signed by every person who is named therein as director or proposed director of the company, or by his agent duly authorized in writing, shall be filed for registration with the Registrar on or before the date of its publication. No such prospectus shall be issued unless and until such a copy is filed, otherwise, every person who is knowingly a party to such issue will be liable to a fine not exceeding Rs. 50, for every day from the date of the issue of the prospectus until the date when the copy is filed (sec. 92). It is further enacted that if a public company does not issue the prospectus as above stated, it shall not allot its shares or debentures unless at least a statement in lieu of prospectus as above stated is filed. It will thus be seen that the important point in this connection is, that there should be a public issue, i.e., an invitation to the public to take up shares of the company; and therefore, this rule does not apply

to a circular, or notice, inviting existing members, or debenture-holders of the company, to subscribe either for shares or debentures of the company (sec. 93 (3)).

Its Contents.—The next point to be considered is the one with regard to the contents of the prospectus. Great care and ingenuity have to be exercised here in preparing the draft, because not only has the prospectus to be drafted in a manner which would appeal to the public, but various special requirements of the company law are to be particularly observed in this connection, failing which the promoters, directors, and all other officers, taking part directly or indirectly in the promotion, may incur liability, on the ground that statements made in the prospectus were either incorrect, or misleading or that certain points required by the company law to be included were omitted. The new Indian Companies (Amendment) Act, in the case of prospectuses issued by Indian companies in India, further lays down that if a prospectus is issued which does not comply with the provisions of sec. 93, every person who is knowingly responsible for the issue of such prospectus shall be liable to a fine not exceeding Rs. 50 for every day from the day of the issue of the prospectus until a copy complying with the requirements of sec. 93 is filed; of course if the non-compliance or contravention was in respect of matters which in the opinion of the Court were immaterial, or was otherwise such as ought in the opinion of the Court having regard to all circumstances of the case reasonably to be excused, the directors or persons responsible for the issue of such prospectus may not incur any liability by reason of such non-compliance or contravention (sec. 97).

Sec. 93. (1) Every prospectus issued by or on behalf of a company, or by or on behalf of any person who is or has been engaged or interested in the formation of the company, shall state:—

- (a) the contents of the memorandum, with the names, descriptions and addresses of the signatories and the number of shares subscribed for by them respectively; and the number of founders or management or deferred shares (if any) and the nature and extent of the interest of the holders in the

- property and profits of the company [and the number of redeemable preference shares intended to be issued with the date or, where no date is fixed, the period of notice required and the proposed method of redemption]; and
- (b) the number of shares (if any) fixed by the articles as the qualification of a director, and any provision in the articles as to the remuneration of the directors; and
 - (c) the names, descriptions and addresses of the directors or proposed directors and of the managers or proposed managers [and managing agents or proposed managing agents] (if any) [and any provision in the article or in any contract as to the appointment of managers or managing agents and the remuneration payable to them]; and
 - (d) the minimum subscription on which the directors may proceed to allotment, and the amount payable on application and allotment on each share; and in the case of a second or subsequent offer of shares the amount offered for subscription on each previous allotment made within the two preceding years, and the amount actually allotted, and the amount (if any) paid on the shares so allotted; and
 - (e) the number and amount of shares and debentures which within the two preceding years have been issued, or agreed to be issued, as fully or partly paid up otherwise than in cash, and in the latter case the extent to which they are so paid up, and in either case the consideration for which those shares or debentures have been issued or agreed to be issued; and
- [(ee) where any issue of shares or debentures is underwritten, the names of the underwriters, and the opinion of the directors that the resources of the underwriters are sufficient to discharge the underwriting obligations; and]
- (f) the names and addresses of the vendors of any property purchased or acquired by the company, or proposed so to be purchased or acquired, which is to be paid for wholly or partly out of the proceeds of the issue offered for subscription by the prospectus, or the purchase or acquisition of which has not been completed at the date of issue of the prospectus, and the amount payable in cash, shares or debentures to the vendor, and where there is more than one separate vendor or the company is a sub-purchaser, the amount so payable to each vendor: Provided that where

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the vendors or any of them are a firm, the members of the firm shall not be treated as separate vendors; and

- (ff) where any property referred to in clause (f) has within the two years preceding the issue of the prospectus been transferred by sale, the amount paid by the purchaser at each such transfer so far as the information is available and, where any such property is a business, the profits accruing from such business during each of the three years immediately preceding the issue of the prospectus or during each year of the existence of the business if less than three years as far as the information is available. A balance sheet of the business concerned made up to a date not more than ninety days before the date of the issue of the prospectus shall be appended to the prospectus; and]
- (g) the amount (if any) paid or payable as purchase money in cash, shares or debentures, for any such property as aforesaid, specifying the amount (if any) payable for good-will; and
- (h) the amount (if any) paid within the two preceding years or payable, as commission for subscribing or agreeing to subscribe, or procuring or agreeing to procure subscriptions, for any shares in, or debentures of, the company, (or as discount in respect of shares issued, showing separately the amount, if any, so paid to the managing agents): Provided that it shall not be necessary to state the commission payable to sub-underwriters; and
- (i) the amount or estimated amount of preliminary expenses; and
- (j) the amount paid within the two preceding years or intended to be paid to any promoter, and the consideration for any such payment; and
- (k) the dates of, and parties to every material contract (including contracts relating to the acquisition of property to which clause (f) applies), and a reasonable time and place at which any material contract or a copy thereof, may be inspected: Provided that this requirement shall not apply to a contract entered into in the ordinary course of the business carried on or intended to be carried on by the company, or to any contract (except a contract appointing or fixing the remuneration of a managing director or managing agent) entered into more than two years before the date of issue of the prospectus; and

- (l) the names and addresses of the auditors (if any) of the company; and
- (m) full particulars of the nature and extent of the interest (if any) of every director in the promotion or, in the property proposed to be acquired by, the company, or, where the interest of such a director consists in being a partner in a firm, the nature and extent of the interest of the firm, with a statement of all sums paid or agreed to be paid to him or to the firm in cash or shares or otherwise by any person either to induce him to become, or to qualify him as a director, or otherwise for services rendered by him or by the firm in connection with the promotion or formation of the company; and
- (n) where the company having shares of more than one class, the right of voting at meetings of the company conferred by, (and the rights in respect of capital and dividends attached to) the several classes of shares respectively; and
- (o) (where the articles of the company impose any restrictions upon the members of the company in respect of the right to attend, speak or vote at meetings of the company or of the right to transfer shares, or upon the directors of the company in respect of their powers of management the nature and extent of those restrictions).

[(1A) Where the prospectus is issued by a company which has been carrying on business prior to the issue thereof, the prospectus shall set out the following reports in addition to the matters referred to in sub-section (l), namely:—

- (i) a report by the auditors of the company with respect to the profits of the company including its subsidiary companies, if any, so far as the information is available in each of the three financial years immediately preceding the issue of the prospectus and with respect to the rates of the dividends, if any, paid by the company on each class of shares in the company for each of the said three years giving particulars of each such class of shares on which such dividends have been paid and the source from which the dividends have been paid and particulars of the cases in which no dividends have been paid on any class of shares for any of those years and if no accounts have been made up for any part of a period of three years ending on a date three months before the issue of the prospectus, containing a statement of that fact;

(4) if the proceeds or any part of the proceeds of the issue of the shares or debentures are or is to be applied directly or indirectly in the purchase of any business, a report made by an accountant or accountants holding the certificate referred to in sec. 144 who shall be named in the prospectus upon the profits of the business in respect of the three financial years immediately preceding the issue of the prospectus :

Provided that if, in the case of a company which has been carrying on business for less than three years, the accounts of the company have been made up only in respect of two years or any shorter period, this sub-section shall have effect as if references to two years or such shorter period were substituted for references to three years.]

[(1B) The statement referred to in clause (f) of sub-section (1) and the report referred to in sub-section (1A) with reference to the profits of a company or business shall show clearly the trading results and all charges and expenses incidental thereto excluding income or profits having no relation to the trading for the period covered and excluding also items of profit or income of a non-recurring nature but including amounts appropriated from profits to such purposes as payment of taxation or reserves.]

[(1C) Where any part of the sums for the matters set out in sub-section (2) of section 101 is to be provided out of sources other than share capital particulars of the amount to be so provided and the sources thereof.]

(2) Where any such prospectus as is mentioned in this section is published as a newspaper advertisement, it shall not be necessary in the advertisement to specify the contents of the memorandum or the signatories thereto, and the number of shares subscribed for by them.

(3) This section shall not apply to a circular or notice inviting existing members or debenture holders of a company to subscribe either for shares or for debentures of company, whether with or without the right to renounce in favour of other persons.

(4) The requirements of this section as to the memorandum and the qualification, remuneration and interest of directors, the names, descriptions and addresses of directors or proposed directors, and of managers or proposed managers, and the amount or estimated amount of preliminary expenses, shall not apply in the case of a prospectus issued more than one year after the date at which the company is entitled to commence business.

[Provided that the said requirements, except the requirement as to the amount or estimated amount of preliminary expenses, shall apply to a prospectus filed in pursuance of sec. 154.]

(5) Nothing in this section shall limit or diminish any liability which any person may incur under the general law of this Act, apart from this section.

How to Scan the Prospectus.—It will thus be noticed that, as far as possible, the Companies Act has provided proper safeguards in order that the investing public be not misguided or misled, by insisting on details being stated in the prospectus, which are likely to affect their judgment while deciding whether or not they should apply for shares in a proposed company. If in actual practice these safeguards prove to be inoperative, the fault lies with the investors who generally allow themselves to be carried away either by sentiment or by the speculative fever conveniently let loose by interested promoters and their friends. Even among the most sober-minded investors, the proportion of those who base their conclusions on a careful study both of the prospectus and the articles of association of the company they invest in, is very small indeed. This is a tendency which will have to be taken in view while legislating on behalf of those who are not able to look after their own interests. The English legislation has taken that view. In India, with our bulk of investors who have to deal with documents and law in a language foreign to them, even greater care will be necessary in providing safeguards against the weaker section of the shareholding public being exploited on to their detriment. The primary object of the prospectus is, of course, to induce the public to subscribe for the shares and debentures of the company and thereby secure the necessary money which is to make up the capital of the company. The greatest care, therefore, should be taken here to state all the points which a cautious investor is likely to be curious about and that too, with the utmost veracity. The investing public of almost all countries where joint stock enterprise has flourished for some length of time, have had

their experience of both the good and the doubtful type of enterprises, which has made them rather unduly sceptical. Even so prominent a writer and thinker as Mr. Hartley Withers has thought it fit to write about prospectuses in his book on "Stocks and Shares" as follows:—

"All prospectuses should be scanned in a spirit of jaundiced criticism and with the most pessimistic readiness to believe that they are specially alluring traps laid by some designing financier to relieve the reader of some of his money. No allowances should be made, and the benefit of the doubt should never be given to the Prospectus. In fact, a large number of them are quite reasonable propositions put forward by quite honest men, but when they are of this kind they will, or ought to stand the most sceptical scrutiny, and when they are not, it is a service to the community at large to put them as quickly as possible in the waste paper basket."

Care in Its Preparation.—The prospectus should therefore disclose all the material points in order to disarm all possible chances of suspicion which are likely to discourage an investor. In a case where a going concern is to be taken over by the new company, the actual working results in form of net profits for a number of years immediately preceding the period ought to be stated in the form of an abstract from the report of some prominent firm of accountants who are likely to command public confidence. The form in which these profits are disclosed should be such as to make it clear that the business sought to be purchased was of a progressive character. In the case of assets taken over, they ought to be valued by recognised experts. The name of the auditors should also be stated wherever possible; and in the selection of these, care should be taken to pick out qualified men of reputation and standing. Besides observing these precautions, all frankness ought to be displayed in carefully describing the business which the company is to carry on. A cautious investor will not blindly stake his capital in an enterprise without carefully weighing the possibilities of the business in contemplation, and therefore

all possible attention should be given to the work of supplying him with all possible materials which are likely to help him to judge for himself after considering fully the point of view of the promoters. The promoters should also take care to see that, as far as possible, all the statements contained in the prospectus are based on some expert's reports, abstracts from official documents, or on facts which they are able to substantiate if called upon. All the requirements of the Companies Act, 1913, as dealt with above, ought also to be strictly observed. Failing this, every director, promoter and every person engaged in the promotion and formation of the company, with whose consent and knowledge the prospectus was issued, lays himself open to be sued for damages by an aggrieved shareholder who purchased, or agreed to purchase, the shares, relying on any untrue or misleading statement in the prospectus.

Mr. Hartley Withers recommends the investor to pay particular attention to the name of the firm of brokers (if any) mentioned in the prospectus as an indication of the company's prospects, as a good firm of brokers will not attach itself to a doubtful company, still less recommend its clients to invest in the same. He also recommends investors in general to consult their own brokers before deciding on the prospects of an undertaking in which they think of investing. This of course applies to brokers in England, particularly to those on the London Stock Exchange, where the members of the Exchange are divided into two watertight compartments known as "jobbers" and "brokers". The former class restricts itself to buying and selling in stocks, shares and securities, whereas the latter acts as a middleman between the jobber and the investing public. In other words a jobber cannot act as a broker and *vice versa*. Under these circumstances a broker being a disinterested middleman, besides being an expert in the line, can no doubt be looked to with confidence for advice. In India, however, no such distinction is observed. Almost every broker on the Stock Exchange, whether in Bombay or else-

where, is also a dealer in stocks, shares and securities, and therefore, one can never be certain about the extent of the disinterestedness of his advice. The most prominent of these brokers indulge in the underwriting of share capital, which they would naturally be anxious to unload at the first possible opportunity. However honest and straightforward their methods of business may be, this conflict of interest should alone be sufficient to deter a cautious investor from looking for guidance in this quarter. From a practical promoter's point of view however, the insertion of the name of a well known firm of brokers wherever possible, makes the prospectus more attractive, both here as well as in England.

The other attraction which has generally proved overpowering to an average investor, is the inclusion of a few titled names among the board of directors. We have already dealt with the weakness of this form of constitution from the combination and organization standpoint, and therefore need not enlarge on that point here. It need only be added that according to the best authorities, the glare of titled names on a board is losing its magnetic effect on the average investor in England who has improved by experience, and no doubt the same transition seems well within sight in India.

FORM OF THE PROSPECTUS.

PROSPECTUS

A copy of this Prospectus has been filed with the Registrar of Companies.....

The Subscription List will open on.....and will close on.....

THE X COMPANY, LIMITED.

(Incorporated under.....Act of.....)

AUTHORIZED CAPITAL, Rs.

Divided into.....Shares.

6% Redeemable Cumulative Preference shares of Rs..... each.....Ordinary shares of Rs.....each.

Out of which.....6% Redeemable Cumulative Preference shares and.....Ordinary shares have been agreed to be taken up by the Managing Agents' firm and their friends which will be

allotted in full and the remaining.....6% Redeemable Cumulative Preference shares and.....Ordinary shares are now offered for public subscription.

6% Redeemable Cumulative Preference shares carry a fixed cumulative preferential dividend at the rate of 6 per cent per annum on the capital for the time being paid up thereon. Such dividends to be accumulated and payable out of the net profits which may be determined by the directors to distribute among the members of the Company as available for dividend and to take precedence and have priority over all dividends payable to the holders of the said ordinary shares but without any further right to participate in the profits or assets of the company. Of the above shares.....6% Redeemable Cumulative Preference shares and.....Ordinary shares are to be issued and credited as fully paid.

PAYABLE AS FOLLOWS :

6% Redeemable Cumulative Preference shares Rs.....
per share on application, Rs.....per share on allotment and
balance of Rs.....per share in such call or calls as the Board
of Directors may determine.

Ordinary shares Rs.....per share on application.....
Rs.....per share on allotment and the balance of Rs.....
per share in such call or calls as the Board of Directors may
determine.

The aforesaid 6% Redeemable Cumulative Preference shares which are issued hereby shall be re-payable with three months prior notice either out of the Reserve Fund of the Company created from profits or out of a fresh issue of shares made for the purpose or from the sale proceeds of the property of the company at the option of the Board of Directors. The holders of the aforesaid 6% Redeemable Cumulative Preference shares are not entitled to vote at the meetings. The ordinary shares carry one vote for each share held by a member.

The following are the clauses of the Articles of Association imposing restrictions on voting power :—

(1) No shareholder shall be entitled to speak, or be present or to vote at any General Meeting either personally or by proxy or as a proxy for another shareholder, whilst any money due from him, alone or jointly, to the company, in respect of any share or shares in the company, remains unpaid.

(2) Every shareholder not otherwise disqualified and who has been duly registered for three months previous to the General Meeting, shall be entitled to be present, and to speak and vote at such meeting, and shall have one vote in respect of every share held by him three months previous to the General Meeting. The holders of preference shares shall have no vote in respect of preference shares either cumulative, ordinary or otherwise held by them.

DIRECTORS.

(State the names, addresses, etc., of all the directors and proposed directors.)

MANAGING AGENTS.

(State names, addresses, etc., of the Managing Agents.)

BANKERS.

(State the names and addresses of the Bankers.)

AUDITORS.

(State the names and addresses of the Auditors.)

PROSPECTUS.

(State here the object with which the Company is formed, the scope of its proposed business and the possibilities for such business in detail with a view to enable the investor to gauge the prospects of the future of the Company and to apply for its shares.)

LAND & PROPERTY.

In case the company has arranged to purchase any land or property or is proposing to do so, state whether it has been transferred by sale within two years immediately preceding the issue of the prospectus and if so the amount paid by the purchaser at each such transfer should be stated as far as the information is available. The form in such a case will be "The land acquired as referred to above has been held as sole proprietor by the vendor.....of.....for more than two years of the date hereof."

In case it has been transferred within two years the statement may be as follows :—

“The land acquired as referred to above was originally the property of.....from whom.....of.....acquired same at a purchase price of Rs.....on.....day of.....19....”

(In case any other property is acquired by the company and which within two years of the date of the prospectus has been dealt with by the vendor a similar disclosure as in the above case of land must be made.)

MINIMUM SUBSCRIPTION.

The minimum amount which in the opinion of the directors must be raised out of the proceeds of this issue to provide for the purchase of any property or to be purchased which is to be defrayed from the proceeds of the issue, preliminary expenses and commission so payable to any person in consideration of his agreeing to subscribe for or for procuring or agreeing to procure subscriptions for shares in the company and for working capital is Rs..... No amounts are to be provided in respect of the matters aforesaid otherwise than out of the proceeds of this issue.

CONTRACTS.

An agreement will be entered into by the Company as provided in Article.....of the Articles of Association with Messrs....., as Managing Agents of the company of the one part and the Company of the other part providing for the appointment of the said firm of Messrs....., as Managing Agents of the Company for a period of 20 years upon the terms and conditions therein contained.

REMUNERATION OF MANAGING AGENTS.

Under the provisions of the said Agreement the remuneration of the Managing Agents shall be as follows :—

Rs.....per month for office and travelling allowance plus.....per cent on the net profits of the company as defined in sec. 87C(3) of the Indian Companies Act, 1913, after paying 6 per cent to the holders of the 6% Redeemable Cumulative

Preference shares of the Company and 6 per cent to the holders of the Ordinary Shares provided that if in any year no commission is earned by the said agents on account of the profits earned by the company not being sufficient for the purpose of paying dividend as aforesaid, the company shall pay to the Managing Agents a minimum remuneration of Rs.....per annum for their services as such agents. The Managing Agents are also to be paid the cost, charges and expenses preliminary and incidental to the formation, establishment and registration of the company which may have been paid or incurred by them or for which they have or may become liable.

PRELIMINARY EXPENSES.

It is estimated that the Preliminary expenses will not exceed in the aggregate Rs.....

BROKERAGE.

The company shall pay the usual brokerage to registered brokers in respect of accepted applications received by the company through them.

UNDERWRITING COMMISSION & UNDERWRITERS.

The shares now offered for subscription have been underwritten for a commission at the rate of.....per cent on the amount thereof with Messrs.....of.....who in the opinion of the directors are parties with sufficient resources to discharge their underwriting obligations. The aforesaid underwriting commission is payable by the company.

DIRECTORS' INTEREST.

Mr.....and Mr.....directors of the company are also partners in the firm of Messrs.....Managing Agents of the company and as such are interested in the remuneration to be paid by the company to the said Managing Agents. The aforesaid Messrs.....and.....who are directors of the company are also promoters of the company and are entitled to be remunerated by.....for their trouble taken in the promotion and formation of this Company.

DIRECTORS' QUALIFICATION & REMUNERATION.

The qualification of a director other than a special or ex-officio director or debenture-director shall be the holding of at least 50 shares in the company of the nominal value of Rs..... registered in his name.

The remuneration of every director shall be Rs.....for each meeting of the Board attended by him. The directors shall be paid such further remuneration (if any) for any extra work done by any of them as may be decided by the Board of Directors and the Board can also pay to any director who is not a *bona fide* resident in.....and who shall come to.....for the purpose of attending a meeting such remuneration as the directors may consider fair compensation for his expenses and loss of time in connection therewith in addition to his fee for attending such meeting as above specified.

INSPECTION.

Drafts of the agreement to be entered into by the company as aforesaid may be inspected at the registered office of the company during office hours.

APPLICATION FOR SHARES.

Application for shares should be made on the accompanying form and forwarded together with the deposit of Rs..... per share which should be paid to the Managing Agents at the registered office of the company. In case no shares are allotted, the whole of the deposit will be refunded and if lesser number of shares are allotted, the excess will be utilised for payment of the amount of the allotment money and if any balance left, it would be refunded.

Prospectus and forms of application for shares can be obtained at the registered office of the company.

Dated at.....this.....day of.....19 .

Form of Notice as to Situation.—The notice in writing of the situation of the registered office of a company to which all communications and notices are to be addressed has to be

filed with the registrar (sec. 72 (2) Companies Act 1913). It may be drawn out in the following form:—

The Indian Companies Act, 1913.

Sec. 72.

NOTICE

OF THE

SITUATION OF THE REGISTERED OFFICE

OF

THE BOMBAY SPINNING & WEAVING COMPANY, LTD.

To

The Registrar of Joint Stock Companies,
Bombay.

The directors of the abovenamed company hereby give you notice pursuant to Section 71 (1) of the Indian Companies Act, 1913, that the registered office of the company is situated at No. 10, Church Gate St., Bombay.

Signature. J. Fernandez,
Secretary.

Dated the 21st day of August, 1939.

Form of Consent of Directors.—The consent of the directors to act as such as required by sec. 84 (1) of the Indian Companies Act, 1913, will be in the following form:—

The Indian Companies Act, 1913.

Sec. 84 (1)

CONSENT TO ACT AS DIRECTORS

OF

THE BOMBAY SPINNING & WEAVING COMPANY, LTD.

To

The Registrar of Joint Stock Companies,
Bombay.

We the undersigned hereby testify our consent to act as Directors of the Bombay Spinning and Weaving Company, Limited, pursuant to Section 84, Sub-section 1, of the Indian Companies Act, 1913.

Form of Consent of Directors—(contd.)

Signatures.	Address.	Description.
Dorab R. Cama. Solomon Issac. William Jordan. Thakersey Gordhandas. Ebrahim Ludha. Janardhan Phadke. Chunilal Desai.	Melabar Hill. Reclamation. Apollo Bunder. Mandvi Bazaar. Cumballa Hill. Girgaum Road. Walkeshwar Road.	Baronet. Knight. J.P. Merchant. Merchant. Physician. Vakil, High Court.

Dated the 21st day of August, 1939.

Form of the List of Directors.—The list of persons who have consented to be directors as required to be filed with the registrar per sec. 84 (2) of the Indian Companies Act, 1913, will have to be made out as follows:—

The Indian Companies Act, 1913.

Sec. 84 (2)

List of the persons who have

CONSENTED TO BE DIRECTORS

OF

THE BOMBAY SPINNING & WEAVING COMPANY, LD.,

To

The Registrar of Joint Stock Companies,
Bombay.

I, John Fernandez, the undersigned, hereby give you notice, pursuant to Sec. 84 (2) of the Indian Companies Act, 1913, that the following persons have consented to be Directors of the Bombay Spinning and Weaving Company, Limited.

Names.	Address.	Description.
Dorab R. Cama. Solomon Isaac. William Jordan. Thakersey Gordhandas. Ebrahim Ludha. Janardhan Phadke. Chunilal Desai.	Melabar Hill. Reclamation. Apollo Bunder. Mandvi Bazaar. Cumballa Hill. Girgaum Road. Walkeshwar Road.	Baronet. Knight. J.P. Merchant. Merchant. Physician. Vakil, High Court.

Signature, address and
description of applicant
for Registration.

} John Fernandez,
10, Church Gate Street,
Bombay.

Dated this 31st day of August, 1939.

Form of the Declaration of Compliance.—The declaration of compliance will have to be drawn out in the following form :—

The Indian Companies Act, 1913.

DECLARATION OF COMPLIANCE

with the

Requisitions of the Indian Companies Act, 1913
made pursuant to Section 84, Sub-section 2, on behalf of
a company proposed to be registered as

THE BOMBAY SPINNING & WEAVING COMPANY, LIMITED.

I, John Fernandez, of 10, Church Gate Street, Bombay, and 56, Frere Road, Bombay, do solemnly declare that I am the Secretary named in the Articles of Association of the Bombay Spinning and Weaving Company, Limited, and that all the requirements of the Indian Companies Act 1913, in respect of matters precedent to registration of the said company and incidental thereto have been complied with. And I make this solemn Declaration conscientiously believing the same to be true.

Declared at my office, High Court,
Bombay, the 21st day of August
one thousand nine hundred and
thirty-nine.

John Fernandez.

Before me
P. Wadia,
Commissioner for oaths.

APPLICATION AND ALLOTMENT OF SHARES.

The usual practice is to issue the prospectus to the public by advertising it in the first instance in the newspapers as well as furnishing copies of the same to individuals applying for it. A date is fixed up to which the applications are to be open. Usually an arrangement is made with the company's bankers to receive applications and the public are requested to address these applications together with the application money to these bankers. The bankers collect the applications in their proper

order, enter the application money in the proper order of dates in the pass book allotted to the company, and sign and hand over a receipt for the money to the applicant on the receipt form which is generally attached to the application forms ready to be filled in and detached. These applications have to be made usually in special printed forms furnished by the company, and which are usually annexed to the prospectus. It may, however, be noted that in law an application for shares may be made orally or by a letter written by the applicant: the practice for companies is to require the application on its printed form only so that uniformity of agreement from all the applicants may be obtained, and the conditions under which shares are to be issued may be provided for. After the close of the last date of application, the bankers forward the applications, together with the pass-book, to the company's office. If the minimum subscription as stated in the prospectus, or where no such minimum is fixed, the whole amount of share capital offered for subscription, has not been subscribed for within 180 days after the issue of the prospectus, all moneys received from the applicants must be immediately repaid. Failing such repayment within further ten days, the directors of the company make themselves jointly and severally liable to repay same with interest at the rate of seven per cent per annum from the expiry of the one hundred and ninetieth day after the first issue of the prospectus (sec. 101, Comp. Act 1913). Allotments made in defiance of this rule shall be voidable at the instance of the applicant within one month after the holding of the statutory meeting even though the company may be in course of liquidation by that time.

We shall however assume that the minimum subscription has been applied for. The applications are then to be considered by the directors at their board meeting to be held for that purpose. It may be added that the articles usually give the directors the power to reject any application, or transfer, without giving any reason. Thus the directors are in a position

to select from the applicants members of their choice. There are also occasions when the number of applications for shares are in excess of the actual amount offered to the public. Here also a discretion is to be used as to whom the letters of allotment and to whom the letters of regret should be sent. The work of selection occupies a number of hours, if not days, in case of large companies and therefore the most convenient course is to delegate this work to a small committee consisting of the chairman and a couple of directors whose recommendation or selection is formally approved at the next board meeting.

Form of Application Letter.—The form of application duly filled in will be as follows :—

TO THE BOMBAY SPINNING & WEAVING COMPANY
LIMITED.

GENTLEMEN,

Having paid to the Company's Bankers, the National Bank of India, Ltd., the sum of Rs. 100 being a deposit of Rs. 10 per share on ten shares in the abovenamed Company, I request you to allot me that number of shares upon the terms of the company's prospectus dated the 21st day of August, 1939, and I hereby agree to accept the same or any smaller number that may be allotted to me and to pay the balance of Rs. 90 per share as provided by the said prospectus, and I authorise you to register me as the holder of the said Shares.

NAME IN FULL, *Jivanji Pragji.*
ADDRESS, *15, Church Gate Street.*
DESCRIPTION, *Merchant.*
DATE, *21st August, 1939.*
SIGNATURE, *Jivanji Pragji.*

A receipt form is generally annexed to the application form as shown above and as soon as the applicant pays the money either at the company's office or at the office of the company's bankers, the bankers fill in that receipt form, sign it and return

the same to the applicant. The receipt is in the following form :—

**THE BOMBAY SPINNING & WEAVING COMPANY,
LIMITED.**

Banker's Receipt to be retained by the Applicant.

Received this 21st day of August 1939 of Mr. Jivanji Pragji the sum of Rs. 100 being a deposit of Rs. 10 per share upon 10 shares in the abovenamed Company.

For the National Bank of India, Limited.

M. McDonald,
Cashier.

Stamp.

Form of Allotment Letter.—The directors' board meeting would then be held at a fixed date to consider the applications received, at which meeting the directors would decide whether they are to allot all the shares applied for or in case where a larger number is applied for than available, the directors would decide as to whom the Letters of Allotment or the Letters of Regret should be sent. Assuming that the above applicant has been allotted the shares he applied for, the Letter of Allotment would be in the following form :—

THE BOMBAY SPINNING & WEAVING COMPANY, LIMITED.

Bombay, 27th August, 1939.

To

MR. JIVANJI PRAGJI,

DEAR SIR,

I am directed to inform you that in accordance with your application, the directors have allotted to you 10 shares of Rs. 1,000 each in the above company.

The sum of Rs. 100 per share is payable thereon up to and on allotment making the sum of Rs. 1,000 in respect of which you

have paid on application Rs. 100 leaving a balance of Rs. 900 payable by you, which I am instructed to request you to pay to the Bankers of the Company, the National Bank of India, Limited.

It will be necessary for you to produce this Letter of Allotment at the time of payment.

Yours truly,
J. FERNANDEZ,
Secretary, *pro tem.*

The Share Certificate.—After the shares are allotted and the allotment money is paid, the applicant, who now becomes a shareholder, gets his share certificate. These certificate forms are generally printed in book form, with a perforation dividing the same from the counterfoil. This counterfoil, which records the same particulars as the original share certificate, forms a convenient record for reference. A share certificate is *prima facie* evidence of the title of the member to the share or shares held by him as indicated therein. According to the rules of almost all the stock exchanges of the world, the holder of shares who sells them, has to deliver to the buyer this share certificate together with a transfer form duly filled in and signed by himself. The holder of the share certificate, therefore, should carefully preserve the same. In case the same is lost a new certificate may be obtained from the company in accordance with the regulations provided for in the articles. Usually the regulations applying to such cases provide that the applicant for a new certificate, who alleges that the original is lost, stolen or destroyed, ought to give an indemnity bond by which he undertakes to make good any loss which the company may suffer through this lost certificate falling in the hands of some innocent person or under any other circumstances. A third person's guarantee, besides the indemnity bond of the shareholder, is in some cases insisted on. In some cases it is also stipulated as a condition precedent to the issue of a duplicate certificate that the loss will have to be advertised in certain newspapers. These precautions are considered necessary because the share certificate is considered

as "a declaration to all the world that the person in whose name the certificate is made out, and to whom it is given, is a shareholder in the company, and it is given by the company with the intention that it shall be so used by the person to whom it is given, and acted upon in the sale and transfer of shares." The share certificate is made out generally in the following form:—

No. 1234-1243.

THE BOMBAY SPINNING & WEAIVING Co., LTD.



This is to certify that Mr. Jivanji Pragji of 15, Church Gate Street, Bombay, is the holder of 10 shares numbered 1234-1243 inclusive, in the above Company, subject to the provisions of the Memorandum and Articles of Association of the Company; and that the sum of Rs. 100 per share has been paid in respect of each of the said shares.

Given under the Common Seal of the said Company, this 1st day of September, 1939.

D. R. CAMA,
SOLOMON ISAAC,
THAKRSEY GORDHANDAS, }

Directors.



J. FERNANDEZ, Secretary.

No transfer of any of the abovesmentioned shares can be registered without production of this certificate.

Form of Call Letter.—The directors may then make calls on account of these shares as may be found necessary and convenient for the working of the company and after having decided at their board meeting to make a call, the secretary has to send out notices of call which are generally printed with counterfoils bound in book form and consecutively numbered.

The Call Form in the Book of the notices of call would be as under:—

No. 113.
 The Bombay Spinning & Weaving Co., Ltd.
 Notice of Call.
 Shares Nos. 1234-1243
 Date of Call, 1st November, 1939.
 Amount per share Rs. 50.
 Aggregate amount Rs. 500.
 When due, 15th November, 1939.
 When paid, 15th November, 1939.
 Name of Member,
 Jivanji Pragji.
 Address, 15, Church Gate Street, Bombay.
 Date of Posting Notice, 1st November, 1939.
 Where posted, G. P. Office.

Notice of Call.

This Form to be sent entire to the Bankers or the Secretary, accompanied by the amount payable.

Notice of call of Rs. 50 per Share.

Making Rs. 150 per Share paid up.

No. 113, Shares Nos. 1234-1243.

The Bombay Spinning & Weaving Company, Limited.

Bombay, 1st November, 1939.

Sir,—I have to inform you that at a Meeting of the Directors of this Company held at Bombay on the 1st November, 1939, it was resolved that a call of Rs. 50 per Share be made upon the Members of the Company in respect of the moneys unpaid on their Shares payable on or before 15th November, 1939, and I have to request that you will, on or before that date pay the sum of Rs. 500 (being the amount of such call in respect of the 10 Shares registered in your name in the Books of the Company) to the National Bank of India, Ltd.

I am, Sir,

Your obedient servant,

J. FERNANDEZ, Secretary.

To MR. JIVANJI PRAGJI,
 15, Church Gate Street,
 Bombay,

No. 113. 15th November, 1939.

Stamp.

Received of Jivanji Pragji the sum of Rs. 500 being the amount of a call of Rs. 50 per Share on 10 shares in the Bombay S. & W. Co., Ltd.

Rs. 500.

DOSABHAI FRAMJI.

Form of Application and Allotment Book.—The applications and allotments would then be entered in the Application and Allotment Book which is ruled as under :—

No. of letter.	Applicant's name.	Residence.	Profession.	Date of Application.	No. of shares Applied for.	No. of shares Allotted.
37	Jivanji Pragji	15, Church Gate Street.	Merchant.	1939 Aug. 21.	10	10

The Call Book.—For each of the calls made, a Call Book is made out with rulings as under and filled in as shown below:—

CALL BOOK.

First Call of Rs. 50, made 1st November 1930 making amount paid up on each share Rs. 150.

Name.	Address.	Occupation.	Folio in the Register of Members.	No. of shares held.	Total Amount of Call.	Date Paid.	C. B. Folio.	Interest.
Jivanji Pragji.	15, Church Gate Street.	Merchant.		10	Rs. 500	1930 15th Nov. 5		

The Share Transfer Book.—The above books, viz., the Application and Allotment Book, the Call Book, and the Share Ledger are subsidiary books kept simply to keep a minute record of the whole capital of the company as held by the different shareholders, the amount actually paid by them and the amount actually due by them. There is also an additional

book known as the Share Transfer Book which records all details as to the transfer of shares from one person to another as shown in the form below :—

SHARE TRANSFER BOOK.

Date.	No. of Transfer.	Transferors.			Transferees.				No. of Shares Transferred.
		Folio in register of members.	Name.	Occupation.	Name.	Address.	Occupation.	Folio in register of members.	
1889 1st Dec.	27		Jivanji Pragji.	Merchant.	K. Ganguli.	Chandanwady, Bombay.	Rly. Guard.		

Letters of Regret.—In case of those applicants however who are not allotted the shares they applied for, "Letters of Regret" are forwarded by the secretary informing them that the shares were not allotted to them. The shares are not allotted for various reasons. Most frequently this course has to be taken because a larger number of shares may have been applied for than are available, in which case the directors naturally select those applicants whom they consider to be the most desirable to be admitted as shareholders and reject the rest. It often happens that even though all the shares are not applied for, there may be among the applicants some who in the opinion of the directors are not desirable men to be allowed to buy the shares of the company for one reason or another, and are thus refused allotment. Letters of regret have to be sent to those applicants whose applications are rejected. They are in the following form :—

LETTER OF REGRET

THE BOMBAY SPINNING AND WEAVING
COMPANY, LIMITED.

Registered Office, Esplanade Road,
Bombay, 20th August, 1939.

Karsondas Kanji, Esq.,

Share Bazaar, BOMBAY.

Sir,

I regret to inform you that the directors are unable to allot you any of the ordinary and preference shares of this company, in compliance with your application for 75 ordinary Shares and 25 preference Shares.

Please find enclosed a cheque for Rs. 1,000 being the amount paid by you on the abovementioned application, and I shall be glad if you will sign the form of receipt at the foot of the cheque sent herewith, and present the same for payment through your bankers (with the original form of receipt attached thereto).

As the cheque contains a form of receipt, no further acknowledgment from you will be necessary.

Yours faithfully,
J. Fernandez,
Secretary.

No. 543167

Bombay, 20th August, 1939.

Stamp.

To

The National Bank of India, Ltd., Bombay.

Pay to Karsondas Kanji, Esq., or order, the receipt below being signed, the sum of Rupees One Thousand.

For the Bombay Spinning and Weaving Co., Ltd.,

D. R. Cama, DIRECTOR.

J. Fernandez, SECRETARY.

RECEIPT

24th August, 1939.

Received of the Bombay Spinning and Weaving Company, Limited, the sum of Rupees One Thousand, being the amount deposited by me on application for one hundred Shares in the same.

Rs. 1,000-0-0

Stamp.

Certified Transfers.—According to the rules of the Stock Exchange the seller must hand over to the buyer a transfer form duly executed together with the relevant share certificates against which the buyer has to pay the purchase price of the said shares as agreed. In many cases however the seller possesses one certificate for a number of shares out of which he is selling a few. In such cases he lodges the share certificate

with the company's office and obtains from its secretary a marginal acknowledgment (as in the form hereunder) of this lodgment. The transfer is thereafter technically known as a "certified transfer" on the Stock Exchange. It should be however noted that this certification does not amount to any guarantee that the transfer will be accepted.

We saw in the Share Transfer Book that one of the shareholders, Mr. Jivanji Pragji, of the company transferred five shares from his name to that of Mr. K. Ganguli. The transfer is effected by filling in a Share Transfer Form which is to be signed by both the seller Mr. Jivanji Pragji and the buyer Mr. K. Ganguli. The seller here transfers to the transferee his right, title and interest in these five shares to buyer Ganguli and the buyer on the other hand agrees to take over the shares with all rights and liabilities arising therefrom in case the shares are not fully paid or when the company is an "unlimited" company. The Transfer Form runs as follows:—

SHARE TRANSFER.

I, Jivanji Pragji, of 15, Church Gate Street, Bombay, in consideration of the sum of Rs. 5,500 paid by K. Ganguli, of Chandanwady, Bombay, Railway Guard, hereinafter called the said Transferee, do hereby bargain, sell, assign and transfer to the said Transferee:—Five fully paid Shares of Rs. 1,000 each, numbered 1234 to 1238 inclusive, of and in the undertaking called the Bombay Spinning and Weaving Co., Ltd., TO HOLD unto the said transferee, his Executors, Administrators and Assigns, subject to the several conditions on which I held the same immediately before the execution hereof; and I the said Transferee do hereby agree to accept and take the said Shares subject to the conditions aforesaid AS WITNESS our Hands and Seals, this first day of December in the Christian Year One Thousand Nine Hundred and Thirty-nine.

Signed, sealed, and delivered by the above
Jivanji Pragji, named Jivanji Pragji, in
the presence of.....

Certificate of the within mentioned
five Shares has been lodged at the
Co.'s Office.

J. Fernandez, Secretary.

Balance Receipt or Ticket.—Where a certificate of shares is lodged containing a larger number of shares than those which are sought to be transferred, the practice is that in some cases the secretary of the company concerned issues to the seller, or his broker, a receipt for the balance of shares which receipt is called the "Balance Receipt". This receipt means that the seller, in due course, is entitled to receive a certificate for the balance of untransferred or unsold shares. Care should be taken to see that such balance receipt is signed by some responsible officer, such as the secretary or the registrar of the company. This receipt is in some cases also known as "Balance Ticket". It is usually given in the following form:—

<p>THE BOMBAY TRADING COMPANY LIMITED. Esplanade Road, Bombay. BALANCE TICKET.</p> <p>No.....19.....</p> <p>Certificate No..... No. of Shares.....</p> <p>Total.....</p> <p>Certified.....</p> <p>Balance.....</p> <hr/> <p style="text-align: center;">Distinctive Numbers on Balance Ticket.</p> <hr/> <table style="width: 100%; border-collapse: collapse;"> <tr> <td style="width: 50%; border-bottom: 1px solid black;">From.</td> <td style="width: 50%; border-bottom: 1px solid black;">To.</td> </tr> </table> <hr/> <p>Issued to.....</p> <p>Balance Certificate ready.....</p>	From.	To.	<p>THE BOMBAY TRADING COMPANY, LIMITED. Esplanade Road, Bombay. BALANCE TICKET.</p> <p>No.....19.....</p> <p>This is to certify that a Balance of.....shares in the Bombay Trading Company, Limited, numbered from..... to.....both inclusive, now stands in the Company's Books in the name of..... The Balance Certificate will be ready on.....</p> <p><i>Note</i> :—No Balance Certificate will be issued, or Transfer certi- fied, until this Ticket is lodged with the Company.</p>
From.	To.		

The Share Transfer Form requires to be stamped *ad valorem* and in computing the stamp duty the consideration paid by the buyer to the seller has to be considered. The transfer contains the consideration amount for which the shares are sold, but it often happens that the consideration as shown and

inserted in the transfer form differs from that which the original seller actually receives from the original purchaser when for instance, before the transfer is actually effected, the original purchaser has again sold away the shares to a sub-purchaser. Here according to law the actual amount paid by the sub-purchaser to the original purchaser would have to be entered as "consideration money" in the transfer form and not the actual amount which the original seller received from the original purchaser.

NEW ISSUE OF SHARES.

Frequently in the case of prosperous companies when there is a new share issue made, the existing shareholders or members naturally desire that they should be given the first option of purchasing these shares. The result is that to them also fractional certificates would be issued in case where they do not hold the requisite number of shares entitling them to the purchase of one complete share. The principle here followed is more or less the same as in case of split share-certificates issued in the case of bonus shares. The resolution passed in this connection must state the amount of the new issue and its class defining the rights of that class and the terms on which the said shares are to be issued say one to every ten or otherwise. The resolution generally provides as to how the balance of shares and not taken up by existing members is to be dealt with.

Coupon when New Shares are issued and option given to present Shareholders to purchase one Share for Nine Shares held.

ORDINARY SHAREHOLDERS.

This coupon must be presented before the.....

No. 40172

The A. B. & C. Company Limited.

Issue of.....ordinary shares of Rs.....each Nos.....
to.....

To the shareholders at Rs.....per share, payable in full before.....day of.....

The shares will rank for dividend as if fully paid up from the.....day of.....

Coupon for one-ninth of an ordinary share.

The delivery of this coupon and eight like coupons together with a remittance of Rs.....paid to the company's bankers before the.....day of.....will entitle the person whose signature appears on the back hereof to have allotted to him one ordinary share of Rs.....of the above issue.

.....Secretary.

.....Address.

Dated.....

There are cases where the fractional issue is avoided and shares are only purchasable by those who are qualified to purchase the same by their holding. The register of members will naturally be closed for the time being. A list will have to be prepared by the secretary showing the names of the shareholders entitled to purchase these new shares and arrangement should be made with the bankers to receive the cash in a special account paid against the purchase of such an issue.

Form of Renunciation Letter.

THE BOMBAY SPINNING AND WEAVING COMPANY,
LIMITED.

15, ESPLANADE ROAD,
Bombay, 1st September, 1939.

To

Naroji Bomanji, Esq.,
Tamarind Lane, Fort,
Bombay.

Sir,

INCREASE OF CAPITAL.

As a Member of the Company you are entitled to an allotment at par of 50 new Ordinary Shares about to be issued, in accordance with the special resolution passed on the 28th August, 1939, being

at the rate of two new Ordinary Shares for every four Shares now held by you.

Unless I hear to the contrary meanwhile, the 50 Ordinary Shares in question will be allotted to you on the 15th September, 1939.

Should you desire to renounce your right to such allotment in favour of some other person, please be good enough to sign the Letter of Renunciation below, and have it forwarded to this office on or before 10th September. This letter is not to be detached.

Your obedient servant,
J. FERNANDEZ,
Secretary.

LETTER OF RENUNCIATION.



To The Bombay Spinning & Weaving Co., Ltd.
Being entitled to an allotment at par of 50 Ordinary Shares of Rs. 1,000 each in the above Company, I hereby renounce my right to such allotment and hereby request you to allot such Shares to :—

(Full name) Abdul Husain Taki, Esqr., Merchant.

(Address) Chuckla Street, Bombay.

(Signature) Naoroji Bomanji.

(Date) 7th September, 1939.

LETTER OF ACCEPTANCE.

To The Bombay Spinning & Weaving Company, Limited.

I agree to accept the above 50 Ordinary Shares, and to pay the calls thereon, and desire to be entered on the Company's Register of Members in respect thereof.

(Signed) Naoroji Bomanji.

(Address) Tamarind Lane, Fort, Bombay.

(Description) Engineer.

(Date) 7th September, 1939.

Form of Notice of Forfeiture.—With regard to the notice of call it may be mentioned here that if a shareholder fails to pay according to the notice, the directors may at their board meeting decide to forfeit his shares in exercise of powers usually reserved to them in the Articles of Association and in such a case the defaulting shareholder will be still liable for the payment of the call that was already made, in spite of the forfeiture. The letter as to forfeiture written to the defaulting member will be in the following form :—

THE BOMBAY SPINNING AND WEAVING COMPANY,
LIMITED.

15, Esplanade Road,
Bombay, 25th September, 1939.

John Hardup, Esq.,
Elphinstone Circle,
BOMBAY.

Dear Sir,

I regret that you having failed to comply with the notice forwarded to you on 15th August 1930 in which I stated that your shares were liable to be forfeited in case the first call made on your shares were not paid on or before the date specified in my last letter, I am directed to inform you that in the meeting held to-day the ten ordinary shares Nos. 2300—2309 inclusive, which were registered in your name, have been duly forfeited by the resolution of the board of directors. The directors have reserved to themselves the power either to reissue the said shares or to deal with them in any other manner as they may think fit and in the meantime I have to point out to you that you are still liable for the payment of the first call, in spite of their forfeiture.

Yours faithfully,

J. FERNANDEZ,
Secretary.

Form of Statement in lieu of Prospectus.—In case of companies who do not issue a prospectus, a statement in lieu of prospectus has to be issued. This statement is in the following form :—

THE SECOND SCHEDULE.

(See sections 98 and 154.)

FORM L

The Indian Companies Act, 1913.

STATEMENT IN LIEU OF PROSPECTUS

filed by

.....Limited,

Pursuant to section 98 of the Indian Companies Act, 1913.

Presented for filing by.....

The Nominal share capital of the Company	Rs.....
Divided into	Shares of Rs.....each. " Rs.....each. " Rs.....each.
Amount (if any) of above capital which consists of redeemable preference shares	Shares of Rs.....each.
The date on or before which these shares are, or are liable, to be redeemed.	
Names, descriptions and addresses of directors or proposed directors and managers or proposed managers, and any provision in the articles, or in any contract, as to appointment of and remuneration payable to directors or managers.	
If the share capital of the company is divided into different classes of shares, the right of voting at meetings of the company conferred by, and the rights in respect of capital and dividends attached to, the several classes of shares respectively.	

Number and amount of shares and debentures agreed to be issued as fully or partly paid up otherwise than in cash.	1.....shares of Rs..... fully paid. 2.....shares upon which Rs.....per share credited as paid. 3. Debenture Rs..... 4. Consideration.
Names and addresses of vendors of property purchased or acquired, or proposed to be purchased or acquired, by the company.	
Amount (in cash, shares or debentures) payable to each separate vendor.	Total purchase price Rs..... Cash . . . Rs..... Shares . . . Rs..... Debentures . Rs..... Goodwill . Rs.....
Amount (if any) paid or payable (in cash or shares or debentures) for any such property specifying amount (if any) paid or payable for goodwill.	Amount paid. Amount payable.
Amount (if any) paid or payable as commission for subscribing or agreeing to subscribe or procuring or agreeing to procure subscriptions for any shares or debentures in the company; or Rate of the commission	Rate per cent.
The number of shares, if any, which persons have agreed for a commission to subscribe absolutely.	
Estimated amount of preliminary expenses	Rs.....
Amount paid or intended to be paid to any promoter	Name of promoter..... Amount Rs..... Consideration :—
Consideration for the payment	
Dates of, and parties to every material contract (except contracts entered into in the ordinary course of the business intended to be carried on by the company or contract, other than contracts appointing or fixing the remuneration of a managing director or managing agent, entered into more than two years before the delivery of the statement).	
Time and place at which the contracts or copies thereof may be inspected.	

<p>Names and addresses of the auditors of the company (if any).</p>	
<p>Full particulars of the nature and extent of the interest of every director in the promotion of or in the property proposed to be acquired by the company, or, where the interest of such a director consists in being a partner in a firm, the nature and extent of the interest of the firm, with a statement of all sums paid or agreed to be paid to him or to the firm in cash or shares, or otherwise, by any person either to induce him to become, or to qualify him as, a director or otherwise for services rendered by him or by the firm in connection with the promotion or formation of the company.</p>	
<p>If it is proposed to acquire any business, the amount, as certified by the persons by whom the accounts of the business have been audited, of the net profits of the business in respect of each of the three financial years immediately preceding the date of this statement provided that in the case of a business which has been carried on for less than three years and the accounts of which have only been made up in respect of two years or one year, the above requirement shall have effect as if references to two years or one year, as the case may be, were substituted for references to three years, and in any such case the statement shall say how long the business to be acquired has been carried on.</p>	
<p>(Signatures of the persons above-named as directors or proposed directors or of their agents authorised in writing).</p>	

Date.....

Form of Return of Allotments.—It should also be noted that in accordance with the requirements of the Indian Companies Act, 1913 (s. 104) whenever a company having a

Names, addresses and descriptions of allottees of Shares in
the Bombay Spinning & Weaving Company, Limited.

Surname.	Personal Name.	Address.

Signature. (Sd.) J. FERNANDEZ,
Bombay, 2nd September 1939. Secretary.

Form of the Copy of the Register of Directors.—A complete Register of directors or managers of every company must be kept containing their complete list of names, addresses and occupations. This has to be filed with the Registrar from time to time showing changes. This will be in the following form :—

Copy of the Register of Directors or Managers and changes therein.

THE INDIAN COMPANIES ACT, 1913.

Filing Fee Rs.....

Copy of the Register of Directors or Managers of the.....
.....Company Limited, and of any changes therein filed
pursuant to Section 87(1).

Presented for filing by.....

Names.	Addresses.	Occupation.	Changes.

Dated.

Signature.

The Common Seal.—A joint stock company is a body corporate by the name contained in its memorandum, having a perpetual succession and a common seal. The name of the company has to be engraven in legible characters on its seal. This seal is the official signature of the company to be affixed on all important documents as provided for in the articles of association. It is generally provided that the seal shall be affixed in the presence of at least two directors and the secretary. These directors sign the document so sealed which is then countersigned by the secretary. The seal is kept under lock and key, generally two locks being maintained; the key of one of these locks is kept with the secretary, whereas that of the other is kept by one of the directors. In order to keep a proper record of the affixing of its seal it is usually arranged that a special book called the "Seal Book" be maintained containing a record as to the occasions on which the seal is used together with the description of the documents on which the same is affixed. This entry is then initialled by the directors present. These entries in the seal book should exactly coincide with those in the Minute Book. The Seal Book is ruled in the following form :—

SEAL BOOK.

Date of Sealing.	No. of Minute and page of Minute book.	Documents sealed.	Directors' initials.	Re- marks.

Statutory Books.—It should be remembered that every joint stock company under the Indian Companies Act must maintain the following books which are known as the statutory

books, viz., (1) Register of Members, (2) Register of Directors, (3) Register of Mortgages and Charges, (4) Minute Book and (5) Annual List and Summary Book.

Optional Books.—Besides the above named statutory or compulsory books it is usual for joint stock companies to keep a large number of optional books such as (1) Application and Allotment Book, (2) Call Book, (3) Share Certificate Book, (4) Register of Transfers, (5) Debenture Interest Book, (6) Dividend Book, (7) Seal Register, (8) Register of Probate, (9) Directors' Attendance Book, (10) Agenda Book, (11) Register of Debenture Holders.

All the above two sets are known as company sets. They are of course distinct and separate from what is known as the financial set of books, which are books that are maintained in order to record business transactions of receipts and payments, purchase and sales, profits and losses made by the company; as well as those of the assets and liabilities and reserve fund of the company.

Underwriting Agreement and Commission.—With regard to underwriting agreements under which some person or persons, or a syndicate, enters into an agreement called an underwriting agreement, by which they undertake in consideration of a certain commission being paid to them on the capital offered for public subscription, to take up and pay for such of the shares as are not taken up by the public, it may be said that these agreements are made in order to ensure the financial safety of the flotation of the company, *i.e.*, to make sure that the capital necessary to carry on the business of the company is obtained. In the opinion of Cotton, L.J., an underwriting agreement is "an agreement entered into before the shares are brought before the public, that in the event of the public not taking up the whole or the number mentioned in the agreement, the underwriter will, for an agreed commission, take the allotment for such part of the shares as the public has not applied for." Lindley, L.J., also expressed himself thus:—"Underwriting in this connection in business means

agreeing to take so many shares more or less in number as are specified in the underwriting letter if the public do not subscribe for them. There is no doubt now that this is the meaning of underwriting."

However, our new Indian Companies (Amendment) Act, 1936, lays down in addition to the old Indian law that where any issue of shares or debentures is underwritten the names of the underwriters and the opinion of the directors that the resources of the underwriters are sufficient to discharge the underwriting obligations must also be stated in the prospectus (sec. 93 (1) (ee)). This was made necessary because some of the promoters underwrote shares with men of straw, and it was thought that the investors ought to know exactly who the underwriters were so that they could make investigation as to their financial stability before they applied for shares. It may be further added that besides shares, debentures can now be underwritten on the same footing as the underwriting of shares (sec. 128). We have seen that the underwriting commission must be disclosed in the prospectus in case of underwriting of both shares and debentures but where a prospectus is not issued it is not necessary to disclose underwriting commission on debentures to be paid, in the statement in lieu of the prospectus. The underwriting commission is also required to be disclosed in the annual summary (sec. 32 (2) (f)).

It may be added here that under sec. 43 of the English Companies Act of 1929 it is now laid down that the underwriting commission should not exceed 10%. This had to be done because extravagant commissions for underwriting of shares were allowed in the case of a good number of promotions in England. This law of course does not apply to India.

THE SHARES.

The "Share" is one of the units into which the capital of a company is divided. The holder of such a share is a sort of proprietor of the company, whose interest is measured by the sum of money the face value of the share represents, both

for the purpose of ascertaining his interest in the concern, as well as of gauging the extent of his liability therein. In the case of a limited company, the holder's liability is limited to the amount represented by the share, or shares he holds, whereas, in the case of an unlimited company his liability has no limit, *i.e.*, he may be called upon in the case of liquidation of an insolvent company to pay contributions till the whole of its liabilities are extinguished.

Shares at a Discount.—The Indian Companies (Amendment) Act of 1936, sec. 105A, introduces an innovation as far as the Indian Companies Act is concerned, inasmuch as that section adopts sec. 47 of the English Companies Act of 1929 permitting companies to issue shares at a discount. This innovation was recommended in England by the Green Committee report of 1925-26, on the ground that there was an overwhelming body of commercial opinion in favour of giving companies this power, and the Committee itself thought that in many cases such a power would be extremely useful.

According to Mr. L. Cuthbert Cropper, F.C.A., Chartered Accountant, in his book on Higher Book-keeping and Accounts (5th edition), page 352, "the powers thus given by the Act may be useful where a company requires further capital at a time when its shares are quoted below par, since the existing members or new subscribers naturally would not be willing to pay for new shares under such circumstances, but might be willing to subscribe at the market price, or at a price slightly below market price."

Though, of course, according to old decisions the issue of shares at a discount in England also was declared to be illegal, in actual practice this issue of shares at a discount in some measure was indirectly done under the old Act in the guise of paying an underwriting commission to those who agreed to subscribe for the shares. It is now lawful for a company to issue at a discount shares of a class already issued provided (a) the issue at a discount is authorised by a resolution passed in a general meeting of the company and sanctioned by the

Court, (b) the resolution must specify the maximum rate of discount (not exceeding ten per cent in any case) at which the shares are to be issued, (c) not less than one year must at the date of issue have elapsed since the date on which the company was entitled to commence business and (d) the shares to be issued at a discount must be issued within six months after the date on which the issue is sanctioned by the Court or within such extended time as the Court may allow.

The further condition imposed is that every prospectus relating to the issue of shares and every balance sheet issued by the company subsequently to the issue of the shares, must contain particulars of the discount allowed on the issue of the shares or of so much of the discount as has not been written off on the date of the issue of the document in question. The penalty imposed in default in connection with the complying with sec. 105A (ii), *i.e.*, with regard to the prospectus as stated above, is a fine not exceeding Rs. 50 (sec. 105A (iii)).

PREFERENCE, ORDINARY AND DEFERRED SHARES.

The shares of joint stock companies are divided into preference, ordinary and deferred or founders' shares. The preference share carries a preference as to the payment of dividends out of the profits of each year up to a fixed percentage, which preference may be made cumulative, *i.e.*, in case the profits of a particular, or a series of consecutive years, do not admit of a dividend being paid, such dividend accumulates to be paid during any subsequent year when the profits are large enough to admit of such a payment. In this case, the dividend for the year during which these profits are made, is paid first, and then that of each immediately preceding year is settled till all arrears are wiped off. In case a surplus is left after these payments, the ordinary shareholder is paid out of it his dividend for the current year up to the fixed or agreed percentage. The balance, if any, is divided either in full or in the proportion fixed by the articles among the holders of deferred or founders' shares.

Which Shares to Invest in ?—The answer to the question as to which form of security out of the three classes dealt with above, should attract investors, depends on the nature of the enterprise, as well as on the temperament of the investor concerned. Mr. Nixon in his book on "Advanced Book-keeping" very aptly remarks that Mr. Cautious invests in preference shares, Mr. Speculative in deferred shares, and Mr. Medium in ordinary shares. We might complete the picture by adding that Mr. Wiseman invests in all in due proportion, selecting the enterprise in each individual case with due care and proper judgment. In case of investors who are satisfied with a moderate return on their capital, as long as the same is steady and regular, the preference shares of a substantial company offer the best medium. The only other form of joint stock company investment which is considered more secure than that of preference shares, is that offered by debenture bonds of substantial companies, particularly those carrying a fixed charge on some valuable property of the company. Here the status of the investor is that of a secured creditor. The percentage of interest earned on such investments will be naturally lower compared to the dividend fixed on preference shares of a company of equal credit and standing. Where the preference shares carry also preference as to the return of capital on liquidation, they are even more attractive to a cautious investor of the class we are considering, though of course the debenture-holder stands on a superior footing here also.

The Ordinary Shares.—With regard to the ordinary shares, the risk involved is that in case the company has issued preference shares also, the dividend is payable only when sufficiently large profits are made so as to leave a substantial surplus after the payment of dividend on preference shares. This form of investment appeals to those who prefer to run some risk in the hope of getting a larger dividend. In case the company proves successful and large profits are made, the ordinary shareholder not only benefits through the division of a larger percentage by way of dividend, but the market value

of the shares generally rises simultaneously, thereby increasing the capital value of his investment.

The Founders' Shares.—In case of deferred or founders' shares, though the chances seem at first sight to be against the holders, yet in case of speculative types of enterprises, such as gold or diamond mining companies, they form the best media for investment for those who are prepared for some speculative excitement. In case the mine proves a success, there is no limit as to the income as well as to the appreciation of the capital value of such shares. In India we can quote the example of the Tata Iron and Steel Mining Co., Ltd., whose deferred shares, which were issued at the par value of Rs. 30, touched Rs. 1,600 some years ago in the Bombay Share Bazar. In such enterprises, an investment in preference shares offers the least advantageous medium for investment. In case the mine were to prove a hopeless failure, the preference shareholders would not command much advantage in liquidation, even though their shares carried a preference as to the return of capital, as almost the whole of the capital in such cases is irretrievably lost in sinking of shafts and similar expenditure. In the absence of such a provision they are even worse off, as under the circumstances they rank equally with the ordinary shareholders. On the other hand during prosperous times they have to be satisfied with a fixed dividend of about six to seven per cent and passively watch the holders of the ordinary and founders' shares gather the spoil in the form of fabulously large dividends; not to speak of the still larger profits made by selling these shares at the inflated market price. The modern investor has learnt this by experience, and now-a-days the deferred or founders' shares in enterprises of this nature are largely in demand, with the result that promoters find it advantageous, to attach an option to purchase one founders' share in return for a certain number of preference or ordinary shares purchased.

Redeemable Preference Shares.—Our Indian Companies (Amendment) Act of 1936 following the English Act of 1929

now provides, in section 105B for the issue of redeemable preference shares. The English Act made this provision on the recommendation of the Greene Commission of 1925-26 on the ground that "the power to issue redeemable preference shares would prove useful in certain cases and provided that proper safeguards are adopted we see no reason why this power should not be given." According to the Special Law Officer's report to the Government of India of 1935 "the needs of modern times require that the company should have the power to issue redeemable preference shares. It has certainly proved very useful in England that proper safeguard provisions for the issue of such shares should also be made in our Act." Now it is provided that subject to the provisions of sec. 105B, a company limited by shares may, if so authorised by its article, issue preference shares which are, or at the option of the company are to be redeemed. This is subject to the conditions that (a) no shares are to be redeemed except out of profits of the company which would otherwise be available for dividend or, out of the proceeds of a fresh issue of shares made for the purpose of redemption or out of sale proceeds of any property of the company, (b) no such shares are to be redeemed unless they are fully paid, (c) where any such shares are redeemed otherwise than out of the proceeds of a fresh issue, the company must out of the profits which would otherwise have been available for dividend transfer to a reserve fund, a sum equivalent to the amount applied in redeeming the shares. This reserve fund is to be called the "capital redemption reserve fund" and the provisions of the Act relating to the redemption of the share capital of a company, except as provided in this section, shall apply as if a capital redemption reserve fund was the paid-up share capital of the company, and (d) where any such shares are redeemed out of the proceeds of a fresh issue, the premium, if any, payable on redemption must have been provided for out of the profits of the company before the shares are redeemed. Besides this, the further condition in connection with such issue is that

in every balance sheet of a company which has issued redeemed preference shares, a statement shall be included specifying what part of the issued capital of the company consists of such shares and the date on or before which these shares are, or are to be liable to be redeemed or where no definite date is fixed for redemption, the period of notice to be given for redemption. Failure to comply with the provisions of this sub-section (2) of sec. 105B shall entail on the company and every officer of the company, who is in default a fine not exceeding Rs. 1,000. The redemption of these preference shares may be effected on such terms and in such manner as may be provided by the articles of the company subject to the provisions of sec. 105B. The further power given is that where in pursuance of this section a company has redeemed or is about to redeem any preference shares, it shall have power to issue shares up to the nominal amount of the shares redeemed or to be redeemed as if those shares had never been issued, and accordingly the share capital of the company shall not for the purpose of calculating the fee as payable under sec. 249 be deemed to be increased by the issue of shares in pursuance of sub-section (4) of sec. 105B. Where however the new shares are issued before the reduction of old shares, the redeemed shares shall not, so far as relates to stamp duty be redeemed to have been issued in place of sub-section (4) to sec. 105B unless the old shares are redeemed within one month after the issue of the new shares. Where these new shares have been issued in pursuance of sec. 105B (4), the capital redemption reserve fund may be applied by the company, up to an amount equal to the nominal amount of the shares so issued in paying up unissued shares of the company to be issued to members of the company as fully paid bonus shares.

It may be added in connection with the issue of redeemable preferential shares, that the circumstances under which such an issue would be particularly valuable, are where a company requires capital for expansion of its assets which it expects to repay out of profits at an early date, and thus it provides for

that capital, the dividends on which it will have to pay only during the period that such shares continue to be the capital of the company and are not actually redeemed. Thus the old shareholders would benefit inasmuch as they would reap the advantages and profits of these extensions made out of the capital raised on the redeemed preference shares.

The Weak Points of Deferred Shares.—The deferred or the founders' shares were in old days of company flotation generally allotted as fully paid to the promoters, or founders, by way of compensation or reward for services rendered by them to the company in conceiving the idea of floating the company and incurring the out-of-pocket preliminary expenditure thereon. As they were to rank last in the sharing of dividend, the original impression was that that was the least expensive method of remunerating these gentlemen. When however the large amounts drawn by some of them by way of dividend in the most successful of companies came to be known, the fallacy of the original idea became apparent, and the present practice of offering this class of shares to the public, as dealt with in the previous paragraph came into force. In spite of this modification it is thought by some that there is a certain element of weakness or risk involved in the issue of founders' shares as it carries with it a temptation to bad finance. The Directors may, it is argued with some force, be induced to declare dividends on preference and ordinary shares, with a view to being able to pay dividends on these founders' shares during prosperous years, without making adequate provision for depreciation and without transferring a substantial sum to the reserve fund. The element which seems to give rise to this reflection is the fact that the bulk of the profit made during an exceptionally good year has, according to the regulations, generally to be arbitrarily distributed among the holders of founders' shares. A cautious and business-like board, armed with a set of carefully-framed regulations, providing some form of gradation in connection with the distribution of dividends, appears to be the best remedy.

Class Meeting and Variation or Modification of Rights.—

A Class meeting is a meeting of the shareholders of a particular class convened with a view to ascertain their views or pass a resolution in connection with a question relating to their class. Where a re-organization of share capital has to be made it is clearly provided by the proviso of sub-section (1) of sec. 54 that no preference or special privilege attached to or belonging to any class of shares shall be interfered with except by a resolution passed by a majority in number of shareholders of that class, holding three-fourths of the share capital of that class, and any resolution so passed shall bind all shareholders of that class. Frequently, holders of shares of a particular class are given the privilege by memorandum or articles to appoint separate auditors, *i.e.*, over and above those appointed by the company in general meeting on behalf of the general body of the shareholders, to exercise which right also a class meeting of shareholders may have to be called.

With reference to the variation or modification of rights of shareholders it may be noted that this has been specifically provided for by sec. 66 (a) of the Indian Companies (Amendment) Act of 1936, which of course, includes those of preferential shareholders. Here it is laid down that if, in the case of a company the share capital of which is divided into different classes of shares, provision is made by the memorandum or articles for authorising variation of the rights attached to any class of shares in the company, subject to the consent of specified proportions of the holders of the issued shares of that class or the sanction of a resolution passed by a separate meeting of the holders of these shares, and in pursuance of the said provision the rights attached to any such class of shares are at any time varied, the holders of not less in the aggregate than ten per cent of the issued shares of that class, who did not consent to or vote in favour of the resolution for variation, may apply to the Court to have the said variation cancelled. Where any such application is made, the variation shall not have effect unless and until it is confirmed by the Court. An application for this purpose

must be made within 14 days after the date on which the consent was given or the resolution was passed, as the case may be. This application may be made on behalf of the shareholders entitled to make the application by such one or more other members as they may appoint in writing for the purpose. The Court after hearing the applicant and any other person who applies to the Court to be heard and who is interested in the application, may, if it is satisfied having regard to all the circumstances of the case that the variation would unfairly prejudice the shareholders of the class represented by the applicant, disallow the variation. If, on the other hand, the Court is not satisfied, it would confirm the variation. The decision of the Court on any such application shall be final. The company must within 15 days after the service of any order may on any such application forward a copy of the said order to the registrar. In case of default in complying with this provision, the company and every officer who is knowingly and wilfully in default is liable to a fine not exceeding Rs. 50. The expression "variation" in this section includes "abrogation" and the expression "varied" shall be construed accordingly.

This section was first introduced in English Companies Act of 1929 on the recommendation of the Greene Commission of 1925-26 because in the opinion of the commission the modification of rights clauses in articles sometimes operated so as to cause hardship. In the opinion of the commission this was particularly the case where, for example, preference shareholders whose rights it was proposed to cut down, held ordinary shares, who would be benefited by the modification and who would use their votes as preference shareholders at the preference shareholders' meeting to secure such benefit to themselves against the interest of the general body of preference shareholders. They thus recommended that the remedy lay in giving the Court in proper cases a power to review the resolution of a class meeting which in their opinion would be sufficient to prevent injustice without interfering with the beneficial operation of the modification clauses in the articles.

With respect to the requisition it must be noted that in case of joint members all must sign and the signature of one on behalf of other will not do. The right to join in the requisition is a statutory right which cannot be taken away by articles, and therefore according to Gore-Brown, p. 353-4 (35th Edn.) those shareholders who have no right to vote given by the articles can also be signatories to this requisition.

Section 79 lays down to the effect that, in default of, and subject to, any regulations in the articles, the meeting of the company may be called by fourteen days' notice in writing, served on every member in the manner in which notices are required to be served by Table "A", by any five members, at which meeting any person elected by members present, may be chairman, and every member shall have one vote. When meetings are advertised to be held at which certain resolutions are notified to be proposed, it is within the powers of the directors to issue circulars to members inducing them to vote one way, or the other, and they are entitled to collect proxies in their favour. At all meetings of the company, members have no right to be represented by their agents, or solicitors, and articles of association of almost all companies provide that in case of vote by proxies, the proxies shall be members of the company in their own right also.

CHAPTER IX.

COMPANY ORGANIZATION AND SECRETARIAL WORK.

Staff Grouped In accordance with Internal Organization Requirements.—In the case of companies, the internal management is controlled by the following agencies:—

- (1) the proprietors or shareholders,
- (2) the board of directors,
- (3) the secretaries and agents,
- (4) the departmental managers,
- (5) the employees in the various departments.

In the case of industrial corporations, there is also a distinct staff in connection with the factory or mill, with the technical managers, superintendents, foremen and the labour force. The details as to these are discussed in a subsequent chapter dealing with Industrial Organization. For the purpose of this chapter we shall only consider the five heads as given above.

CONTROL OF PROPRIETORS OR SHAREHOLDERS.

The proprietors or shareholders of joint stock companies naturally hold a very important place in the organization of such companies, as many important steps can only be taken by the board of directors with their consent obtained in meetings either through ordinary, extraordinary or special resolutions as may be provided for by the Act. The Acts both of England and India have been recently considerably amended with a view to strengthening the position of shareholders or members of joint stock companies by increasing their powers in various directions. Generally speaking the shareholders elect the board of directors who are given charge of the supervision of management and laying down of policies. The powers of these directors depend both upon the sections of the Companies

Act as well as the clauses dealing with these powers in the articles of association of the companies concerned. Besides selecting their directors, the shareholders confirm their appointments at general meetings when vacancies occur in the course of the working year.

Important steps in the work of the company such as the alteration of the name or the objects clause, or reduction or increase of capital, or alteration of the liability clause of the memorandum, or the alteration of the articles of association, etc., can only be carried out by a resolution of the shareholders either ordinary, extraordinary, or special. They exercise certain jurisdiction in connection with the declaration of dividends and winding up of the company, particularly in connection with the voluntary winding up which can only be given effect to by their resolution.

THE BOARD OF DIRECTORS.

Their Powers.—We have already dealt with the points of interest in connection with the selection of directors. There should be at least two directors in the case of every company except a private company, according to the amending Act of 1914; but there is nothing to prevent a larger number being selected, as is usually done. In case there is a default in the appointment of the directors, the subscribers to the memorandum are to be deemed the directors of the company until the shareholders formally appoint them. Any casual vacancy in the board may be filled up by the directors, but the person so appointed shall be subject to retirement at the same time as if he had become a director on the day on which the director in whose place he is appointed, was last appointed. The directors should take up their qualification shares as laid down by the articles within two months of their appointment or any shorter period as provided for in the articles.

The powers of the directors are fixed by the articles of association. They may be as wide as those of the company

itself. The articles may give special powers to one or more directors who may be styled the managing director or directors. There is no objection to a firm, or a limited company, being appointed a director. The position of the directors resembles that of attorneys or agents of the company in some respects, in so far as they can enter into contracts on behalf of the company with outsiders and bind the company. Their functions resemble those of trustees as regards the assets and property of the company which come into their possession. They are not to make secret profits out of the company, taking advantage of their position as directors. Nor should they enter into contracts with the company on their own behalf, or on behalf of some other company of which they are directors, unless sanctioned to do so by the articles or by the company in general meeting.

In laying down the powers which the directors are to exercise, care should be taken to include all possible powers they should possess with a view to enable them to carry out their duties efficiently. Any undue restriction is bound to hinder the smooth working of the company and may involve the necessity of calling meetings of shareholders, resulting in delay and expense. Where the articles are silent with regard to any particular power which the directors wish to exercise, the implication of law is that they can do all that is ordinarily necessary in order to be able to carry on the business of the company with which they are entrusted. It is however unsafe to rely upon implied powers. The articles should provide for them in detail. If the directors commit any act which is beyond their power, *i.e.*, *ultra vires*, they make themselves personally liable, but the shareholders may ratify the act if the same is *intra vires* the company. In case the shareholders have passed a proper resolution laying down the policy to be pursued by the directors, the latter are bound to obey the same. The first auditors of the company are appointed by the directors and any casual vacancy in this connection is filled in by them,—of course subject to the confirmation of the shareholders at their general meeting. They have to exercise their powers with due

diligence and to use their best judgment in the exercise of same. They are not responsible for any loss caused through mere error of judgment unless the same falls under the heading of gross negligence. The directors generally select the staff of the company and decide what, if any, dividend is to be paid.

Liability of Directors.—We have seen that the directors enter into contracts on behalf of the company and with respect to these contracts, they are not personally liable as long as they do not exceed their authority, or do anything which is grossly negligent. Of course, if they give a personal guarantee with respect to any of the agreements, they would be liable on such a guarantee. With regard to their exceeding their authority it may be mentioned, that if the directors apply the money of the company for a purpose other than that for which the company is incorporated, they would be personally liable to make good such money. In case a director signs bills of exchange not bearing the company's name he becomes personally liable. Directors who sanction payment on behalf of the company, ought to see that the said payments are properly made, *i.e.*, they are made for the purposes which came within the scope of the company's operation. The directors, are however, not responsible for misconduct of their co-directors, or of other persons employed in the company, if they were not aware of the same.

One of the most important duties of the directors is to see that a general meeting of the company, public or private, is held within eighteen months from the date of its incorporation, and thereafter once at least in every calendar year and not more than fifteen months after the holding of the last preceding general meeting (sec. 76). Under the English Act, the annual meeting has to be held once at least in a calendar year, and not later than eighteen months from the date of the last annual meeting. In the case of a public company it is also their duty, after the balance sheet and profit and loss account have been laid before the company at the general meeting, to file a copy of the balance sheet signed by the

manager or secretary of the company with the registrar at the same time as the copy of the annual list of members and summary prepared in accordance with sec. 32. Failure to do either entails a fine. If a director is prosecuted for not filing this balance sheet with the registrar as required by sec. 134 (4) of the Act, he cannot plead, in answer, that an annual general meeting was not called and therefore a balance sheet was not laid before the meeting.

Directors' Contracts with the Company.—The next point to consider is the position of the directors to contract with the company on their behalf or in their (directors') own interests. Here the position is that directors cannot enter into contracts with their company unless the articles of association otherwise provide. In practice almost all companies now provide for this power in their articles. The reason is that here they are in a fiduciary position, and their interests are in conflict with their duties. Thus, in the absence of such a provision as above stated in the articles, even though the contract may be quite above board, it will not make any difference in law, as the company is entitled to have the benefit of the collective wisdom of its directors. But the company can waive the benefit of this rule. The Indian Companies (Amendment) Act, 1936, further lays down that in case of certain specific contracts by a director with the company such as those for sale purposes or supply of goods and materials consent of directors has to be obtained (sec. 86F). It is also laid down further that the directors of a public company or of a subsidiary company of a public company shall not, except with the consent of the company concerned in general meeting, (a) sell or dispose of the undertaking of the company or (b) remit any debt due by a director. Directors who have wrongfully taken benefit of a contract with their company, must indemnify the company.

Liability for Negligence.—No doubt directors do not bring with them any special qualifications for their office but they are bound, while acting as directors, to act with such care

as can reasonably be expected of them, having regard to the knowledge and experience they happen to possess. In this connection the Indian Companies Act, sec. 281 as amended by the Indian Companies (Amendment) Act of 1936, gives a certain amount of protection to the directors, managers, managing agents, officers and auditors of the company.

It is here laid down that if, in any proceeding for negligence, default, breach of duty or breach of trust against directors, managers, managing agents, officers and auditors of a company, it appears to the Court on hearing the case that that person is or may be liable in respect of the negligence, default, breach of duty or breach of trust, but he has acted honestly and reasonably, and that having regard to all the circumstances of the case, including those connected with his appointment, he ought fairly to be excused for the negligence, default, breach of duty or breach of trust, that Court may relieve him, either wholly or partly from his liability on such terms as the Court may think fit (sec. 281 (1)).

It is further laid down that where any person to whom this section applies has reason to apprehend that any claim will or might be made against him in respect of any negligence, default, breach of duty or breach of trust, he may apply to the Court for relief and the Court on any such application shall have the same power to relieve him as under this section it would have had if it had been a Court before which proceedings against that person for negligence, default, breach of duty or breach of trust had been brought (sec. 281 (2)).

Liability of Directors and Indemnity Clause.—Sec. 86C. Save as provided in this section, any provision, whether contained in the articles of a company or in any contract with a company or otherwise, for exempting any director, manager or officer of the company or any person (whether an officer of the company or not) employed by the company as auditor from or indemnifying him against any liability which by virtue of any rule of law would otherwise attach to him in respect of any

negligence, default, breach of duty or breach of trust of which he may be guilty in relation to the company shall be void:—

Provided that—

- (a) in relation to any such provision which is in force at the date of the commencement of the Indian Companies (Amendment) Act, 1936, this section shall have effect only on the expiration of a period of six months from that date, and
- (b) nothing in this section shall operate to deprive any person of any exemption or right to be indemnified in respect of anything done or omitted to be done by him while any such provision was in force, and
- (c) notwithstanding anything in this section, a company may, in pursuance of any such provision as aforesaid, indemnify any such director, manager, officer or auditor against any liability incurred by him in defending any proceedings, whether civil or criminal, in which judgment is given in his favour or in which he is acquitted, or in connection with any application under section 281 of this Act in which relief is granted to him by the Court.

Loans to Directors.—The practice of taking loans from companies of which they were directors became a scandal in this country with the result that the Bombay Shareholders' Association and other public bodies protested against same. As a result, sec. 86D (1) was introduced into our Act by the Indian Companies (Amendment) Act of 1936 which expressly forbids loans of any kind to a director other than the director of a banking company or that of a private company. It is thus laid down expressly that no company shall make any loan or guarantee any loan made to a company or to a firm of which such a director is a partner or to a private company of which such partner is a director.

In addition, sec. 86D (2) lays down that if the provision of the above sub-section is contravened, any director who is a

party to such contravention shall be punishable with fine which may extend to rupees five hundred and if default is made in repayment of the loan or in discharging the guarantee he shall be liable jointly and severally for the amount unpaid.

Prosecution of Delinquent Directors.—Under the old Act there was no power given to the Public Prosecutor to launch a prosecution against delinquent directors ; the result was that the liquidators either in voluntary or compulsory liquidation had to do that on their own responsibility out of the assets of the company concerned. In many cases where the creditors had already lost their money in a company, they were naturally reluctant to waste any more money on prosecutions : with the result that the delinquent directors and officers escaped the punishment for their offences. On recommendation of the Greene Commission, the English Act of 1929 introduced provisions by which the delinquent directors could be prosecuted, which provisions have been copied by our Indian Companies (Amendment) Act of 1936.

Under both the English and Indian Acts it is now laid down that where it appears to the Court, in course of a winding up, that any past or present director, manager or officer, or any member of the company has been guilty of any offence in relation to the company for which he is criminally liable, the Court may, either on application of a person interested, or on its own motion, direct the liquidator either himself to prosecute the offender, or to refer the matter to the Registrar. The same may be done in connection with voluntary winding up by the liquidator ; and the Registrar, if he thinks that the case is one in which a prosecution should be instituted, shall place the papers before the Advocate General or Public Prosecutor, and, if advised to do so, institute proceedings. Of course, in course of prosecution the liquidator has to give all possible assistance to the Public Prosecutor. It may be stated that the only difference between the English and Indian Act here is that in the Indian Act it is provided that the Registrar should look into the matter in the first instance and refer the matter to

the Public Prosecutor or the Advocate General ; whereas the English Act lays down that the Court in such cases may direct the liquidators to prosecute the delinquent directors themselves, or transfer the matter to the Director of Public Prosecutions. In other words, the Registrar is not playing any part in this matter as far as England is concerned, whether it is voluntary or compulsory winding up.

Bankrupt Directors, Managers and Managing Agents.—

It is now laid down specifically by sec. 86A in addition to the provision of disqualification as provided for by sec. 86 (I) (c) that in case an undischarged insolvent acts as director or managing agent or manager of any company, he shall be liable to imprisonment for a term not exceeding two years or to a fine exceeding Rs. 1,000 or to both. This section covers companies incorporated both within British India and outside British India.

It may be added that this section follows a similar section, *viz.*, sec. 142 of the English Act which was enacted on the recommendation of the Greene Commission. The Greene Commission stated to the effect that they had come across many cases where bankrupts who had not obtained their discharge had been able, by using the machinery of the Companies Act, to continue trading under the disguise of a limited company with results often disastrous to those who had given credit to the company.

Office of Profit Held by Directors.—It is now laid down by sec. 86E that no director or firm of which such director is a partner or private company of which such director is a director shall, without the consent of the company in general meeting, hold any office of profit under the company except that of a managing director or manager or a legal or technical adviser or a banker. The only exception is that nothing herein contained shall apply to a director appointed before the commencement of the Indian Companies (Amendment) Act of 1936 in respect of any office of profit under the company held by him before the commencement of this Act. For the purpose of

this section, however, the office of managing agent is not to be deemed to be an office of profit under the company.

Assignment of Office of Directors.—The practice of assigning office by directors under powers given to them in the articles of association became most frequent in England, with the result that the matter came up before the Greene Commission of 1925-26. The Commission in its report stated that "it may be questioned whether such a provision is lawful, at any rate in the case of directors, but in any case we consider that the practice is a most undesirable one and that any such assignment should be prohibited unless it is sanctioned by the company". It further added that "when such a provision is in force the company is deprived of all effective control over its directors, and the holder of office is in a position to force upon the company for his own profit any person, whether suitable or not who is willing to pay a price." Accordingly a section prohibiting this practice has been inserted in the English Companies Act of 1929, following which our Indian Companies (Amendment) Act of 1936 lays down that if, in the case of any company a provision is made by the articles or by any agreement entered into between any person and the company for empowering a director or manager of a company to assign his office as such to another person, any assignment of office made in pursuance of the said provision shall notwithstanding anything to the contrary contained in the said provision be of no effect unless and until it is approved by a special resolution of the company. (Sec. 86B).

Alternate or Substitute Directors.—However the exercise by a director of a power to appoint an alternate or substitute director to act for him during an absence of not less than three months from the district in which meetings of the directors are ordinarily held, if done with the approval of the board of directors, shall not be deemed to be an assignment of office within the meaning of this section.

Of course any such alternate or substitute director shall *ipso facto* vacate office if and when the appointer returns to

the district in which the meetings of the directors are ordinarily held. It will be thus seen that temporary appointments of alternate or substitute directors do not constitute an assignment of office within the meaning of this section, when made with the approval of the board of directors.

Debenture Directors.—There are also cases where debenture holders or some other outside body are empowered to attend or nominate directors; and in such cases the nomination of such body will in itself be sufficient and no further act on the part of the company will be necessary. If however the arrangement is that this outside body is to nominate and the company is to appoint them, of course the appointment by the company would be necessary.

The Necessity of Holding Actual Board Meetings.—The directors act through their board meetings, and give effect to their actions and decisions through the medium of resolutions. The regulations as to holding of directors' board meetings are to be found in the articles. In some companies the articles provide that a document signed by all the directors shall be as effective as a resolution of the board. From the standpoint of practical organization however, such a course seems to be open to objection. If decisions are to be arrived at without a meeting, where alone an exchange of views and discussion of both sides of the question are possible, such decisions can hardly be considered to be perfect. Almost every business man with some experience of board and general meetings must have come across instances where men who attended meetings with the firm resolution to vote against or in favour of a proposition, were led to change their minds after following the discussion and exchanging views with others present at these meetings. The mechanical issue of, and the automatic record of signatures on the circulars, strikes at the root of the principle on which a joint stock company organization is based, *viz.*, the direction of the affairs of the company according to the will of the majority after giving every side a full and fair

opportunity of representing its own views on the question at issue.

Division of Executive Functions of the Board.—In small companies the chairman is appointed the managing director, and as such controls the internal administration of the enterprise. He presides over the meetings of the shareholders, as well as those of the directors, and looks after the details of the administration as a whole time official. In large companies, however, the board divides itself into a number of committees, such as, the finance committee, the works committee, the share transfer committee, the general purposes committee, etc., to each of which special functions are allocated. These committees look after the administration of their respective sphere of work and report at fixed intervals to the general board who formally adopts their report. Special minute books are maintained to record minutes of the work of each of these committees, the proper working of which is left in charge of principal executive officer, *viz.*, the secretary. We shall deal with details of the secretarial work under its special heading. This power of delegation of the work of the board of directors to the committees is generally provided for by the articles of association. Thus the finance committee looks after the financial problems, the works committee deals with questions of works of administration, the share transfer committee deals with the question of transfer applications for shares, etc. This division of work brings about the best result both with regard to the economy of time and labour, and the efficiency of administrative work through its concentration in the hands of those who happen to be the most capable to deal with same.

THE COMPANY SECRETARY.

His Selection and Duties.—The “company secretary” has come into prominence as a specialised officer with specialised training in company law and practice with a view to efficiently looking after the secretarial work in connection with joint stock companies. The word “secretary” is derived from the Latin

word "secretarius", which means a notary or scribe. In early days it was employed in connection with secretaries privately employed by ministers of state. Thereafter it has extended to secretaries of embassies and legations. Private individuals with large estates and other interests thereafter began to employ secretaries. Ultimately, the advent of joint stock companies on the scene and their development to large dimensions, brought in a specialised officer of the type we have referred to above who is now known as the secretary of a joint stock company. There are now-a-days, avenues for specialised education for company secretaries with two prominent Professional Boards of England, each of which has formulated syllabuses exacting a very high standard of knowledge, *viz.*, (1) The Chartered Institute of Secretaries of London with which is now amalgamated the Incorporated Secretaries Association of London and (2) the Corporation of Certified Secretaries of England. No doubt, the secretary is the mouthpiece of the board and has to carry out commands and orders of the board of directors ; but in connection with technical incidents of company practice, as well as the grappling with problems of company law, it is he who generally guides the board of directors. An able secretary, who wins the confidence of the board, exercises considerable influence on the directors. This is particularly so in India where the "managing agents" frequently assume the garb of secretaries under the title of "secretaries, treasurers, and agents". Usually the managing agency firms employ a secretary who is attached to one or more of the companies under their management. The managing agents as such are now specifically defined under the Indian Companies (Amendment) Act of 1936, and receive a special treatment in the Act as to their rights, duties and obligations which have been fully dealt with previously. The secretary here is a full-time salaried officer, who looks after the secretarial work of the company to which he is attached. His position naturally is most confidential, as he is continuously in close touch with the work of the board of directors. The selection of this important official forms one

of the principal steps in the early organization of a company. The choice should fall on an expert with special training and experience in company work and practice, with a wide range of specialised knowledge in general affairs. He should also be able to control a large number of men, specialists as well as the general office staff, and should possess an impressive personality. As he has to look after the general correspondence, sales and purchases, he should be able to handle these departments of work efficiently, and should possess some particular knowledge of the class of goods the company is dealing in. He should above all be a man of honour and integrity, who is not likely to use his official position or knowledge as to the internal working of the company to his own advantage, or to that of his friends and relatives.

The following is a summary of the duties of a secretary under two different headings, *viz.*, (1) at and before the incorporation of the company and (2) after incorporation of the company.

1.—Duties At and Before Incorporation.—(1) To attend at all preliminary meetings convened and when required, keep a record of proceedings of these meetings and help in the discussion and preparation of the Prospectus.

(2) To see that all requirements of the Act as to incorporation and registration are carried out and the proper documents are being filed. After incorporation to call the first meeting of the board and get the necessary resolutions passed in connection with the election of chairman if not so appointed by the articles, appointment of secretary, manager, accountant and other responsible officers, the disposal of the Incorporation Certificate and opening of bank accounts, the signature on cheques and other important documents, etc.

(3) To see that his own appointment is made and confirmed in a proper form by a proper resolution at the first meeting of the board.

(4) The appointment of various sub-committees such as the transfer committee, the finance committee, works com-

mittee, etc., and to regulate by bye-laws and other media the further conduct of the business of the company.

(5) To obtain at the earliest opportunity a certificate entitling the company to commence business by filing the necessary papers and documents.

(6) To make preparation within the time appointed and call the statutory meeting as well as get the statutory report prepared in due form.

II.—Duties After Incorporation.—(1) To make himself thoroughly conversant with the contents of the memorandum and articles of association, as well as the regulations fixed by the board at its early meetings.

(2) To call meetings of directors, committees and members at intervals fixed by regulations, or otherwise, and get the proceedings of same recorded in proper minute books with proper divisions and indexes.

(3) To look after the secretarial correspondence and exercise general supervision over the affairs of the company, particularly those falling within the sphere of the secretarial department, and in small companies, also to look after the details of management, accounts, etc.

(4) To see that proper documents are sealed according to the regulations, in the presence of the required number of directors, under his own counter-signature, as may be laid down by the regulations.

(5) To look after the incidents of applications, allotments, and calls on shares and debentures, as well as forfeiture of shares and to see that the procedure as laid down by the regulations is strictly adhered to and followed.

(6) To see that all documents are properly stamped and filed according to the requirements of the Companies Act.

We shall now deal in some detail with these duties by classifying them under the following four headings:—

(1) Correspondence and general office work.

(2) Early company work, when appointed as a secretary of a newly formed company.

- (3) Preparation for and work in connection with board meetings.
- (4) Preparation for and work in connection with shareholders' meetings.

Secretarial Correspondence and General Office Work.—

As the principal executive officer, the secretary has to carry out the instructions of the board and for that purpose, has to attend to the correspondence on behalf of the company which he generally signs as the agent of the company. The secretary for this purpose should see that the instructions on which he acts are clear and to the point. He has no right to act contrary to his instructions, even though he may think that course to be necessary in the interests of the company. On all important questions he should constantly consult his board, or the committee entrusted with the particular department. Even on matters on which he is allowed a discretion, it is safe to consult the chairman in case of any doubt or difficulty. With regard to the general office work he has to see that the same is properly distributed among the various departments and that each departmental manager is made responsible for the result. He has to exercise general supervision here as well as to give general directions in the conduct of the work of the company,—of course under orders and sanction of the board of directors, or one or other of the executive committees. In small companies he has to manage the whole office establishment, as in such cases the offices of the secretary and the manager are generally merged in one person.

In case of a newly-incorporated company, he has to supervise the filing of the necessary documents and to assist in the conduct of business at the various board meetings held. In case his services are engaged before incorporation, his appointment will be *sub pro tem*, which is to be duly confirmed after incorporation. He should see the name of the company displayed outside its office premises in prominent letters with the word "Limited" added to it, in case the same is a limited company. On the other hand, the newly-appointed secretary

to an old established company, in place of a retiring officer, will find his work to be easier with precedents to follow. In the case of a new company his capacity for organization of the office will be fully exercised, whereas, in a going concern he will find a system of organization already in work. All he has to do in the latter case is to follow precedents wherever they appear to be sound, and offer suggestions for alteration and improvements wherever necessary. All letters received should, as far as possible, be opened in the secretarial office, either by the secretary or his immediate assistant, and then sorted and distributed to the proper departments for attention. All secretarial letters should be attended to by the secretarial staff itself after obtaining information or explanations necessary from the department or departments interested.

With regard to the accounts department, the work here will no doubt rest in the first instance with the accountant of the company, who is a specialist in his branch of work; and all that the secretary can do here is to exercise a sort of general supervision. He should obtain figures from the accountant from time to time with regard to the purchases, sales, and expenses; as well as figures showing the progress or otherwise of profits, bad debts, total financial commitments and resources of the business. These figures are to be placed before the board from time to time in order to keep them in close touch with the results.

Early Company Work and the Secretary.—In connection with the early company work of a newly-incorporated company, it need only be added that, the various incidents as to preparation of the prospectus, consideration of the applications, allotment of shares, filing of the various documents and forms, as well as the entries in the various subsidiary books regarding these, as discussed in the previous chapter, are to be attended to by the secretary. He has also to attend to the share transfer work. Here it may be noted that in case of the death of a member or shareholder, a note should be placed in the register

of members as to the death ; and the secretary should also call for the probate for inspection from the personal representative of the deceased, and endorse on it the date of production. The executors or administrators acquire in law the right to transfer or transmit shares, and when transfers are made by them, the secretary should satisfy himself as to their legal status. Till that is done the shares should be allowed to stand on the register of members in the name of the deceased member. The Indian Companies Act forbids any notice of trust being entered on the register. The secretary should not therefore enter the name of the executor or trustee as such on the register. If the executor or the trustee gets the shares transferred in his name in his personal capacity as a shareholder, the same may be done ; as that course makes the executor or administrator personally liable for the obligations arising from such a holding. In a case where shares are held by two or more parties as joint owners, the secretary need only record the notice of death on satisfying himself on that head, as the survivors become the owners of the share on the death of a joint holder. In case, a shareholder dies abroad, the secretary should obtain a statutory declaration of death certified by the British Consul of the place where the death occurred. In case of the marriage of a female shareholder, a written declaration of marriage, duly signed, together with her married name, should be obtained and noted on the register of members. In case of the lunacy of a shareholder, where a committee has been appointed, the order of the Court should be called for inspection and the fact noted on the register. In a case where a joint stock company purchases shares and wishes to be placed on the register of shareholders, the secretary should ascertain from the memorandum of such a company whether the said company has a right to purchase shares. In case of the insolvency of a shareholder, the official assignee in India, or the trustee in bankruptcy in England, should be called upon to produce the original order of appointment and on inspection a note should be made of it on the register.

Preparation and Work re Board Meetings.—The board meetings of directors may be held as frequently as the directors may in their opinion think necessary and convenient in the interests of the company. In this connection the secretary should carefully study the articles of association of his own company and strictly follow the procedure laid down there. Proper notices as to the meetings should be sent to each and every director, and in the case of committee meetings, to every member of the committee. This is very important, as it has been held that failure to send such a notice to a single director entitled to attend at such meetings will invalidate all business that is done or considered on that occasion. In some companies the practice is to fix certain dates, or weekdays, in advance, on which the board meetings are to be held: whereas in others, the secretary in consultation with the chairman fixes the same. To the notice convening the board meeting, a slip is frequently attached showing the date of the meeting, as well as the name of the director, which the director concerned is requested to hand to the clerk at the entrance of the board room for convenience of recording his attendance, both in the directors' attendance book, and in the board minute book. These notices are made out in the following form:—

Form of Notice of a Board Meeting.—

The Bombay Spinning and Weaving Company, Limited.
51, Hornby Road,
Bombay, 15th April, 1939.

Dear Sir,

I beg to inform you that a meeting of the Directors of the Company will be held at the Registered Office of the Company on Saturday the 22nd inst., at 5 p.m. (S. T.) when your presence is requested.

Yours faithfully,
J. Fernandez,
Secretary.

To
Sir Solomon Isaac, Kt.,
The Reclamation,
BOMBAY.

The following business is to be transacted :—

- (1) General,
- (2) Consideration of the Report of Works Committee *re* proposed additions.

The Agenda.—The secretary should next see that the board room is properly arranged on the date fixed for the meeting and all figures, documents, papers and books, which are likely to be wanted for the purpose of the meeting, are kept on a side-table in proper order. He should prepare the agenda, *i.e.*, the list of business to be done at the meeting. The items on the agenda should be arranged in their order of importance, preferably in consultation with the chairman or one of the most active directors. This agenda may be prepared on loose sheets of foolscap paper, a copy of each of which is placed in front of the seat of each of the directors. The chairman's copy, as well as the one retained by the secretary, should have a wide margin on the left with sufficient space left between each item of the agenda. This is done with a view to enabling both these functionaries to take careful notes of the proceedings to which it refers in front of the appropriate item on the agenda. The secretary should take care not only to see that his own notes are ample, but that the chairman also takes down full notes of the proceedings. This is done with a view to enable the secretary to produce the chairman's notes when the minutes of the previous meetings come for confirmation at the next meeting, in case any objection or doubt is raised by one of the directors as to the accuracy of the record as taken down by the secretary. The secretary should preserve both his own as well as the chairman's notes in a separate file after the fair minutes are written out in the minute book.

Form of the Agenda.—The form of a board meeting agenda varies according to the nature of the business which has to be placed before the board at each meeting as arising in the regular course of the career of the company concerned.

The first and the last item invariably recur in almost every board meeting agenda, except that of the first meeting, *viz.*, "Read minutes of the previous meeting", and "Fixing of the date of the next meeting". The agenda of the first board meeting of a joint stock company will appear in a form similar to the one given below :—

AGENDA

of

Board Meeting, Saturday 15th April 1939, to be held at the Registered Office of the Company.

1. Incorporation of the company, lawyers to report on same.
2. Election of chairman.
3. Appointment of officers, *viz.*, the secretary, the manager and the accountant.
4. Approval of the draft prospectus and consideration of its issue.
5. Fixing of the date of the next board meeting.

The agenda of a board meeting held right in the midst of the busy life of a successful joint stock company will exhibit items as per the following form :—

AGENDA

of

Board Meeting, Monday 15th May 1939, to be held at the Registered Office of the Company.

1. Minutes of the last meeting.
2. Bank pass book and cash account as prepared by the accountant to be submitted for approval.
3. Trading returns for the quarter as prepared by the general manager to be submitted.
4. Resignation of Mr. Rodrigues, a director, to be considered.
5. Report of the transfer committee to be submitted for adoption.
6. Correspondence *re* J. Dayabhai and Co.'s claim to be submitted for further directions.
7. Date of the next meeting.

The following form of agenda with notes of the chairman or the secretary, will explain how the chairman's or secretary's copies are prepared, also the form in which they would appear after the notes are written out :—

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The notes on minutes of a Meeting of Directors held on Wednesday, the 15th February 1939 at 10, Hornby Road, Bombay.

Agenda.	Decision.
1. Registration of the company. The solicitor to report on it.	The solicitor reported that the company was duly registered under the Companies' Act on 16th ultimo. The certificate of Incorporation was ordered to be framed and hung up in the directors' board room.
2. Election of Directors.	The solicitors produced resolution signed by all the signatories to the memorandum electing the persons named as Directors, viz., Sir Vithaldas Bhaisheth, Nawab Vikar-ul-Mulk, Khan Bahadur Kharshedji Kheswalla and the Hon. Mr. Bottle. Ordered that the said resolution be affixed to the first page of the company's minute book.
3. Election of Chairman.	Sir Vithaldas Bhaisheth unanimously elected.
4. Quorum of Directors.	Resolved that two should be the quorum for transaction of business.
5. Bankers :— Messrs. Bullion & Co., of Nagdevi Street, have intimated their willingness to act.	Messrs. Bullion & Co., of Nagdevi Street appointed.
6. Brokers :— Produce letter from Messrs. Bhulabhai Amarchand & Co., of Share Bazaar, Bombay.	Messrs. Bhulabhai Amarchand & Co., of Share Bazaar appointed. Secretary instructed to notify them in writing that they must look to the vendor for their brokerage as arranged.
7. Next meeting :— To fix the date of the next meeting.	The date of the next meeting was fixed for Friday, the 17th February 1939.

The Minutes.—At the close of the meeting, or as soon after as possible, the secretary should proceed to draft the “minutes” of the meeting. Great care has to be taken here to see that the draft represents as accurate a record as possible, because, when once passed and signed by the chairman of the same or of the next succeeding meeting, the minutes shall constitute evidence of the proceedings. The Indian Companies Act, 1913, (sec. 83) lays down that “Every company shall cause minutes of all proceedings of general meetings and of its directors to be entered in books kept for that purpose”. It further enacts that “until the contrary is proved every general meeting of the company, or meeting of directors in respect of the proceedings whereof minutes have been so made shall be deemed to have been duly called and held, and all proceedings had thereat to have been duly had, and all appointments of directors or liquidators shall be deemed to be valid.” The language of the section quoted here will impress the reader with the importance of seeing to the accuracy of the record. The law insists on at least one minute book being kept, though in actual practice it is found convenient to keep separate books not only for the board and shareholders’ meetings respectively, but in cases where the board is divided into committees, a separate minute book is maintained for each of the committees. The general minute book is open to the inspection of members; but the directors’ minute book, which records the proceedings dealing with the internal management is not open to members, and is provided with a lock and key in the case of many important companies. The minute books should be made of faint ruled foolscap papers, with a broad margin on the left, and an alphabetical index at the beginning or at the end. Each minute entered in these books is consecutively numbered, abbreviated in the margin and indexed. The minutes should be written in the order in which the business was dealt with at the meeting. Minutes are written in various forms, but the one which is the best to be followed is that which includes narration as well as conclusions. To make this clear it may be mentioned that

minutes are divided roughly into two classes, *viz.*, (1) minutes of narration and (2) minutes of conclusions. It is the practice with some draftsmen to record only conclusions in the form of the resolutions passed. This is hardly a course to be recommended, even though this form of record may answer the legal requirement. What should be aimed at by a good draftsman, is a complete narrative of what actually occurred at a meeting, in a brief and compact form which takes note of all important items of the proceeding without making the same needlessly lengthy or cumbersome. If that is done, no inconvenience or doubt is felt when, after a number of years, a reference to the record of proceeding at some prior meeting is necessitated. In short a good minute speaks for itself. It does not give rise to confusion. Even an outsider, on perusal, gets a full and complete idea as to what actually occurred at the meeting in question.

The minutes of each meeting should be kept separate and should commence on a fresh page. They should be headed with the number, date and nature (board or shareholders' meeting) of each meeting. The narration should then state in order what actually occurred, which should be concluded with the actual resolution, if any, passed. This resolution should be recorded in full and in the exact wording in which the same was passed. The best course to be followed here is to request the person who proposes a resolution to hand the same over in writing to the chairman. This original writing should, when passed, be copied in the minute book. In case of formal resolutions passed at board and general meetings, the secretary is frequently requested to draft the same out. Great care, skill and a good knowledge of the principles of company law and practice is required in this branch of secretarial work. In case of resolutions involving intricate questions of law, such as those required to be passed in order to give effect to the alteration, reduction or re-organization of capital, etc., the secretary should call for legal assistance. The minutes in Law are evidence, until the contrary is proved, that the meetings

to which they refer were duly held and that the proceedings as recorded in them were correct. It will thus be seen that after the minutes are confirmed and signed, the secretary has no right to alter them on his own responsibility. We shall now take up a few examples from the agenda of the board meeting given on a previous page and see how the minutes of the same are recorded.

The Minute Book.—

The fifteenth meeting of the Board of Directors was held at the registered office of the company on Wednesday the 15th of May 1939, at 3 p.m. (S. T.).

There were present :—

Mr. Dorab Saklat, in the chair,
Rao Sahab T. Rangneker,
Mr. William Inglis,
Mr. Abdul Karim,

Directors.

In attendance :—

Mr. D. Bhabha, Secretary,
Mr. Raghunath Rao, Accountant,
Mr. Dobson, Manager.

65. The minutes of the last meeting held on 2nd May 1939, were read, approved as correct and signed.

Cash Statements
ways and means.
66.

The secretary produced the bank pass book and a statement showing an abstract of cash receipts and payments during the fortnight ending on the 14th instant. It showed a balance at bank of Rs. 20,000 and on hand of Rs. 1,250. The statement was duly checked and formally approved.

Trading Returns.
67.

The statement as to the trading returns was next submitted which showed a turnover of Rs. 80,000, during the fortnight. This as compared to the turnover of the immediately previous fortnight was in excess by Rs. 5,000, but showed a decline when compared to the corresponding fortnight of the three previous years. The manager explained that this was due to the shortage of available stock as well as of the general rise in prices. The explanation was considered satisfactory and returns were duly approved.

<i>Resignation. 68.</i>	<p>The resignation of Mr. Rodrigues, one of the directors, dated 11th May 1939, was next submitted for consideration. It was suggested by Mr. Rangneker that Mr. Rodrigues should be requested to reconsider the same. Mr. Dobson stated in reply that he had met Mr. Rodrigues the same morning at the latter's residence with the same object, but Mr. Rodrigues's decision was final, as he was acting on the advice of his physician, who had ordered a complete rest and a change for at least a year.</p> <p>It was therefore Resolved:—that the resignation of Mr. Rodrigues, a director of this company, dated 11th May 1939, is hereby accepted by the board with regret and is to take effect from this date. The board however takes this opportunity to place on record its appreciation of the services of their colleague and wishes him complete recovery.</p> <p>The secretary was directed to convey this expression of the board's appreciation to Mr. Rodrigues.</p>
<i>Report of Transfer Committee. 69.</i>	<p>The report of the transfer committee, as recorded in that committee's minute book, was next considered. It showed that applications were received for transfer of 50 ordinary shares, from five shareholders, all of which, except one from Mr. R. Jonathan, were duly accepted and the transfers given due effect to. It was unanimously resolved that the said report be adopted in full.</p>
<i>Dayabhai & Co.'s Claim. 70.</i>	<p>The secretary next produced further correspondence regarding Messrs. Dayabhai & Co., who insisted on claiming the full amount of Rs. 15,000, for the alleged breach of contract for purchase of cotton on our part. The secretary was directed to write finally stating that the said claim was inadmissible.</p>
<i>Next Meeting. 71.</i>	<p>The next meeting was fixed to be held at the company's offices on the 1st June 1939.</p> <p style="text-align: right;">Chairman's initials, D. S.</p>

RESOLUTIONS.

From the example just given it must have been noticed that the minutes need not necessarily be made up of resolutions in a stereotyped form. There are, however, cases where formal

resolutions have to be drafted, passed and recorded in the minute book, such as the resolutions appointing committees, making allotment of shares, making calls, issuing debentures, opening of bank accounts, declaring a dividend, appointing a manager of a branch office, etc. We have already remarked that these resolutions have to be drafted with great care, skill and precision. The following are a few specimen of such resolutions:—

Allotment of Shares.—

RESOLVED :—That the 100 ordinary shares of Rs. 1000 each numbered consecutively from 1 to 100 be allotted to the applicants on the List A whose applications have been recommended for acceptance by the allotment committee according to the numbers set opposite to their respective names and that the secretary be instructed to forward letters of allotment to the said allottees and letters of regret to those applicants to whom no allotment has been made returning therewith their application money.

Appointment of a Committee for a Particular Purpose.—

RESOLVED :—That a committee made up of Messrs. Raghuji and Babaji, the members of this board, be and is hereby appointed to investigate and report on the question of the desirability of opening a branch office in Poona, and to report to this board their opinion and recommendations on this question after investigation.

Declaration of a Dividend.—

RESOLVED :—That a dividend of Rs. 40 on each preference share, and of Rs. 10 on each ordinary share, be and is now declared out of the net profits of the company's business for the twelve months ending 31st December 1939, being at the rate of 5% p.a. on the preference shares and 10% p.a. on the ordinary shares, and that such dividends shall be paid to the existing members as on the register of shareholders on the 31st December 1939.

Appointment of a Branch Manager.—

RESOLVED :—That Mr. R. Simpson be and is hereby appointed a branch manager of the office of this company in Surat, on a salary of Rs. 300 per month, for a period of three years, commencing from 1st January, 1939, and that Mr. Ramnant the chairman and director, and Mr. Handiman the secretary, be and are hereby empowered to

execute on behalf of the company, a power of attorney in favour of Mr. Simpson, the said branch manager, in such form as the company's legal advisers may deem necessary, to enable him to act in the capacity of the branch manager of Surat.

Appointment of a Committee for General Purposes.—

RESOLVED :—That a committee of the following directors, viz., Messrs. A, B, C, and D, be styled the "general purposes committee", and that a monthly report of such committee's proceedings be duly entered in a "general purposes committee minute book", to be specially provided for that purpose, and that such reports, when duly approved by the board, be considered as part of the minutes of the board, and read in conjunction therewith.

Alteration of the Name.—

RESOLVED :—That the name of the company be altered from the "Bombay Cotton and Spinning Company Limited" to the "Bombay and Nagpore Spinning and Weaving Company Limited" and that the Local Government be communicated with for the purpose of obtaining their consent to such alteration.

Conversion of Shares into Stock.—

RESOLVED :—That the Rs. 100,000, ordinary shares of Rs. 100 each now fully paid up be and are hereby converted into ordinary stock for Rs. 100,000, which shall be transferable on the usual transfer form in any sum of Rs. 100, or a multiple thereof.

Increase of Capital.—

RESOLVED :—That the capital of the company be increased to Rs. 2,50,000, by the creation of 500 new preference shares of Rs. 100 each, to be called the new preference shares, and to confer on the holders thereof the right to a non-cumulative preferential dividend of 4% per annum on the capital, for the time being paid up on such shares, to be paid out of the profits of each year, and such preference shares to rank both as regards capital and dividend, in priority to the original shares in the capital of the company.

Alteration of Articles.—

RESOLVED :—That the article No. 45 of the articles of association of the company be altered by omitting the following words therefrom, namely :—

"every half year"

and substituting instead, the following words :—

"at the end of every working year of the business."

Appointment of a Finance Committee.—

RESOLVED :—That a finance committee, consisting of three directors, viz., Messrs. A, B and C, of which Mr. A shall be the chairman, be and is hereby appointed to take effect from this day and to hold office for a period of six months from the date hereof; and that the secretary is hereby directed that all propositions relating to outlay or expenditure, immediate or prospective, as well as all financial statements, such as abstracts of receipts and payments prepared periodically as may be fixed by the said committee, or any other financial arrangement whatsoever, must be first submitted to the said finance committee to be reported upon, before placing same before the board.

Forfeiture of Shares.—

RESOLVED :—That 10 ordinary shares of Rs. 500 each with Rs. 200 paid up and numbered 1501 to 1510 inclusive held by Mr. Jannadas Pragji be forfeited he being in arrear with the second call of Rs. 200 made on the 27th May 1929 in spite of the notice served on him on 15th February 1929 in accordance with Clause 76 of the articles of association.

Making a Call.—

RESOLVED :—That a second call of Rs. 100 per share be made upon all the ordinary shares of the company making in all Rs. 500 per share called up, the said call to be payable on or before 5th January, 1939, to the company's bankers, the Bank of India, Ltd., at their Esplanade Road head office, and that the secretary is hereby instructed to issue the necessary call notices and arrangement with the company's bankers for the collection of call money.

Adoption of Draft Prospectus.—

RESOLVED :—That the draft prospectus as read out to the board by Mr. X, the lawyer of the company be approved and adopted. That the said prospectus be signed by all the directors and dated the 15th March 1939 and that the secretary be instructed to file one copy duly signed with the Registrar of joint stock companies.

Passing of Transfers.—

RESOLVED :—That the transfer applications Nos. 65 to 89 (inclusive) be and are hereby passed and the seal be affixed to the new certificates Nos. 3030 to 3054 (inclusive) and that the names of the said transferee be entered in the register of members of this company.

Closing of Transfer Books.—

RESOLVED :—That transfer books of the company be and are hereby closed from 17th June 1939 to 2nd July 1939.

PREPARATION AND WORK *re* SHAREHOLDERS' MEETING.

In the case of a newly incorporated company the first meeting for which a secretary will have to prepare himself is the statutory meeting. This preparation principally consists of the drafting of a report called the statutory report.

In drafting any report it is always best to divide same under separate headings and to deal with each of these headings in separate paragraphs.

Statutory Meeting.—We shall first take up the statutory meeting. This meeting is, virtually speaking, the first meeting that a joint stock company usually holds, and the object seems to be to ensure that at the earliest opportunity the members of the company should have an opportunity to secure first-hand information as to the exact position of the company, particularly in relation to its financial success in flotation, as well as other information as to the investment of its capital in the different branches of the enterprise for which the company is incorporated.

The Indian Companies Act, sec. 77, requires that every joint stock company limited by shares, and every company limited by guarantee and having a share capital, must, within a period of not less than one month nor more than six months from the date at which the company is entitled to commence business, hold a general meeting of the members of the company, which shall be called the statutory meeting. Here it may be added that under the English Companies Act the statutory meeting has to be called within not less than one month and not more than three months from the date that the meeting is entitled to commence business instead of not more than six months as in case of our Indian Act.

A statutory report must be sent by the directors at least 21 days (in English Law 7 days) before the day on which the

meeting is held to every member of the company and to every other person entitled to receive the said report under the Companies Act. The report must be certified by not less than two directors of the company or by the chairman of the board of directors if authorised in this behalf by the directors. In England it is to be certified by two directors. The report must contain the following matters:—

- (a) the total number of shares allotted, distinguishing shares allotted as full or partly paid up otherwise than in cash, and stating in the case of shares partly paid up the extent to which they are so paid up, and in either case the consideration for which they have been allotted;
- (b) the total amount of cash received by the company in respect of all the shares allotted distinguished as aforesaid;
- (c) an abstract of the receipts of the company and of the payments made thereon up to a date within seven days of the date of the report, exhibiting under distinctive headings the receipts of the company from shares, debentures and other sources, the payments made thereon and particulars concerning the balance remaining in hand, and an account or estimate of the preliminary expenses of the company showing separately any commission or discount paid on the issue or sale of shares;
- (d) names and addresses and description of the directors, auditors, managing agents and managers if any and the secretary of the company. In Indian Law any change that may have occurred since the date of incorporation must also be stated here;
- (e) the particulars of any contract, the modification of which is to be submitted to the meeting for its approval, together with the particulars of the modification or proposed modification;
- (f) the extent to which underwriting contracts, if any, have been carried out;
- (g) the errors, if any, due on calls from directors, managing agents and managers; and
- (h) the particulars of any commission or brokerage paid in connection with the issue or sale of shares to any director, managing agent or manager or a partner of the managing agent if the managing agent is a firm or if the managing agent is a private company, a director thereof.

A copy of this report must be delivered to the registrar of companies for registration forthwith after the sending thereof to the members of the company. During this meeting the directors should see that a list showing the names, descriptions and addresses of the members of the company and the number of shares held by them respectively, is produced at the commencement of the meeting which should remain open and accessible to any member of the company during the continuance of the meeting. At this meeting the members present are at liberty to discuss any matters relating to the formation of the company, or arising out of the statutory report, whether previous notice was given or not. However, no resolution of which previous notice was not given can be passed. The meeting may be adjourned from time to time as usual in accordance with the articles and the adjourned meeting shall have the same power as the original meeting. The statutory report, as far as it relates to the shares allotted by the company and the cash received in respect of the shares plus receipts in payment of the company on capital account must be certified as accurate by the officers of the company and in case of public companies this report must be filed with the Registrar of joint stock companies forthwith after sending same to the members of the company.

THE STATUTORY REPORT.

THE INDIAN COMPANIES ACT, VII of 1913.

Statutory Report of the Heeramaneck Cement Company, Ltd., to be certified and filed pursuant to Section 77 (5).

Presented for filing by Mr. X. Y. Z.

The Directors have pleasure in submitting the following to the members :—

- (1) The total number of shares allotted is 30,000 of Rs. 100 each including 10,000 shares issued to vendors as fully paid in part consideration of the purchase price. On the remaining shares Rs. 25 per share were called up on application and Rs. 25 on allotment. A sum of Rs. 18,000 was due on allotment on the date of closing accounts. One Mr. Hormarji paid in full for his 100 shares on his going abroad.

Business Organization

- (2) The total amount of cash received by the company in respect of shares issued subject to the payment therefor in cash is Rs. 9,87,000.
- (3) An abstract of the receipts of the company and of the payments made thereout up to the 9th day of July 1939 is given as under :—

RECEIPTS.		Rs.	Rs.	PAYMENTS.		Rs.	Rs.
<i>To Share Capital A/c.</i>				<i>By Purchase Consideration</i>			
Amount called up in respect of 20,000 shares of Rs. 100 each allotted payable on application and allotment @ Rs. 50 per share ...	...	10,00,000		Amount paid to Vendors as per agreement in cash ...	8,00,000	8,00,000	
Less Allotment money unpaid ...	...	18,000		Amount of shares issued as fully paid as per contra ...	10,00,000		
		18,82,000			18,00,000		
Add calls in advance	...	5,000	9,87,000	" Deposit against purchase of machinery ...			40,000
		9,87,000		" Building Account : Materials and labour to date ...			25,000
10,000 shares of Rs. 100 each allotted as fully paid as part purchase consideration ...	...	10,00,000		" Preliminary expenses			5,000
		18,87,000		" Expenditure (including salaries, rent, stationary, etc.) ...			20,000
To Sundry receipts including interest and sale proceeds ...	...		8,300	" Cash and other balances with Central Bank of India, Ltd., (Fixed Deposit) ...	60,000		
				" Balance on Current A/c with Lloyd's Bank, Ltd. ...	35,500		95,500
Total ...	Rs.	9,85,500		Total ...	Rs.	9,85,500	

We hereby certify that so far as the report relates to the shares allotted by the company and to the cash received in respect of such shares and to the receipts and payments on capital account is correct.

R. A. & Co.
Auditors.

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- (4) The Preliminary expenses of the company are estimated at Rs. 5,000.
(5) The names, addresses, and descriptions of the directors, auditors and secretaries of the company are the following :

I. *Directors.*

Raja Saheb Shivalal Nanchand (Chairman), Landlord,
Malabar Hill, Bombay.
Sir Robert Mackinley (Baronet),
Colaba, Bombay.
Sir Bholabhai Nathuchand (Knight),
Bhuleshwar, Bombay.
Cowasji M. Indorewala, Esq. (Businessman),
Grant Road, Bombay.

II. *Auditors.*

Robertson & Chandulal (Govt. Auditors),
Churchgate Street, Bombay.

III. *Secretary.*

J. Hardword, Esq.,
Wodehouse Road, Fort, Bombay.

MANAGING AGENTS.

Messrs. A. B. C., Limited, Esplanade House, Waudby Road, Bombay.

REGISTERED OFFICE OF THE COMPANY.

15, Esplanade Road, Bombay.

The company was incorporated on 1st August, 1938, and the Certificate for commencement of business was granted by the Registrar of Companies on the 13th January, 1939.

- (1) No contracts have been entered into, the particulars of which or the modifications whereof are to be submitted to the Meeting for their approval.
(2) No under-writing contracts have been made.
(3) There are no amounts due on calls from Directors or Managing Agents.
(4) No commission or brokerage has been paid or is to be paid in connection with the issue or sale of the shares of the company.

Bombay, 20th July, 1939.

We hereby certify the Report,

Raja Saheb Shivalal Nanchand,
Sir Robert Mackinley,
Sir Bholabhai Nathuchand,
Cowasji M. Indorewala, Esq.

} Directors.

Notice re Statutory Meeting.—The Notice convening the Statutory Meeting will have to be made out in a form similar to the one given below:—

THE BOMBAY TRADING & MANUFACTURING CO., LIMITED.

NOTICE OF THE STATUTORY MEETING.

Notice is hereby given that the Statutory Meeting of the above Company pursuant to Sec. 77 of the Indian Companies Act, 1913, will be held at the Registered Office of the Company at 15, Esplanade Road, Bombay, at 4 P.M. (S.T.) on Tuesday, the 23rd April, 1930.

By order of the Board,

J. HARDWORD,

Secretary.

Bombay, 10th April, 1930.

General or Annual Meeting.—Subsequent to the Statutory Meeting all meetings may be divided into two classes, *vis.*, (1) The Annual General Meeting, and (2) The Extraordinary General Meeting.

The Annual General Meeting has to be held within eighteen months from the date of its incorporation and thereafter once at least in every year, and not more than fifteen months after the holding of the last preceding general meeting. The failure to hold this meeting makes every officer of the company liable to a fine. At this meeting the report on the company's affairs, and the final accounts and the balance sheet duly certified, are to be laid before the meeting. The secretary has to see to the drafting of the annual report, which has to be submitted at the board meeting for being settled before it is sent to the printers. The chief object of this annual report of the directors is to give the shareholders an idea, in the form of a short review, of the work done by the company during the year covered by the report. Frequently an attempt is also made to forecast the prospects of the coming year. If the directors contemplate any extension of, or addition to the business, this is frequently referred to in the report. The profits or losses made are also commented upon. In case of profits, the decision of the directors as to their final disposal by

way of bonus to the staff or shareholders, transfer to the reserve fund, wiping off of preliminary expenditure, provision for depreciation and division among shareholders by way of dividend, if any, is made known under appropriate headings. The retirement of one or more directors by rotation and their re-eligibility forms the subject of a separate paragraph.

The annual report may be either an exhaustive statement containing a masterly review of the situation, or a bare record of a few facts and figures jumbled together. It is hardly necessary to emphasise the fact that the latter form is the least desirable. It is the moral duty of directors to take the shareholders into their confidence, as far as the exigencies of the business permit, and with due regard to its general interests. No one is likely to be so unreasonable as to insist on the disclosure of secrets which are likely to be made use of by the company's rivals in trade, but there is no reason why the reports of many of our leading companies—particularly banking companies—should be so woefully wanting in general information. In fact the practice of serving out nothing more than bare figures, just enough to answer the requirement of law, under the grandiloquent title of "Annual Report", has unfortunately become general, both in England and India, in connection with banking companies. Many authoritative writers have adversely commented on this state of affairs, but our bank directors seem to have treated this comment so far, as effusions of academic minds, uninitiated in the board room secrets, within the sacred precincts of which alone an unerring decision could, according to them, be arrived at. On the other hand, every student of banking and finance will admit that of all the reports, the annual report of a banking establishment, should lend itself easily to a masterly review of the financial situation with which the bank in question had to cope during the year under review. Such an elaborate report would render the figure of profit and its proposed application, clearer and more interesting to an average shareholder for whose benefit these reports are supposed to be issued. It is to be regretted

that a number of trading and manufacturing companies also seem to have adopted the practice of their banking colleagues with regard to the issuing of these so-called "short and simple" reports. The following three annual reports have been taken from actual practice. The first is the typical report of a banking company—which of course could have been amplified and improved. The second, *viz.*, that of the Tata Iron and Steel Company Ltd., a mining company, to which attention is particularly invited as one which a number of our Indian companies will do well to imitate. For want of space a number of paragraphs of the most technical nature in connection with the iron industry, have been omitted from this report. The report presents a masterly review, under appropriate headings, of the work actually done and the progress made during the year under consideration, besides giving the usual information as to profits, reserve fund, dividends, etc. The outlook paragraph sums up the result with a forecast as to the future. The third is the model report of a textile company.

Report of a Banking Company :—

NINETY-SEVENTH REPORT BY THE DIRECTORS
OF
THE PROVINCIAL BANK OF INDIA,
LIMITED.

The Directors beg to submit the General Balance Sheet and Profit and Loss Account of the Bank for the year ending 31st December last, duly audited.

The net profits for the year, after providing for all bad and doubtful debts amount to £291,418 5s. 5d., and adding £92,995 13s. 4d., brought forward, the available total is £384,413 18s. 9d.

An *ad interim* dividend at the rate of 16 per cent per annum, free of Income Tax, was paid for the half year ending 30th June, amounting to £80,000. The Directors now recommend a further dividend at the same rate, and an addition of £25,000 to the Reserve Fund, raising it to £1,200,000. They propose to apply £76,273 15s., to writing down investments, including War Loan, to current prices, to write £10,000

off the House Property Account, and to add £10,000 to the Officers' Pension Fund, leaving a balance of £103,140 3s. 9d. to be carried forward.

The following Directors retire on this occasion, but being eligible offer themselves for re-election:—

ROBERT GREEN, Esq., A. V. D. BURNS, Esq., and SIR JOHN P. THOMPSON, Kt.

It will be necessary to elect Auditors. Messrs. ROBINS & Co., the retiring Auditors, offer themselves for re-election.

By order of the Board,

W. BOTHA,

General Manager.

THE TATA IRON & STEEL COMPANY, LIMITED.

DIRECTORS' REPORT FOR 1914-15.

The Directors beg to lay before you their Ninth Report together with the Audited Statement of Accounts for the year ending 30th June 1915.

Revenue.

The Company's net profit during the year ending 30th June, 1915, amounted to Rs. 24,83,088-15-8 which with the sum brought forward from the last year's account, makes a total sum of Rs. 25,65,760-9-10.

The following sums amounting to Rs. 7,33,678-2-1 have been appropriated from the profit:—

To Depreciation Fund Account	Rs. 5,00,000-0-0
„ Repairs and Renewals Account	„ 1,53,678-2-8
„ Furniture and Preliminary Expenses Account	„ 80,000-0-0

After making all these deductions, there remains a balance of profit of Rs. 18,32,082-7-9, out of which the Directors recommend a Dividend on Preference Shares for the twelve months ending 30th June, 1915, at the rate of Rs. 8-12-3 net per share, that is, at six per cent per annum less income-tax. This will amount to Rs. 4,36,000-11-3, and out of the balance of Rs. 13,96,081-12-6, the Directors recommend that Rs. 6-0-0 per share be paid as a Dividend at the rate of 8% per annum on the Ordinary Shares, *viz.*, Rs. 14,96,244, leaving a balance of Rs. 1,99,837-12-6, and out of this balance the Directors recommend that Rs. 7-8-0 per share be paid as a Dividend at the rate of 25 per cent per annum on the Deferred Shares, *viz.*, Rs. 1,68,750, leaving a balance of Rs. 31,087-12-6, which amount they recommend should be carried forward.

General.

We stated in our last Report that a new General Manager had been appointed. The new Manager, Mr. B. R. S. arrived and took charge of the management at Sakchi at the end of November last.

The General Manager's report given below dealing, as it does, with the operation of the Plant during the year ending 30th June, 1915, has confined itself to the progress made during the year in the various Departments. Your Directors have to inform you that your Works began making steel required for the manufacture of shells, etc., for military purposes from August last. Up to the date of this report, a large tonnage of such steel has been supplied to the various Workshops and Factories in India making shells for Government. Your Board feels sure that the shareholders of this Company will be gratified to learn that their organization is co-operating with Government, in however small a measure, towards bringing the war to a successful termination.

In view of the great and increasing demand for the products of the Company such as steel rails, structural materials, etc., your Directors have sanctioned the installation of two New Open Hearth Furnaces, a Pressed Steel Sleeper Plant, a Cast Iron Pipe Foundry and the consequent necessary extensions to the Power Plant, and the housing capacity for staff. Your Directors confidently anticipate that all these extensions leading to the increased and varied output of finished articles will contribute on the one hand to enhance materially the usefulness of your Works to the public and on the other to increased profits to the shareholders.

The General Manager of the Works sends the following report from Sakchi :—

"Your Consulting Engineer, Mr. C. P. P. who left India in March 1914, returned in September, and remained until March 1915. Under his supervision economies were effected and outputs increased leading to a reduction in the cost of manufacture. He has also during this visit made plans for several desirable extensions and additions to the plant of the Company.

The difficulties of delivery and high freights on supplies due to the war have resulted in the production at your Works of several articles required for manufacture which were previously being imported, the most noteworthy of which are rolls and ingot moulds, so that you are now practically independent of foreign manufacturers as regards your necessary supply of these articles.

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The sanction granted for the erection of a Press Steel Sleeper Plant and a Cast Iron Pipe Foundry will result in the increased consumption of your own pig iron and in placing you in a position to assist in supplying the demand for two additional kinds of finished product.

Exploration.

Exploration for raw materials of various kinds was carried on under the direction of your Consulting Engineer.

The search for Flourspar mentioned in last year's report was not successful, as no deposits of workable size were discovered, but the results in the case of other materials were satisfactory.

The exploration in Mayurbhanj State resulted in the location of eight deposits of Iron Ore within from 12 to 23 miles from the present mines, all being surface deposits which can be mined as easily and as cheaply as the Gurumaishini Ore. Test pits indicate the presence of about double the amount at the present mines and of at least equal quality. During the coming cold season permanent boundary marks will be put around these deposits and the exploration for additional Ore continued.

The work of proving and surveying the Magnesite deposits in the Mysore State has been going on; also deposits of both Iron Ore and Chrome Ore have been located in this State.

Iron Ore.

During the year three gravity inclines were installed at the Gurumaishini mines, tracks levelled and relined and the entire work, put on a satisfactory basis.

Coal.

Your Bhelstand Colliery has raised during the last fiscal year about 43,400 tons of coal out of which it has furnished about 8,000 tons to the Sakchi Works. About 17,200 tons have been sold in the open market. The maximum monthly raising was about 4,850 tons; the average monthly raising was 3,600 tons.

The development of your Malkera-Choitodih Colliery is proceeding satisfactorily. The Colliery has raised about 63,900 tons of coal during the last fiscal year, out of which it has furnished about 38,900 tons for operation at Sakchi Works. About 4,600 tons have been sold in the open market. The maximum monthly raising was about 8,000 tons; the average monthly raising was about 53,000 tons.

Coal received at the Works from outside sources excluding Bhelatand and Malkera-Choitodih Collieries was about 342,779 tons during the fiscal year, against 370,100 tons purchased from outside during the preceding year.

The consumption of coal by the Coke Ovens was 280,200 tons; by the Gas Producers 71,200 tons; by Boilers and Locomotive 38,500 tons

Manganese Ore.

The shipment of Manganese Ore to Sakchi Works from the Mines during the fiscal year was 5,354½ tons. The consumption of Manganese Ore by your Works was 8,085 tons; also 19,500 tons were sold for export.

During the year under review the following new mines were opened out, namely, Ghogara Nala and Ducco Hurki in February 1915 and Tandu Hurki in May 1915.

At your Panposh Quarries, the overburden was removed from an additional area of stone, a new haulage incline, air compressor and two Lancashire boilers installed and a crushing and screening plant nearly completed.

Shops.

The Machine Shop and the Forge Shop were both enlarged and their equipment of tools increased. These together with minor improvements, have done a great deal towards cheapening the cost of both repairs and construction and have also rendered your works less dependent upon outside manufacturers.

Sales.

Scarcity of shipping with consequent excessive freight rates has militated against both the sale and delivery of Pig Iron, but these conditions are slowly improving and prices advancing so that from present indications the coming year will bring much better results.

During the early part of the year the steel market was dull and prices low, but later both the demand and price improved rapidly, so that at the end of the financial year there were orders in your books taken at good prices.

Town of Sakchi.

The Town Department has been re-organised and a system of leases for tenants instituted, resulting in an increased revenue and a better safeguarding of your land rights.

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A thorough inspection was made by both your Sanitary Engineer and your Architect who, while pronouncing the general conditions good, made certain recommendations for improvements, all of which have either been completed or are under way.

The Physical Laboratory and Police Thana mentioned in last year's report have been completed. The building started as a Court House was changed into a school house and called "The Mrs. P. Memorial School" in honour of the deceased wife of your Consulting Engineer, because of the great interest she had taken in the education of Indian children. Additional teachers have been engaged, furniture and equipment installed, the general condition of the school much improved, and a Committee appointed from among the Works' officials to look after the operation of the school.

The Tisco Institute, being considered well enough established to be self-supporting, was turned over to the Management of its own Members, subject to certain control on the part of the Company.

The general health of the town continued good, and no epidemic of any kind occurred. Our Hospital did very good work and a very large number of cases treated were of people unconnected with the Company's Works.

Labour.

The daily average number of employees was :—7,899 men and women.

The number of European covenanted hands is 121 and the number of local European employees is 53. The balance of labour is Indian.

In addition to the labour employed at Sakchi mentioned above, your Company gives employment to approximately 1,881 labourers at Gurumaishini, 1,007 at Panposh; and 2,079 at Malkera-Choitodih and Bhelatand collieries.

The above figures do not include the Employees of the Contractors engaged in the work of improvements or extensions.

The reduction in the number of European Employees means the substitution of an equivalent amount of Indian labour and the average reduction of employees at the Steel Works is particularly noticeable in view of the increased output and the large amount of improvement and extensions during the year.

There is a marked reduction of employees at the ore mines and quarries, the former of which produced a greater tonnage than during the preceding year. The increased force at the collieries is due to the development work and the larger output.

Contemplated Betterments.

Recently, the Board has sanctioned the expenditure necessary to add two more Open Hearth furnaces which would increase the capacity of your Steel Works by about 60% for the consequent additional electric power and for additional housing capacity for workmen, the two latter items being necessary if the new furnaces are installed. No further expenditure will be required at your Rolling Mills to finish the additional steel produced, so that the output of finished material would be increased from 50 to 60% with a capital expenditure for steel making apparatus only.

The ruling high price for ferro-manganese has led to investigations as to the advisability of your manufacturing it from your own Manganese Ore, and one of your existing blast furnace will be put on manufacture of ferro for some months both for your own use and for sale. Should the investigation now being carried on in regard to the manufacture of this material by an ordinary blast furnace or a special electric furnace at the Manganese mines or by an electric furnace at the Steel Works, (which furnace would also make ferro-silicon) prove any of these methods to be better, the necessary equipment could be installed at a later date for the continuous manufacture of ferro-manganese.

Outlook.

Last year, with the exception of the Coke ovens and quarries, the output of every Department of your Works both raw material and finished product, was the best so far obtained and the costs of all these materials were lower than during any previous year in spite of labour conditions in your Open Hearth, certain increases in wages and the almost universal increase in the cost of purchased raw materials and supplies. These results, the increased output of pig iron which will follow the completion of the Koppors Coke Ovens, the addition of a Pressed Steel Sleeper Plant, the Cast Iron Pipe Foundry and the Open Hearth addition together with the exceedingly large supplies of raw material in your possession certainly point to a bright future for your enterprise."

Miscellaneous.

During the year under Report, Mr. R. was appointed a Director in place of Mr. R. D. who proceeded to Europe. Mr. R.'s appointment will have to be confirmed by the Shareholders.

In accordance with Article 160 of the Company's Articles of Association, two of your Directors, namely, Mr. G. and the Hon'ble Sir F.

retire by rotation but are eligible for re-election and offer themselves accordingly.

The Shareholders will be requested to elect their Auditors for the current year and to fix their remuneration.

(Sd.) D. J.
Chairman.

Bombay, 21st October, 1939.

A specimen of a good report in connection with the Textile Industry :—

THE MILLS, CO., LIMITED.

DIRECTORS' REPORT.

The Directors beg to lay before the Shareholders their Report with audited Balance Sheet for the year 1917.

In spite of all efforts the Mills could not be set working earlier than the 9th July, 1929, owing to the difficulties encountered in obtaining deliveries of machinery from England. At the start the number of machines received and erected was not large, but it was thought advisable to commence working even with the small number on hand, and to go on increasing them as further deliveries were received. The total number of machines worked by the end of the year was thus brought up to about 14,000 Spindles and 750 Looms, while at the time of writing the Report, the total Looms on hand number 1,100 out of which it is hoped to work shortly at least 1,000. The reason why all the Looms received could not be worked, was that the supplies of machinery for the Spinning Department were very inadequate. To supplement these, some second-hand machines were purchased locally, and the production of yarns was also further increased by working the Ring Frames day and night. Recently, however 16 more Ring Frames have been got ready by the makers, and a few second-hand ones have also been purchased from upcountry, and when these are all received and erected, they will go a long way to overcome the difficulty experienced in yarn shortage. It will thus be seen that no efforts are being spared to bring up the plant to the capacity originally contemplated, as far as the present abnormal circumstances allow.

As regards the Dye & Bleach Houses, some machines have already been set working, but a few more are still wanting for the satisfactory working of these departments.

Owing to the shortage of spinning machinery no yarn could be spared for sale. The cloth turned out, both grey and bleached, has been favourably received in the local and upcountry markets.

The working of the Mills at the end of the period under report has resulted in a profit of Rs. 87,598-8-7, out of which Rs. 72,280-6-6 have been set off against preliminary charges, and the balance, *viz.*, Rs. 15,318-2-1, is carried forward to the next year's account.

An additional plot of land forming the frontage of the Mill grounds has also been acquired on lease, since the date of the last report. This plot contains some buildings also which will be utilized for providing the necessary quarters for the Company's staff. For the benefit of the workmen a school for half-timers, dispensary, and grain shop have been opened on the Mill premises.

The balance of Rs. 100 on each of the Ordinary and Preference shares was called up by 2 instalments of Rs. 50 each on the 16th July and 16th November 1929 respectively, and all the shares issued have now become fully paid.

As in former years, the Shareholders are requested to pass a resolution for the payment from Capital of interest when due on Preference shares for the 12 months ending 30th June 1930, at 4% per annum.

Two of the Directors, *vis.*, The Hon. Mr. A. B. and Mr. C. D. retire from the Board in accordance with Article 109, but they are eligible for re-election, and offer themselves accordingly.

The Company's buildings, machinery and stocks have been insured for Rs. 32,50,000.

The Shareholders will have to appoint Auditors for the current year, and fix their remuneration.

I. J., *Agent.*

C. D., *Director.*

Bombay, 10th March, 1930.

E. F.

Chairman.

G. H.,

Director.

Reports of Special Committees.—We have already noticed that the executive functions of the board are frequently, in the interests of efficiency as well as on grounds of convenience, divided and allocated to different committees appointed from among the directors. The reports presented by these committees are generally drafted for them by the secretary. In cases of standing committees this work does not present any difficulty, as the minutes of each of these committees are generally treated as their report by the board which are

formally confirmed. In case however of *special committees appointed for the purpose of investigation and report* on certain questions the report has to be drafted with considerable care and ingenuity. The language should be clear and easy, the style argumentative, and the facts stated in their logical sequence under appropriate headings. The following form may well be taken as appropriate :—

Report of a Special Committee of Directors, appointed to investigate and report on the desirability of opening a Branch at Madras for the Sale of the Manufactures of the Company in accordance with the terms of resolution passed at the Meeting of the Directors of the Company held on 24th August 1930.

Resolved:—That a Committee of Directors be appointed consisting of Messrs. A. B. C. and D., of which Mr. A. is to act as the Chairman, to consider and report on the question of opening a branch office in Madras, in view of the increased demand of the manufactures of this Company from that side. The Committee is authorised to investigate this question fully and for that purpose the Members of the Committee are hereby authorised to proceed to Madras for detailed and direct investigation.

Present Position.

The average yearly sale of our manufactures in the Madras Presidency for the past five years are computed at Rs. 10,00,000. The figure of sales has shown a tendency to increase during the past two years. It is however noticed that a large number of claims, and complaints arise, which could be more conveniently dealt with on the spot if we had our own managers there. We have also continually received an increasingly large number of letters from would-be buyers who have repeatedly expressed their regret at our not having a branch office on their side with which they could deal direct to a greater mutual advantage.

Enquiries made.

The Committee met fifteen times during the last four months in Bombay and carefully weighed and considered the whole correspondence on the subject placed before them by the Secretary. They also interviewed various dealers and their representatives in Bombay. Two of the Members of the Committee, *viz.*, Messrs. A. and B., were deputed to proceed to Madras, who visited fifteen dealers in the Presidency,

whose names are given in the Schedule attached herewith and marked A. The majority of these dealers were of opinion that a branch office for the Presidency in a central place like Madras, and preferably at Mount Road, exhibiting the various articles of our manufactures would result in doubling our sales within a year. It was also urged that this step would lead to the alteration of patterns and styles suitable to the special requirements of buyers in the Madras Presidency. It was also the opinion of almost all the parties interviewed that the present arrangement which forces the Company to deal through agents was quite unsatisfactory.

It is also ascertained that the Company is paying yearly Rs. 15,000 to Rs. 20,000 by way of commissions to agents which amount in the opinion of the Committee could be entirely saved if a branch office were to be established in Madras.

The ultimate expenditure on the Branch Establishment would come to about Rs. 6,000 a year as per the Schedule of estimate attached to this report and marked B.

Findings.

The Committee after a careful consideration of all the facts laid before it during its investigation extending over a period of two months, presents the following recommendations to the Board:—

- (1) That a Branch office be opened in Madras in one of the Buildings belonging to Nawab Sulemanjung, situated at No. 25, Mount Road.
- (2) That the estimated yearly expenditure of Rs. 6,000, would be more than compensated for by the saving of yearly commission paid to agents.
- (3) That the sales would undoubtedly increase if such a branch were to be located in Madras.
- (4) That if their recommendations are accepted, a branch should be opened without loss of time and preferably before the beginning of the next season.

Bombay, 29th October, 1930

A
B
C
D

Members of the Committee.

Besides the two reports as dealt with above, reports have to be drafted on behalf of special committees appointed for

various purposes either by the general body or by the board. The committees may be (1) the finance committee, (2) the standing committee, or (3) the committees for investigation and report on some specified object.

The finance committee elected annually is to control the financial operations of the company or association such as, making arrangements with banks for loans and credit, sanction of various expenditure and investigation of same, and generally, to look after the financial side of the company's business. This committee is generally appointed yearly or half-yearly and it reports periodically on all operations during its period of appointment. This report would be made out from the committee's special minute book known as "the finance committee's minute book."

Secretarial Reports.—In joint stock companies the secretary himself is frequently called upon to make his own reports besides draft reports on behalf of the committees appointed by the board of directors. There are diverse matters on which the board instead of appointing a special committee, call upon the secretary himself to make the investigation and present his report. This is usually done in connection with the selection of suitable premises for a new branch, or in connection with dealing all complaints from provincial offices, or otherwise, or the best method of raising additional capital, or on prospects of improvement of organization, threatened strikes, etc., etc. Such reports naturally have to be very carefully prepared, giving the board of directors detailed data, together with vouchers of original documents to refer to. The principles applying to the secretarial report are practically the same as we have studied in the case of preparation of a report on behalf of a sub-committee for investigation, a form of which we have given above. The secretary has to study the circumstances under which he is called upon to make the report, show what investigations he has made, and give his conclusions as to what should be done; assigning adequate reasons wherever necessary. This report is usually made either in form of a letter or a

narrative. Where estimates and costs have to be dealt with, a schedule may be attached, giving the figures, and appending same to each of these reports.

Besides this, it is the secretary who prepares reports such as the statutory report and annual report for the board of directors, and the directors' annual report, which he submits for adoption and acceptance to the board itself.

Précis Writing.—In this connection, it may be mentioned that one of the most important duties which the secretary or his assistants are called upon to discharge, is the preparation of a *précis* of a given correspondence or document, with a view to enable the board of directors, or the principal executive, to get a complete idea in brief, of the case presented on which they are called upon to adjudicate or decide. The *précis* must also refer to various documents, so that if necessary, the principal executive, or any of the directors, may look into the documents for further details if they so desire. The objective sought to be achieved is to give to the board, in a condensed form, a narrative in regular sequence of the documents submitted to them for their consideration and orders. Here considerable care has to be taken to see that only relevant matters are brought in, and everything superfluous is omitted. In connection with *précis* writing, it has been repeatedly emphasised that long sentences should be avoided, and the matter should be submitted in as simple and easy a style as possible, avoiding ambiguity most strictly. The *précis* should confine itself to the facts as disclosed by the documents; and the person who prepares it should not add any comments or other extraneous matter. The language should be in the past tense, and conversation should be converted into indirect speech. All important dates should be given in the *précis*. It should never be forgotten that the object of a *précis* is to give the officer concerned a complete idea of the whole case in as short a compass as possible, so that his time may be saved; which object will be defeated if a lengthy or ambiguous *précis* is prepared.

HOLDING (PARENT) COMPANIES AND SUBSIDIARIES.

A very recent and interesting feature of the development of the company system in England and America as well as in this country, is the advent of holding, or parent companies, with their subsidiaries. The system, though of recent growth, has rapidly developed. Under the system, the holding company acquires a sufficient number of shares in other companies called the subsidiaries, with a view to exercising a controlling interest in the affairs of the subsidiaries. The result is that, though the parent company and each of its subsidiaries remain so many separate entities in law, the whole organization is, in practice, in most cases, working under the central policy as determined by the management of the parent or holding company. These companies no doubt can be, and are, worked with great advantage if properly directed, particularly in cases where (1) a parent (holding) company wishes one or more of its departments of business to be separated into so many subsidiary companies, thereby creating a separate goodwill or (2) to purchase a business similar to its own and work the same separately with a view to get rid of adverse competition or (3) to obtain a controlling interest in other concerns by purchasing their shares and using them as agencies, etc., or (4) wishes to invest capital in profitable enterprises or (5) wishes to open out branches at different locations in the form of independent entities, and thus form separate companies for each location. (For instance the Bombay Trading Co., may start a branch office in East Africa and call it The Bombay Trading Co., (East Africa) Ltd., and incorporate the same in East Africa according to the Companies Act of that place, and so on). The weakness of this system lies in the power which the directors or managing agents of companies acquire, by which they are, if so inclined, in a position to mislead the shareholders, and manipulate any subsidiary company with disadvantage to the shareholders of the parent company. This manipulation generally takes the form of entering into inter-company transactions with the predominant idea of concealing

from the public and shareholders of the parent company certain transactions or the true state of affairs; or with the idea of so manipulating as to increase the profits of the company fictitiously, (on which the management by way of remuneration as commission may depend) by transferring, or pretending to sell, to a subsidiary, one or more of the least paying departments, so that the losses of the subsidiary correspond with artificial increase in the profit of the parent company. The English Act of 1929 tackled this question on the recommendations of the Greene Commission of 1925-26, by providing that a holding company must set out separately in its balance sheet any assets consisting of shares in or amounts owing from a subsidiary company (or subsidiaries), distinguishing shares and indebtedness. Where a holding company is indebted to a subsidiary or subsidiaries, the aggregate amount must be separately disclosed in its balance sheet and details need not be displayed. The holding company is required to annex to its balance sheet a duly signed statement stating how the profits and losses of a subsidiary or subsidiaries have been dealt with in its accounts, and in particular, how and to what extent (1) provision for the losses of the subsidiaries has been made in the accounts of the holding company or in those of the subsidiaries or in both, and (2) the losses of a subsidiary or subsidiaries have been taken into account by the directors of the holding company in arriving at the profits and losses of the holding company as disclosed in its accounts. These are also required to be stated in the aggregate. When the auditor's report is qualified, the Act requires particulars of the qualification also to be stated. Our Indian Companies (Amendment) Act 1936, has taken up this question in greater detail, and has gone further even than the English enactment, taking advantage of the experience of the working of the subsidiary and holding companies both in England and in India since the time when the Greene Commission Report was written as we shall see a little later.

Definition of Holding Company.—Where the assets of a company consist in whole or in part of shares in another company, whether held directly or through a nominee, and whether that other company is a company within the meaning of this Act or not and the amount of shares so held is, at the time when the accounts of the holding company are made up, more than fifty per cent of the voting power in that other company, or the company has power (not being power vested in it by virtue only of the provisions of a debenture trust-deed or by virtue of shares issued to it for the purpose in pursuance of those provisions) directly or indirectly to appoint a majority of the directors of that other company, that other company shall be deemed to be a subsidiary company within the meaning of the Act. The expression “subsidiary company” means a company in the case of which the above conditions are satisfied and includes a subsidiary of such company. However, where a company whose business includes the lending of money, holds shares in another company as security only, no account shall, for the purpose of determining under this section whether that company is a subsidiary company, be taken of the shares so held (sec. 2 (2)).

Balance Sheet of Parent Companies.—When a holding company holds shares either directly or through a nominee in a subsidiary company or in two or more subsidiary companies, to the balance sheet of the holding company shall be annexed the last dated balance sheet, profit and loss account and auditors' report of the subsidiary company or companies, and a statement signed by the persons by whom, in pursuance of sec. 133, the balance sheet of the holding company has been signed, stating how the profits and losses of the subsidiary company, or where there are two or more subsidiary companies, the aggregate profits and losses of those companies, have been dealt with for the purpose of the accounts of the holding company. It should be particularly shown how and to what extent (1) provision has been made for the loss of a subsidiary company or of the holding company or of both, and (2) losses of

the subsidiary company have been taken into account by the directors of the holding company in arriving at the profits and losses of the company as disclosed in its accounts. However, it shall not be necessary to specify in any such statement the actual amount of the profits or losses of any subsidiary company or the actual amount of any part of any such profits or losses which has been dealt with in any particular manner. An investment company, *i.e.*, a company whose principal business is acquisition and holding of shares, stocks, debentures or other securities shall not be deemed to be a holding company, simply because part of its assets consists in fifty-one per cent or more of the assets of another company (sec. 132A (1)). In a case where the auditors' report of a subsidiary company on the balance sheet of the company does not state without qualifications that the auditors have obtained all the information and explanation they have required, and that the balance sheet is properly drawn up so as to exhibit a true and correct view of the state of the company's affairs according to the best of their information and the explanation given to them, and as shown by the books of the company, the statement, which is to be annexed as aforesaid to the balance sheet of the holding company shall contain particulars of the manner in which the report is qualified (sec. 132A (2)).

For the above purposes, the profits or losses of a subsidiary company mean the profits or losses shown in any accounts of the subsidiary company made up to a date within the period to which the accounts of the holding company relate, or if there are no such accounts of such subsidiary company available at the time when the accounts of the holding company are made up, the profits and losses shown in the last previous accounts of the subsidiary company which became available within that period (sec. 132A (3)).

It is further provided that where for any reason the directors of the holding company are unable to obtain such information as is necessary for the preparation of the statement required as above, the directors who signed the balance sheet

shall so report in writing and the report shall be annexed to the balance sheet in lieu of the statement (sec. 132A (4)).

The holding company may by a resolution authorise its representatives named in the resolution to inspect the books of accounts kept in accordance with sec. 130 by any subsidiary company, and on such resolution being passed, those books of accounts shall be open to inspection by those representatives at any time during the business hours. The rights conferred by sec. 138 upon members of a company may be exercised in respect of any subsidiary company by members of the holding company as if they were members of the subsidiary company (sec. 132A (5), (6)).

Thus the new section of the Indian Companies (Amendment) Act of 1936, now makes it compulsory that the balance sheet and profit and loss account, together with auditors' report of the subsidiary company, should be circulated along with the accounts of the holding company. This was laid down in response to a very strong demand from the Bombay Shareholders' Association and the investors for complete disclosure of the accounts of the subsidiary companies. The Select Committee also agreed with this view and laid down that "we also consider that when the holding company is a public company, subsidiary companies even if private companies should not enjoy exemptions from the provisions of secs. 83A, 86D, 87C, 87D, 91B, 91D, 144 (1) and 144 (5) clause 3."

Share Hawking.—There had grown up a practice in England under which highly speculative and worthless shares, or the so-called units of shares, representing shares or fractions of shares, were sold by offers made broadcast by letters or through personal "hawking" from house to house with the result that many unsuspecting investors were induced to purchase them to their detriment. Many of these companies were incorporated outside Great Britain which made fraud and mis-statement more easy and their proof more difficult. The victims mostly belonged to the poor and less educated portion of the community, and the most objectionable feature was that the purchasers were

not people with business experience. The present Law makes it unlawful for any person to go from house to house (except a business office) offering shares for subscription or purchase to the public or any member of the public. It also makes it compulsory that any offer in writing to sell shares to any member of the public, who is not carrying on the business of buying and selling shares, shall not be lawful unless the said offer is accompanied by a written statement signed by the person making it, and dated, which contains particulars as required by this section, or in case of a company incorporated outside Great Britain, it should be accompanied by a prospectus which complies with the provisions of sec. 93 of the Act of 1928. (Sec. 93 of Indian Companies Act 1913 ; sec. 35 and Parts I, II and III of Schedule Four of the New Act 1929). If the shares which are thus offered are quoted on a recognised Stock Exchange in Great Britain, or if the shares concerned are those which a company has allotted, or agreed to do so with a view to their being offered to the public, or where the offer is made only to persons with whom the party making the offer has been in the habit of doing regular business in purchase and sale of shares, the provisions of this section shall not apply.

In case of companies not incorporated in Great Britain the written statement must contain the following particulars:—

(1) Whether the person making the offer is acting as principal or agent, and if the latter the principal's address in Great Britain.

(2) The date on which the company was incorporated and of its registered and principal office in Great Britain.

(3) The authorized capital of the company and the amount for which it has been issued together with the classes with which it is divided and the rights of each class as to capital, dividend and voting.

(4) Dividends, if any, paid on each class during the three financial years immediately preceding the offer, and if no dividend is paid in any case a statement to that effect.

- (5) Total amount of debentures issued by the company if any and the rate of interest payable.
- (6) Names and addresses of the directors of the company and of persons occupying the position as directors.
- (7) If the shares are fully paid up, if not to what extent.
- (8) Whether the shares are quoted or are permitted to be quoted on any recognised stock exchange of Great Britain and if so what stock exchange.
- (9) Where offer relates to units, particulars of the names and addresses of the persons in whom the shares represented by the units are vested.

If any person acts, incites, causes or procures any person to act in contravention to this section he shall be liable to imprisonment or fine. It will thus be seen that it is made a criminal offence to break these regulations. The contract made by such a convicted person may be ordered by the Court to be void.

PROCEDURE AT AND CONDUCT OF MEETINGS.

Importance of a General Grasp of its Principles.—In these days of huge business establishments run on the principles of combination in one form or another, procedure and conduct of business at meetings forms a special branch of study for every student of "business organization". From a small private limited company, to a huge joint stock company working a railway, a mine, or a cluster of gigantic mills and factories, every step in the organization, control and direction of the same is dotted with meetings in one form or other, where our modern businessman may be called upon to exercise not only the virtue of patience, and tolerance of the views of others, however opposed they happen to be to his own; but he has also to display a thorough grasp of the principles on which the procedure followed at such gatherings is based. Whether he attends the meeting in the modest garb of one of its members, or under the dignified designation of the chairman, or in the

person of that industrious servant of the institution, the secretary, he cannot feel himself at ease if his knowledge as to the rules and regulations governing the conduct of such an assembly is indifferent. Meetings held by various bodies and associations, such as corporations, legislative assemblies, parliaments, etc., are those with which the modern business man is brought in contact in one capacity or other; but those in which he is most closely interested are the board and general meetings of joint stock companies. In the case of joint stock companies, a good portion of the procedure depends, no doubt, on the constitution and bye-laws of the company: but the general rules of debate, with which we shall deal in the course of this chapter, are more or less uniform and of general application. The principle on which a joint stock company is worked is the principle of the conduct of its business according to the wishes of the general body of its members as expressed by the voting majority, within the scope laid down by its memorandum and articles of association in particular, and as governed by the company law in general. Every member and officer of such an institution should, therefore, possess a good knowledge of the cardinal principles which govern the conduct of every meeting in which he aspires to take an active part, in order to be able to help those in authority to arrive at correct decisions, and should prevent that object from being defeated through the breaking up of assemblies in confusion and chaos by that irresponsible element which is frequently in evidence at such gatherings, particularly where some heated question is likely to be discussed. In the case of a joint stock company, the meetings are convened in accordance with the requirements of the company law, and therefore, not only is a qualified member entitled to be present at such a meeting, but is, in fact, more or less under a moral obligation to attend same. We have already seen how regrettably indifferent the average shareholder is with regard to the meetings usually convened in connection with companies in which he holds shares, but it is hoped that the shareholder of the future will,

with better appreciation of the principles underlying a joint stock company combination, exhibit greater interest in this regard.

THE CHAIRMAN.

His Election.—The first business of every meeting is to elect a chairman unless, as in the case of a joint stock company, there is a more or less permanent chairman, who if present, takes the chair as of right. If, however, neither the chairman nor the vice-chairman is present, and the meeting is composed of persons with equal right to preside, they will have to elect a chairman. This is done by any one present proposing the name of one of the members present, which proposal if seconded may be put to the vote. In case more than one name be proposed and seconded, they may all be put to the vote simultaneously, and the person securing the largest number of votes takes the chair.

Necessary Qualifications.—The person selected to act at any meeting as a chairman should be a person possessed of infinite tact. He should be patient, impartial, methodical, logical, firm without being autocratic, good-tempered and preferably one who brings with him special knowledge of the business which is to be disposed of at the meeting. In the words of Mr. Gordon Palin, in his book entitled "Chairman's Manual", "A man without any method of habit, who cannot at least on occasions, be judicial and unbiased; whose mental make-up lacks logic; who cannot think and decide pretty quickly; who is not fortified by knowledge of procedure and who cannot express himself well, should not voluntarily take the chair on any occasion." The same author however adds that "But there is not one of these short-comings which may not be largely remedied by assiduous study and practice. Industry and self-training quickly impress the seal of superiority; but he who must avoid this must remain out of the crowd." It will thus be seen that good chairmen are generally made and

not born. Of course there are men—though rare—who by the force of personality, and the prestige of their general reputation, can keep a large meeting in control, even when the most delicate questions are at issue: but the general run of chairmen, as a class, is made up of men who are self-made, and who owe their position of eminence to persevering hard work. The only idea that should supervene in the mind of the chairman, throughout the meeting, is to see its business transacted in as orderly and expeditious a manner as possible. In the words of Mr. Albert Crew in his book entitled "Procedure at Meetings", "The chairman should remember that men at the meetings are often but children of a larger (sometimes not much larger) growth, and should combat their petulance, unreasonableness, and pettiness by common sense, sweet reasonableness and quiet determination. He must believe in himself, but not allow his masterfulness to obtrude too much."

Chairman's Power and Duties.—The first duty of the chairman is to see that the meeting is properly conducted, and that order is preserved all throughout. He should next see that the quorum is present, and that all present have a right to be there. He should see that the points discussed at the meeting are brought forward in their proper order, that every one present is given a fair opportunity to be heard on the question that is before the meeting, and that none except the mover of a proposition is allowed a second speech, except by way of a brief explanation. It is the chairman who puts all motions, resolutions and amendments to the vote, and it is he who declares the result. He ought never to lose sight of the fact that the object of every meeting is to ascertain the opinion of the majority, according to the voting powers of each individual present, which opinion is expressed through the passing or rejection of the resolutions and amendments placed before the assembly. The first business of every meeting is to call upon the secretary to read the notice convening the meeting, and the minutes of the last meeting are generally read and confirmed by the meeting and signed by the chairman. The chairman

should next address the meeting with a view to explaining the object of the meeting. In the case of joint stock companies, the chairman explains the report (in the case of annual general meetings) and reviews the work done during the period covered by same. In other cases, the chairman generally opens the proceeding with appropriate remarks as to the business for which the meeting has been convened.

We have already noted that the chairman has the right to enforce order. In case a person present behaves in a disorderly manner, the chairman has the right to order him to behave himself, or else to withdraw: and if the person persists in the misbehaviour he may be forcibly ejected. In case of ejection, no more force should be used than what is actually necessary. When, however, the chairman finds that it is impossible to maintain order, he has the right to adjourn the meeting. With regard to this, it may be noted that the chairman's right to adjourn a meeting depends largely on the constitution of the company or the association whose meeting he happens to preside over. If the constitution does not provide for such powers the chairman cannot adjourn the meeting until the business is done without the consent of the members present. Chitty, J., in *National Dwelling Society v. Sykes*, 1895, 3 Ch. 159, laid down as follows, "In my opinion the power which has been contended for, is not within the scope of the authority of the chairman—namely, to stop the meeting at his own will and pleasure." He has the right to decide all points of order raised by any member present, and his rulings on points of procedure are final. It was also laid down by Lopes, L.J., in *Henderson v. Bank of Australasia*, that when a chairman deliberately rules that a certain amendment cannot be put, it would be improper and indecent for any shareholder to proceed to discuss the propriety of the chairman's ruling.

The chairman has the right of voting according to his qualification, *i.e.*, according to the regulations of the body whose meeting he is presiding over, and where the votes are equal on either side on any question before the meeting, he has,

in his capacity as a chairman what is called a "casting vote", by the use of which he may help the meeting to arrive at a decision. It will thus be seen that the chairman has generally two rights of vote, viz., (1) his *deliberative* vote, which he gives in his capacity as a member of the body, and (2) the *casting* vote, which he gives in case there is a tie. The first named right has been conceded on the ground that otherwise a person with a good voting power may be conveniently got rid of by being placed in the chair. It would be a great hardship, indeed, if a large shareholder, who also happens to be the chairman of a company, were to be prevented from voting on a question on which he is vitally interested, because he happens to occupy the chair, and thus a resolution were to be carried, or lost, contrary to his wishes, which eventuality could easily have been prevented through the use of his votes. The question of the casting vote, however, has been dealt with fully a little later.

In case of interruptions, the chairman no doubt has the remedy open to him of calling the offenders to order, and in the last resort of removing them from the meeting. Many a chairman has, however, found that a little tact, or a slight touch of humour, has frequently greater effect in bringing a troublesome person to order. Mr. Gordon Palin, in his book from which we have already quoted, relates an incident from his own experience which occurred at a meeting he was presiding over. He says, "I once had a buffoon whose fancy that night was to stand on his chair—a fruitful cause of disorder not so much from the antic itself, as from the vocal attention it attracts. However, announcing that the gentleman might (if that was his mood) listen to the speeches in that posture, tranquillity was restored, and a sense of the ridiculous soon melted the clown down into his seat."

The chairman should also see that no discussion is allowed until there is some duly proposed and seconded motion or proposition before the meeting, as otherwise, the meeting may indefinitely keep on talking irrelevant matters without arriving at a decision. Any one present, who sees such an irregularity

in practice at a meeting, may rise to a point of order, on the ground that there was no question before the meeting.

Passing of the Minutes.—We have already noticed that the chairman has to get the minutes of the previous meeting read out and confirmed by the meeting. This is done with a view to ascertaining if the record of minutes of the previous meeting, as made out by the secretary, is accurate. When votes are called for, only those who were present at the meeting of which the minutes purport to form a record, have a right to vote, as those who were absent from such a meeting cannot claim any personal knowledge as to the proceedings in question. If the majority are in favour of the minutes being accepted as accurate, the chairman should sign the same. In case any member present raises an objection and wishes some part of the record to be altered, he should move an amendment to that effect. This amendment should be seconded and put to the vote in the usual form. If passed, the chairman should instruct the secretary to give effect to the correction as indicated by the amendment.

PROPOSITIONS AND AMENDMENTS.

The Form in Which They are Moved.—After the preliminaries are gone into, the chairman may call upon the person, if any, on whose name any proposition in the agenda stands, to move the same. Failing that, any one present may voluntarily rise to move a proposition; and on his desiring to do so the chairman should announce that fact, with the name of the person concerned. In case of these propositions, and particularly in case of amendments, the rule to be followed is to get these in writing from those proposing, together with their signatures at the foot. A motion must always be framed in an affirmative form. A motion which is not seconded should be dropped, and no note of it need be taken in the minutes. But on the other hand, once a motion is proposed and seconded, it becomes the property of the meeting, and neither the proposer nor the seconder has a right to withdraw the same without the

unanimous consent of the meeting. The mover of a proposition, who does not find any one to second the same, has no right to speak on it. To this rule there is no exception. If a motion, in the form in which it is offered, is too lengthy, and the chairman is of opinion that it should be divided into two or more parts for simplicity, he has the power to do so. A motion which has been duly proposed, seconded and lost, or any amendment on it which has shared the same fate, cannot be brought in again for at least three to six months, according to the regulations of most of the joint stock companies and other public bodies. The mover alone has the right of second speech; and there, too, he has to restrict himself to the points raised in the course of the discussion.

Moving of an Amendment.—After a motion has been proposed and seconded, any one present may move an amendment. The amendments, like the motion, should be framed in the affirmative form. They must also be relevant to the original question embraced by the proposition which is sought to be amended. They must not make the original question unintelligible. Amendments may be put without notice, unless the regulations of the body concerned provide for a previous notice. The amendment may be moved with a view either to "omit" certain words from the proposition, or to "add" or "substitute" them. A direct negative is not a legitimate amendment, and should not be allowed. The party offering such a negative can attain his object by voting against the proposition. The person seconding a motion, or an amendment, need not speak on it immediately after the proposer, but may do so at any time before the same is put to the vote. As a general rule, more than one amendment cannot be moved on the same motion by the same person, unless the special regulations of the body concerned admit of such a procedure. An amendment may be moved on an amendment. When an amendment is proposed and seconded and all have spoken on it, the chairman puts it to the meeting for vote. If lost, the original motion is taken in hand. If, on the other hand, the

amendment is passed, the original motion, as altered by the amendment, is taken up and put to the meeting as a substantive motion.

The Closure.—It frequently happens that the discussion on any motion or amendment drags on and becomes lengthy. If any one present thinks that the mind of the meeting is made up, and that the motion should be put to the vote without any further waste of time, he may do so by proposing to the effect that "the question be now put to the vote". If seconded, the chairman should put it to the vote, if he is satisfied that enough has been said from all sides, and that the debate has now degenerated in mere repetitions: and if carried, no further discussion on the original proposition, or the amendment on which the closure was proposed and passed, should be allowed. If on the other hand, he is of opinion that looking to the importance of the question, sufficient debate has not taken place and there are members wishing to speak, the chairman should not accept the closure. The question has to be put to the meeting immediately, and the result announced. This is of course quite distinct from the chairman's right of warning a member who is addressing a meeting on any question, if he takes up needless time in idle repetitions, or irrelevant talk, and of eventually asking him to resume his seat. If however the motion for closure is lost the discussion must proceed. The other name of a closure is "the gag".

The Previous Question.—When a proposition is moved and seconded, which in the opinion of some is one which it is unwise to discuss in the general interest of the body, or from the discussion of which no good is likely to result, any one may move what is called the "previous question". The latest method of wording this proposition is "that this question be not now put." As soon as seconded, the chairman should put it to the meeting as it takes precedence of all other motions. No amendment is allowed on this "previous question", though it may be discussed, nor can it be superseded by a motion for adjournment. The "previous question" should be put, either

when the original proposition is before the meeting for discussion, or after the amendment is passed and the amended motion is put before the meeting as a substantive motion. It cannot be put during the course of the discussion of the amendment itself. The mover of this question has no right of reply.

Dilatory Motions.—These motions or resolutions are moved with a view to prevent or delay the discussion, and are in order if moved in furtherance of the object for which the meeting has been called. The motion for previous question, which we dealt with above, is one of the examples of dilatory motion. Another dilatory motion may be, to adjourn the meeting. The form of the resolution in this case will be "that this meeting be now adjourned". A further form of dilatory motion may be moved, to the effect that "this meeting do proceed to the next business". Here, the object of the mover is to drop the discussion of the motion which is before the meeting altogether. The adjournment may be also in connection with the debate, instead of the adjournment of the whole meeting itself, and it may be moved as "that the discussion of the debate on this motion be adjourned to....." Here the object of the mover is to adjourn or delay the debate, for one reason or other, to some other date. On this motion the mover of the resolution is allowed to speak, but no one else is permitted to speak on same.

Substantive Motion.—When an amendment on a motion is carried, the chairman has to put to the meeting the original motion as altered by the amendment. This original motion, as amended, is called "the substantive motion".

THE RULES OF DEBATE.

The chairman has, no doubt, a discretion to decide as to the order in which the speakers at a meeting are to be heard. If two persons rise to speak, the chairman may call upon the one who rose first to address the meeting. If they rose to speak simultaneously, the chairman may decide as to who should

first address the meeting. This right of the chairman is subject to the connivance of the meeting. If, however, the majority at a meeting express a desire to hear a particular person first, the chairman must bow to their wishes.

Every speaker at a meeting should address the chair and should keep standing while doing so. While so addressing he should not call the chairman by name, but should style him "Mr. Chairman". The person addressing should speak out his remarks, as reading from manuscripts may be objected to by the meeting. The language used must be courteous, and should not be offensive or personal. Unnecessary repetition must be avoided. Except in committee meetings, no one has the right of a second speech except a mover of the proposition. If any one present finds that anything irregular is being done, or any objectionable language or a personal remark is being made, he may rise to interrupt the speaker with the remark "Mr. Chairman, I am very sorry to have to interrupt, but I must rise to a point of order, etc....." and may state his grounds. The chairman's ruling one way or the other on a point of order must be taken as final. In case the speaker is referring to something in a previous speaker's address, or to any other course of conduct about some one present, the party so referred to, may also rise and address the chair with the remark "Mr. Chairman, I am sorry to interrupt, but as a matter of personal explanation I may state that....." This personal explanation should be in the form of a brief explanation and should not virtually make up a second speech.

No doubt, every member of an assembly has a right to propose or second a motion (subject of course to the rules, regulations and constitution of the body concerned) and also to speak on the same. The chairman will, no doubt, see that, as far as it is legally within his power, he allows every member the exercise of this right and that the minority is not bullied or browbeaten by the rowdy majority. At the same time, every member present should remember that the peaceful conduct of the meeting depends on individual efforts, and

that in case disorder or confusion arises through the unruly behaviour of a member, the same reflects on all who are present at the meeting. In the case of a meeting which claims to be made up of men of culture and good breeding, there should be as little cause for disorder as possible. A gentleman when publicly offended or insulted, prefers to lodge a dignified protest, and takes the assistance of the machinery provided by law. He is never justified in the use of force, except in self-defence, still less of language unbecoming a gentleman. These may, no doubt, appear to many as commonplace platitudes ; but how frequently are these simple principles lost sight of in the heat of the moment, even by men occupying high places in public life ?

As soon as the chairman calls out "order, order" the meeting must obey. The person to whom the words are addressed must immediately take the hint, and the rest should support the chair. In case the chairman proves to be an unreasonable autocrat, the remedy is not to create a disturbance and break up the meeting, but to take lawful steps which would ensure his removal. As far as the meeting is concerned, every member should readily submit to the disciplinary conduct of the chair, as he is there to co-operate with the chair both with a view to preserve order and to facilitate the despatch of business as per the agenda.

The Poll.—When a question is put to the meeting, the voting is usually effected through a show of hands. This mode of voting, in an assembly where each member enjoys one vote does not lead to any injustice ; but where, as for example in case of a joint stock company, the articles of association lay down rules and regulations as to the voting powers of its shareholders in proportion to the shares held, a result of voting by show of hands does not lead to the correct decision. Under these circumstances—or even in case of other assemblies where any member present thinks that the chairman has erred in the calculation of votes—any person present, or a member may rise and demand a "poll". In the case of joint stock com-

panies, the articles of association provide the minimum number requisite who should demand a poll. In such a case, the rule there laid down should be strictly followed. The advantage of the poll is that, under it each member's votes are counted according to his qualification (as per the constitution of the assembly), and that in case the regulations permit (as in case of joint stock companies), the votes of absent members who have given proxies to those present, may also be counted. The poll should be demanded as soon as the result of voting by a show of hands is declared. The demand for a poll nullifies the result of the show of hands as declared by the chair. All those who have a right to vote must be allowed to vote at this poll, otherwise an illegal exclusion may invalidate the poll.

It must, however, be noted that the right to vote by proxy as referred to above, is a right generally provided for by the constitution of joint stock companies, but in the absence of an express provision to that effect, proxies cannot be used. When such provisions are included, the form of proxy is also provided for. This form must be substantially followed, and where the use of it is made conditional to its deposit within a certain time, that regulation has also to be strictly complied with. The proxies must also be adequately stamped. Once a proxy is given which is to be used at a meeting, it may be used at an adjourned meeting ; because an adjourned meeting is only a continuation of the original meeting.

Returning to the poll, it may be added that the chairman may order the poll to be taken at once, or may fix a time and place for same. The latter course enables the vote of all members being recorded, as it is not necessary that a person voting at a poll should also have been present when the poll was demanded. The chairman generally orders the poll to be taken immediately, either when he thinks that the meeting is fully representative, or that the question is not of great importance. On the other hand, where it is considered necessary that all interested should record their votes, a date and time is usually fixed.

Scrutineers are generally appointed from among members by the chairman whose business it is to count the votes and report the result to the chairman. The votes, in the case of joint stock companies, are usually recorded on a form prepared by the secretary, giving the list of the shareholders entitled to vote, together with the shares held by them and the votes they are entitled to. On this list the members sign their names, in columns reserved for the purpose, as for or against the proposition in question.

The Casting Vote.—When voting on either side is equal, the question is, whether the chairman has a right to give what is known as his casting vote, in order to enable the meeting to arrive at some decision. In the case of joint stock companies, the extent of the right to vote largely depends on the articles of association. If the articles allow a chairman a casting vote, as they generally do, he can exercise this right. This, of course, will not deprive the chairman of his right to vote as a member or shareholder. In case of meetings other than those of joint stock companies, the chairman's right to a casting vote depends, in the first instance, on the regulations of the body concerned. If the regulations are silent the chairman has not a casting vote.

MEETING OF DIRECTORS.

We shall now proceed to deal with the special meetings of the board of directors. The first point which should be noted, is that the directors must act at a board meeting, and no act of a single director would be binding on the company. When they act as a board, the requisite number to form a quorum must be present. The powers of the directors depend upon those given to them by the articles of association, within which powers they can act. They must do the work assigned to them, and cannot delegate unless the articles of the company give them the power to delegate. This is generally done through the formation of committees to whom this work is

delegated. The secretary is bound to give notice to each and every director by sending it to his address ; and if any director is not given such notice, or an attempt is made to exclude him in any way, the whole proceedings of the meeting may be declared void. In the case of the quorum, the persons present must be competent to transact business and to vote. Generally the articles fix the quorum of the board of directors, failing which, a majority of directors will be competent to act. This majority may fix the quorum at their first meeting if they so desire. Of course, a director who is disqualified from voting at a directors' meeting is not necessarily disqualified for that reason from voting in his capacity as a shareholder, at a shareholders' meeting.

Of course the board meetings will be presided over by a chairman, and generally, in joint stock companies, the chairman is a permanent officer. The duties and powers of the chairmen of board meetings are similar to those of all chairmen of all types of meetings, as we have discussed above ; and therefore we need not go over them in detail here.

The usual practice is to keep the directors' attendance book, in which the directors sign when they come in to attend a board meeting. Failing this, a special clerk will have to be assigned the duty of noting down the attendance as a director comes in.

The usual business done at a directors' meeting is that of the management of the business of the company, forfeiture of shares, making of calls, passing of transfers and accounts, recommendation of dividends, appointment of officers, appointment of committees, etc. The advantage of distributing the work on the committees has been already discussed, the main advantage being that it enables efficient distribution of duties, and that, too, to directors possessing special knowledge of the work entrusted to them. It also saves time which would otherwise be lost by the whole board discussing the subject matter.

In connection with the attendance, it is no doubt the moral duty of the directors that they should attend regularly, though generally speaking a director is not responsible for acts done

in a board meeting at which he was not present. According to judgment given in the *City Equitable Fire Insurance Company Ltd.*, 1925, 1 Ch.D., 407, a director in discharging his duties is not expected to show a greater skill than may reasonably be expected from a person of his skill and experience. He is not liable for any errors of judgment. His duties are of an intermittent nature, to be performed at periodical board meetings, and he is not bound to give continuous attention. Though not bound to be present at all such meetings, he ought to attend them when reasonably able to do so.

As to the right of directors to inspect the minute book, there is not the least doubt that as long as he is a director he has the right to inspect and take copies of the minute book of directors; though, in an old judgment this was doubted, and it was laid down that if the inspection was required for a hostile purpose the same could be withheld.

In connection with board meetings, if the directors speak honestly and without malice, while discharging their duties and while discussing the affairs of the company, they would not be liable for any defamatory statement they may have made at such meetings.

SHAREHOLDERS' MEETINGS.

We have already considered fully the statutory meetings held by every company once in its life. The other meetings are annual general meetings, extraordinary general meetings and class meetings. In connection with annual general meetings the business done is more or less uniform. It consists of the reading of the notice convening the meeting, the receiving of the directors' report and accounts, chairman's speech reviewing the year's work and the remarks as to the future year's prospects, putting to vote of the report of the directors and the audited accounts as presented at the meeting, the declaration of dividend as recommended by the directors, election of directors in place of those who retire or who have died,

appointment of auditors for the next year and the fixing of their remuneration. The minutes of these general meetings are kept, and generally passed as a correct record at the next directors' meeting following the date of the ordinary general meeting. In connection with general meetings, the directors in a board meeting must decide to hold same, and the secretary or a single director cannot call an annual general meeting. This differs from the calling of meetings of the board of directors which can be called by the secretary or any of the directors. When calling an annual general meeting, care should be taken to see that every one entitled to receive notice of the meeting has been properly notified, otherwise the proceedings at the meeting may be held to be void. The articles generally provide, in this connection, that in the case of a shareholder who has left India, or is living at a certain distance, say, more than two hundred miles from the place of registration of the company, the notice need not be given, in which case the regulation would be in order. The place and time of the meeting should be reasonable. If any business is to be done at this general meeting, the same should be specifically mentioned.

All other meetings held for special purposes, other than the annual general meeting, would be termed extraordinary meetings. In case of extraordinary meetings the notice calling such meetings must specify the actual terms of the extraordinary resolutions which are proposed to be discussed and passed at the said meeting. Unless the articles permit, a notice of the meeting once given cannot be withdrawn, but the meeting must be held and adjourned.

It is frequently necessary to call what are known as class meetings: that is to say, a meeting of the members of a particular class, in order to decide some important questions, such as a meeting of preferential shareholders.

PUBLIC MEETINGS.

Public meetings, as distinguished from joint stock companies' meetings, or meetings of public bodies such as the

municipal corporation or public boards, are generally governed by the principles of common law, which may be defined as customary rules of procedure which have received the approval and sanction of the Judges. In addition to that, there are a few English Acts, such as the Public Meetings Act, 1908, and the Local Authorities Admission of Press to Meetings Act, 1908, etc., applying to public meetings in England, which, of course, do not apply to India.

According to common law there cannot be a meeting unless there are two present, one to meet and discuss with the other. The usual method of voting at common law is by show of hands. Voting by proxy or writing came in later, through special regulations of the bodies concerned and even to this day there is no common law right to vote by proxy. These votes by a show of hands were to be counted by the chairman; and at common law he has a right to declare the result.

In case of large meetings the calculation of votes naturally entails error in calculation. In such cases the right to demand a poll, or recounting, gradually came into shape. Now, at common law, the chairman's declaration of the result is *prima facie* evidence as to the decision of the meeting. If that declaration has to be challenged it must be done immediately, by demanding a poll. When the poll is demanded at common law in public meetings, the usual practice is for the chairman to ask those present to go into a division, one party going to the right and the other to the left, so that the "Ayes" and "Noes" may be more conveniently counted. In the House of Commons this practice is followed by one party remaining in the House and the other going out into the lobby. This is known as a division. The common law quorum, as we have seen above, is of at least two persons present. This common law quorum may be improved upon by the regulations of the association concerned.

From the earliest date it was found necessary that where a large number of persons meet, there must be some one to regulate the proceedings. Thus arose the necessity of appointing the chairman. Here, in public meetings, the meeting itself

selects its chairman and, so to say, attorn to him the whole power of regulating themselves, thereby voluntarily placing themselves under his discipline and jurisdiction for the time being, *i.e.*, during the period that the meeting is proceeding with its business.

The Chairman.—As we have already seen, in public meetings the chairman is to be elected at the meeting, whereas in the case of meetings of public bodies, like joint stock companies, etc., there is a permanent chairman, and also, in many cases, a vice-chairman. Even a public meeting is frequently advertised with the name of a particular person as its chairman. Here there is nothing to prevent some other person being proposed: in which case the voting by those present would decide as to which of the rival candidate, should take the Chair.

Legislation.—The two English Acts which we have mentioned, *viz.*, the Local Authorities' Admission of Press to Meetings Act, 1908, and Public Meetings Act, 1908, make important additions to the common law of meetings. The first Act, namely, the Local Authorities' Act, gives the press a right to be present at meetings of Local Authorities which the common law did not give them. The second, *viz.*, the Public Meetings Act, gives the chairman the right to prosecute those who create disturbances at public meetings, and get them fined, or punished with imprisonment. This Act creates an offence for any person who, at any lawful meeting, aids or incites another to act in a disorderly manner for the purpose of preventing the transaction of the business for which the meeting was called. The common law did not give this right, but only gave the right of ejecting the objectionable person, *i.e.*, not of prosecuting and getting him punished. In this connection it may be further noted that the prosecution has to be conducted by the conveners of the meeting, as the Act does not seem to empower the police to arrest the interrupter, or even to take his name and address; though in this connection, *i.e.*, in obtaining the name and address, there is a difference of opinion. Police would interfere under the common law in order to

prevent a breach of peace. A meeting becomes unlawful from its nature, if it amounts to an affray, or an unlawful assembly, or a riot, or is prohibited by law, or from its being held at a prohibited place; such as one held to threaten parliament or against orders in a park or any other prohibited place.

Private or Public Place.—Meetings are expected to be held in private places, *i.e.*, in halls, houses, or private compounds, but there is no right to hold one in a public place, such as a street, where the public are likely to be obstructed. If, however, the meetings are lawful, and are held in public or private places where no public obstruction or nuisance or breach of peace is likely to occur, no offence is created. Every citizen, in law, has a right of free speech so long as he does not utter treason, libel, or blasphemy, and does not use abusive language.

Unlawful Meetings.—A meeting is unlawful when it is held for an unlawful purpose and if the authority apprehend a breach of peace they have a right to ask those assembled to disperse. The moment the assembly declines to disperse, when called upon to do so, by a magistrate or other person authorised by law, they become an unlawful assembly. An unlawful assembly can be dispersed by force if necessary, and every lawful citizen is bound to assist the authorities in this work.

In case twelve or more people assemble and become, in the opinion of the authorities rioters, a magistrate will read out to them the Riot Act, and ask them to disperse. Those who do not disperse within one hour after this may be arrested, and will be guilty of felony. If the magistrate considers it necessary, he may give orders, in such a case, to open fire on the rioters.

The magistrate may, where necessary, call for the military, by summoning their assistance. A soldier is also a citizen at common law, the only difference is that he is armed, and, when called upon by proper authorities, it is his duty to assist, and to refuse such assistance is a misdemeanour. The order to

fire may in extreme cases be given, even before the expiry of one hour, in order to prevent breach of peace, destruction of property, or life. The only consideration is, that in so opening fire, care should be taken to see that no more force is used, or no more harm is done, than is absolutely necessary.

Lawful Meetings.—We have seen thus far that there is not the least objection in law to a meeting being held for a lawful purpose, without inconvenience or obstruction to the general public, where the speakers may express their views in a lawful manner. These lawful meetings may either be (1) those called in pursuance of a legal duty, such as those of municipal corporations, borough councils, local boards, etc., under powers given to them by their own acts, or statutes, and (2) those held for private purposes, such as political meetings, religious meetings, etc.

In the first case, the members of these bodies have a right to be present at these meetings, for which they must be given proper notice: and even if they make defamatory statements in connection with this meeting against anybody, they would not be liable, provided they acted *bona fide* without malice.

In the case of a public meeting, however, which is usually advertised, no member of the public is in duty bound to attend, neither has he the legal right to attend, and therefore, if the conveners object to his attending he must withdraw. Here defamatory statements, if made, are not privileged. It is further laid down, that even if gate money was charged for admittance, and the party concerned was asked to withdraw, he cannot refuse to do so until his money is refunded. He should first withdraw and then take legal action in connection with the refund of money, or on any other ground open to him.

CHAPTER X.

INDUSTRIAL MANAGEMENT AND LABOUR EFFICIENCY.

A General Survey.—In these days of keen industrial rivalry between civilized nations, organization of industries, from the stand-point of labour efficiency, on a scientific basis, forms the most important factor. In Europe and America this branch of organization has been engaging the most anxious attention of the State, the employers, as well as workmen, for years. The efficiency of labour should not only claim great attention owing to its potent influence on the progress and prosperity of the industries concerned, but it should appeal to all patriotic Indians, conducing as it does, to the well-being and happiness of the toiling masses. It is a question of too great a national importance to be allowed to rest at the mercy of amateur labour leaders. In the present state of Indian labour, one cannot expect it to take the initiative through leaders drawn out of its own ranks, and insist on better treatment. At the same time, over-anxious sentimentalists from outside have done more harm than good. Besides, men who are encouraged to ask for a rise in wages merely for the pleasure of getting it, and who are not in a position sufficiently to appreciate the fact that higher wages can only be demanded in return for an adequately higher or superior production, are not likely to do much good either to themselves or to the industries concerned. The evolution must be gradual, and for that purpose the lessons taught by the industrial history of Europe may be studied with advantage. The preliminary steps have to be taken by the employers and the legislators, until by gradual progress from stage to stage, labour is brought to a level from whence it can be relied upon to look after its own interests. The patriarchal order of things must exist here for the present, as it did in Europe at the early

stage of its industrial history, till labour gradually grows in strength, improves in education and learns to appreciate the fact that its own interests and that of the industries concerned are identical, and takes upon itself the work of providing its own welfare institutions in return for an adequate and equitable rise in wage. In short, the maxim of our modern industrialist should be "We must make men as well as money." With such men on the highest level of efficiency, "scientific management" can be made to co-operate to the great advantage of both labour and the industry concerned. "Scientific management" in the words of Mr. F. W. Taylor, of America, who is the acknowledged pioneer of this idea, "involves in its essence a complete mental revolution on the part of the workmen engaged in any particular establishment or industry—a complete mental revolution on the part of these men as to their duties towards their work, towards their fellow-man, and towards their employers. And it involves the equally complete mental revolution on the part of those on the management's side—the foreman, the superintendent, the owner of the business, the board of directors—a complete mental revolution on their part as to their duties towards their fellow workers in the management, towards their fellow workmen, and towards all of their daily problems. And without this complete mental revolution on both sides scientific management does not exist." This much desired revolution must be attained through gradual stages of evolution in order to prove to be enduring.

This revolution constitutes, in both the employer and the employed, appreciation of the fact that progress and prosperity of the industry in which they are engaged should be the desire of both, their interests being identical; that in the gains and profits made, the labourer as well as the capitalist should have a fair share; that the well-being of the workmen is as much to the interests of the capitalist as of labour; that a healthy, intelligent, well-trained, self-respecting type of workmen is a great advantage to the industry in general; that a rise in wage

can only be allowed if it also brings about a rise in production ; that in order to induce workmen to put forth their best efforts, the payment of wages should be so arranged as to afford a sufficient incentive in that direction ; and that a general rise in the standard of living among workmen stimulates, if properly tackled, the incentive to earn more by improving production.

In short, according to Mr. Taylor, the idea is to arrive at a stage when "the maximum prosperity" both of the employer and the employee could be the result. This can be done by encouraging each individual worker to attain the height of efficiency to which his natural powers would make it possible for him to achieve. Each man and each machine, therefore, should be made to put forward the largest possible output, without, of course, impairing its efficiency through overwork or overstrain. The scientific management aims at bringing about that result.

WORKING ENVIRONMENT.

It is now realised and acknowledged on all hands that the efficiency of the industrial operative is largely influenced by the environment in which he is made to work. In early days a factory used to be fixed up anywhere, in any old dilapidated building, stable, warehouse, etc., without the slightest idea as to whether the environments were perfect, or even suitable, from the stand-point of efficiency. In modern times, factories and mills are worked on premises specially built for the purpose, where the scientific requirements of environment and efficiency are carefully attended to and answered.

Illumination.—The first and the most important consideration here will be to see that the illumination, or light, in the factory is proper and adequate. A large number of accidents occur through negligence of this elementary precaution ; and in addition, an amount of raw material is wasted by the operative who is made to work in insufficient light. A workman who has to work under inadequate lighting arrangements also

unduly exerts his eyes and muscles, and gets fatigued much quicker than he would otherwise, with the result that the quality and quantity of his production degenerates with the prolongation of the day, and ultimately the operative suffers from physical disability in one form or other. The intensity of illumination has also to be controlled, because it has been found on scientific experiments that too much light is as degenerating as too little light. In India, fortunately, we have bright day light for the most part of the day and hence the necessary lighting arrangement in an open and well ventilated building is more easy to get. In European countries where the climatic changes during the day are frequent, artificial lighting has to be largely resorted to, even during the day work. In case of overhead lighting, care should be taken that the burners are kept clean, so that full advantage of the light may be taken. The walls of the building should be frequently white-washed as unpainted, or dark walls and black machinery are known to absorb much of the good effects of light. The light should also be scientifically distributed, so that every operative gets his full share of same, and is not obstructed in his work, either by the light falling on his eyes or being obstructed by any other operative or machinery in the way.

Ventilation.—The next item of importance here is proper ventilation, particularly in warm climates, as this is one of the most important factors affecting efficiency. One can well imagine, on a warm day, a crowd of operatives working in discomfort in a factory-room for want of proper and efficient ventilation. The result is not only discomfort, but early and easy fatigue, and deterioration of the work in the first instance, and of the workman's capacity itself in the long run. By ventilation is meant not only the running of fans or air conditioning, but a scientific arrangement by which fresh air is continuously introduced into the closed rooms, with a view to supply the operative with sufficient quantity of oxygen so essential to maintain his strength and efficiency. Working of electric fans in an otherwise closed room, does not meet

the need: but what is wanted, is admission of fresh air. It has been established on scientific experimentation that mental efficiency improves or degenerates through the supply of fresh air, or want of it, in a room occupied by operatives in a factory.

Climate, Noise and Music.—The two other factors which will also effect efficiency and the working environment are climate and noise. The climate of the country largely influences production, particularly in the case of certain industries; and thus, it is best to locate a factory in a place where the climate is likely to be most favourable for the purpose of production. On the same principle, noise is another factor which provides distraction from efficiency of the operative's industrial work. Of course, it is contended by some that the operative gets accustomed to the noise, and after he has done so the noise may not have a serious effect on his production.

With reference to music, it is not exactly clear as to what degree it affects industrial efficiency; though it is quite common knowledge that martial music encourages both the crowd, and the army concerned, to action; and that many operatives feel that if they have music or singing during their work, they are able to produce better work with less fatigue. It is said that the effect of music is to put the worker in a more pleasant state of mind, though the answer to this problem has not been yet scientifically established.

FACTORS INFLUENCING LABOUR EFFICIENCY.

We shall now proceed to discuss the principal factors which if properly organized and directed would go a long way to add to the ability of a nation to compete with its rivals in the industrial markets of the world, of course after making all due allowance for the most potent element, *viz.*, the national temperament in each individual case. The main headings under which these are generally classed are:—

- (1) Protection of Child and Female Labour,
- (2) Conditions under which the work is carried on,

- (3) Machinery in use,
- (4) Working hours,
- (5) Methods of remuneration,
- (6) Housing,
- (7) Physique of labourers,
- (8) Labour Organizations,
- (9) Education and training.

CHILD AND FEMALE LABOUR.

Under our present day factory system thousands of men, women, and children are made to work from early morning to late in the evening, in a block of buildings full of disagreeable odours, noise and bustle—a factor which threatens to impair the national health if not carefully watched with a view to counteract or prevent the evils arising from this state of affairs. The result of fatigue through overwork is bound to react in the long run, and particularly in the case of women and children it was likely to result in even greater injury to the efficiency of labour in the near future. The health of female operatives—mothers of future generation of work people—and that of children who were expected to grow up and supply the adult labour in course of time, must be our first care.

At this stage it may be stated that the law relating to labour in factories was consolidated by the Factories Act of 1934, which was further amended by Act XI of 1935. This Act was originally passed as the Factory Act, in the year 1911, and since amended. The object of this Act is to protect the position of workers of various ages and both sexes, employed in factories, by laying down rules relating to their health, safety, conditions of employment, etc.

With regard to women and children, this Act lays down that a child, under the Act, means a person who is under the age of fifteen years. The Act prohibits the presence of children in any factory, or any part thereof, where, in the opinion of the inspector, their presence involves danger or injury to the

health of such children. It also provides that women or children shall not be allowed to clean any part of the mill gearing or machinery of a factory while the same is in motion, or to work between the fixed and traversing parts of any self-acting machine while such machine is in motion. Women and children are also not to be employed in any part of the factory used for pressing cotton in which a cotton-opener is at work: provided that, if the feed-end of a cotton-opener is in a room separated from the delivery-end by a partition extending from the floor to the roof, (or to such height as the inspector may, in any particular case, specify), women and children may be employed in the room in which the feed-end is situated.

A further provision in this regard is, that no child is to be employed in any factory who does not possess a certificate to the effect that he is not less than twelve years of age, and is fit for employment in a factory. No child, again, is to be employed before six o'clock in the morning, or after seven o'clock in the evening; and shall not be allowed to work for more than five hours in any one day.

Hours of Employment Generally.—Generally speaking, for all employees the provision is that no person shall be employed in a factory for more than fifty-four hours in any week: or if the factory is a seasonal one, for more than sixty hours in one week, or more than ten hours in any one day. The other rule which applies to all classes of workmen is, that no workman is to be employed on a Sunday unless he has had, or is going to have, a holiday for a whole day on one of the three days immediately preceding or succeeding the Sunday; and the manager has, previous to the Sunday or substituted day, whichever is earlier, given notice of his intention to do so to the inspector, and displayed a notice to that effect in the factory.

The rules with regard to these hours have been very strictly construed in English Law Courts, where in one case, *viz.*, a boy who cleaned machinery for his own amusement during mill times, was held to be working. Further, it is

provided that the manager should see that no person is employed in his factory whom he knows, or has reason to believe to have already been employed on the same day in any other factory.

FACTORY CONDITIONS AND THE FACTORY ACT.

We have dealt with the importance of a specially scientifically built factory building under the heading of "Working Environment", and hence we shall not deal with that aspect of the question here. However, it may be stated that under our Indian Factories Act of 1934 a "factory" is defined as follows:—

"Factory means any premises including the precincts thereof whereon twenty or more workers are working, or were working on any day of the preceding twelve months, and in any part of which a manufacturing process is being carried on with the aid of power, or is ordinarily so carried on, but does not include a mine subject to the operation of the Indian Mines Act, 1923."

The words "manufacturing process" as used in the above definition mean any process:

- (i) for making, altering, repairing, ornamenting, finishing or packing, or otherwise treating any article or substance with a view to its use, sale, transport, delivery or disposal, or
- (ii) for pumping oil, water or sewage, or
- (iii) for generating, transforming or transmitting power.

Besides this, in connection with health and safety the Act lays down that the factory should be (1) kept clean and free from effluvia arising from any drain, privy or other nuisance, (2) that it shall be ventilated in such a manner as may be prescribed, (4) that adequate measures shall be taken to render harmless, as far as practicable, any gas, vapours, dust or other impurities generated in course of work carried on therein, that may be injurious to health, (5) that the atmosphere shall not

be rendered so humid by artificial means as to be injurious to the health of the persons employed therein.

In connection with above, the law provides that in case of factories where the process involves the creation of dust or other impurities, which when inhaled by the workers is injurious to their health, the inspector may if he thinks that this inhalation could to a great extent be prevented by the use of a fan, or other mechanical means, he may get same done by serving a notice in writing on the manager of the factory.

There are similar provisions providing that the factory shall be sufficiently lighted, that the water used for humidifying should be pure, and in order to ensure that, a public supply of drinking water, or some other source of water ordinarily used for drinking water shall be used for the purpose; and water from any other source shall be effectively purified before it is so used. Proper sanitary arrangements such as suitable latrine accommodation, as well as, when the local government requires, separate urinal accommodation for the employees, have to be provided and the drinking water has to be maintained in sufficient quantity for use of employees. The doors have to be constructed in such a way that they open outwards, and proper fire escapes have to be maintained.

In connection with fencing of machines, the Act provides that they should be properly fenced so that safety of the workmen employed in the factory, and near the dangerous types of machinery, is assured as far as could be. The inspectors have to see that this fencing must be constantly maintained in an efficient state. It has been held in one case that this obligation for fencing is absolute, and applies to every hoist or teagle, whether connected with mechanical power or not. It is not sufficient that this fencing is done in a manner usual in the best factories of the district, but it must be fenced according to the best method known at the time, so as to be equally safe whichever way the machinery is worked. The trend of all the English decisions clearly show that the Courts have taken the requirements of the Act as to fencing very seriously, and

have persisted in emphasising that there should be no possible concession in this connection.

The modern factory buildings provide conveniences and comforts of various descriptions, such as washing and tiffin rooms, restaurants, etc., in order to facilitate the workmen making the most of their hours of recreation, and thus helping them to get refreshed in order to be able to carry on their work with renewed strength and greater dexterity. Great care is also taken to fit the machinery with proper guards, with a view to minimise danger to the life and limbs of the employees. Fireproof buildings, as far as possible, are provided for, and adequate fire units are attached to such establishments. Artificial illumination is amply provided for in order to make up for the dim light during certain seasons, *e.g.*, during the monsoons in India and fogs and rains in Europe and America, and also for night work when the factories are working overtime. At the same time, arrangements are made to avoid excessive light or sunlight glare from interfering with the work done in the factory. The workmen are also given lessons in fire-drill to enable them to take advantage of the fire extinguishing apparatus provided and to render immediate and the most efficient assistance in case of an outbreak of fire.

MACHINES AND IMPLEMENTS.

It hardly requires to be mentioned that the nature of machinery in use in a factory influences its efficiency in a large measure. The latest improvements in machinery should be taken advantage of as far as possible, and constant repairs and replacements of worn-out machines should be attended to. The modern industries can only be run successfully through the help of an up-to-date machinery and motive power.

In the case of machinery, the other factor conducing to efficiency of production is the pace at which the machines are worked. If machinery is worked at a faster pace it would no doubt result in a large production up to a certain limit without

impairing quality ; but beyond that limit the extra quantity can only be obtained at the sacrifice of quality, and perhaps also at a proportionate increase in the loss by wear and tear, as well as through the increased working expense on machinery run under such high pressure.

We have already seen how modern factories are laid out in order to help efficient production. The planning ought also to take into consideration the nature of the machinery which is to be fixed in the building, with all possible facilities for the movement of material from one process to another. The machinery has thus to be arranged in proper sequence to facilitate work and save time.

HOURS OF WORK AND FATIGUE.

"Fatigue" and its Effects.—Labour, which after all is the exertion of human physical and mental powers, can be applied for a certain period a day without loss of general efficiency, either in the constitution of the labourer, or in the quality or quantity *per* hour of the work produced. If more work *per* day is imposed than an average human frame can bear, the immediate result is the deterioration in both the quality and quantity of production during the latter part of the day, as compared to the former ; and eventually the sum total results in the gradual wearing out of the human frame itself, with consequent general deterioration of efficiency. This, if persisted in, brings about a sudden collapse and eventual halt to all of its activity. Moderate fatigue is essential, not only in the interest of industries, but also in the interest of the workmen themselves. What is objected to is overstrain. This question is particularly met by legislation, in all modern industrial countries, through limiting of the hours of work. The limiting of hours in itself has presented considerable difficulties. The actual number of hours per day for which a workman can be efficiently employed in a particular industry, and under particular climatic conditions, is a moot question. The point on

which one might expect a general agreement is, that the hours of work may be either too long or too short from an efficiency stand-point. The hours if too long, will impair efficiency through fatigue. The quality and quantity of work produced in the latter part of a long working day would certainly prove to be inferior to that produced during the earlier, whereas, the effort and the consequent constitutional strain and exhaustion may be fourfold in comparison. Besides this, where overstrain is persisted in, it has resulted in a gradual reduction of production day by day, even though the number of working hours were uniformly maintained. The recovery from excessive fatigue would necessarily be slow, and if such effort is persisted in, permanent injury to the efficiency of the workman concerned would be the result, without any substantial advantage arising through his overwork. In short, the essential condition to continued efficiency is an appropriate interval of rest or recuperation. Lord Leverhulme, in one of his addresses collected in a book entitled "The Six Hour Day", quotes a passage from the report of Dr. Vernon on the health of munition workers of England during the war, in the course of one of his lectures. This is quoted with a view to demonstrate that experience has shown that up to a certain extent "working shorter hours with lessened fatigue does not reduce output, but generally, and with very few exceptions, tends to increase output." Here the learned Doctor is quoted as stating that "from experiments spread over thirteen and a half months upon the output of workers making fuses, a reduction of working hours was associated with an increase of production, both relative and absolute. Hours of work were changed first from a twelve hour day to a ten hour and Sunday work was abolished. A group of women making aluminium fuse bodies provided the following results:—A twelve hour nominal day, after deducting lost time, making eleven hours net, yielded 100 articles, say per hour, and 100 totals, say per week. A ten hour nominal day, after deducting lost time, making nine hours net, yielded 134 articles per hour and 111 totals per week. A nominal eight

and a half hour day, after deducting lost time, making a seven and half hour day net, yielded 153 articles per hour and 109 totals per week, thus proving that an eight and a half hour working day, or 52 hour week, yielded more in products, both per hour and per week, than a twelve hour day or 72 hour week, calculated either per hour or per week."

This, and other similar experiments, have proved that the human body is so made that if overworked, the quantity and quality of work gradually declines, whereas if worked up to its normal limit, not only are the quality and quantity maintained, but considerably improved upon. The difficulty of arriving at a standard day, made up of a fixed number of hours for each class of industry, is no doubt great, and is not lessened by the fact that a less efficient workman employed in the same class of work puts in greater exertion during the same period of time as compared to his more competent colleague. Prof. Edward D. Jones quotes in his book entitled "The Administration of Industrial Enterprises", a statement as coming from a woollen manufacturer, *viz.*, that, "The good weaver never seems to be doing anything; the poor weaver always appears to be hard at work. The good weaver is quietly on the alert for things to happen; the poor weaver is always fussing around to catch up things after they happen; consequently the good weaver not only produces more work but better work than the poor one. It is not a question of quick motions. One of the best weavers we have, is a man of very slow, almost sluggish motions. One of the poorest ones we ever had, was a nervous, quick-motioned man. The first made every move count; the second made three unnecessary moves to one that was useful. We believe the same types will be found everywhere, in any line of work." To this, add the fact that too much leisure will lead to almost the same result, *i.e.*, loss of efficiency. If, for example, a working day is too short, the production will be small and the want of practice may impair the quality of production. The object aimed at is to stop exertion at that particular point where it is likely to result in overstrain. The

following sentence out of Professor Jones' book, from which we quoted above, explains what overstrain actually means. "Passing beyond that reasonable fatigue which acts as a moral and physical therapeutic agency, it must be recognised that there is a point in labour where the exertion becomes too costly for the results achieved—too costly for the worker, too costly for the employer, too costly for society. This may be called the point of overstrain." The learned Professor further adds that "Remembering that it is uneconomic to sacrifice a greater good for a lesser one, it must be a rule of economics that labour should cease at the point where society begins to suffer a greater loss through the breakdown of the labourer than the gain resulting from the product of his exertion."

To summarise the position: what every industrialist should remember, is, that there are possibilities of economy by arranging to introduce pauses between work, so as to counteract the progress of fatigue by preventing the accumulation of same to a degree when the operative is too exhausted to produce his usual quality of work. Instead of the men being compelled to slow down on their own, through fatigue, the idea should be to permit them pauses, so that they may continue to work with their usual speed and efficiency throughout the number of hours assigned to them during a shift. It is the usual practice in mills and factories where men are worked for long hours, that the operative himself, under one excuse or another, takes a pause, or loiters, in order to get over his fatigue; and thus it is wiser to allow him a fixed interval, scientifically arranged, instead of this irregular pause. The rest pause may be fixed by a careful study of the course of production, and here no general rule can be laid down. It is stated that it is better to have a longer day, and give a rest pause in the interval, rather than shortening the day itself. The duration of the pause should also be such as would relieve the operative of his fatigue.

Monotony and Fatigue.—The other factor which the factory system, with its complicated sub-division of labour,

has introduced, is monotony of work which bores and tires out the workmen, and thereby leads to a quicker fatigue. In the opinion of some psychologists this monotony leads to mental starvation, and takes joy out of a person's work. This expression has, of course, its limitation in view of the fact that there are a large number of operatives who cannot undertake the burden of original thought, and prefer a monotonous job. It is many times emphasised that in order to alleviate monotony, the work should be made as far as possible interesting to the operative, by giving him a sort of education as to the source of material, the processes through which they pass and ultimately come out as finished articles. The other suggestion is that the workman should be encouraged to occupy his leisure hours in some interesting pursuits, so that he may be able, by the working of mind and actions, to get over the after-effects of monotony. In some industries it is possible to shift the workman from one machine to another ; which may also, to a certain extent, serve as a remedy against the effect of monotony.

Position in Europe, America and India.—In England, eight hours a day is claimed by some as sufficiently long ; and many employers have admitted that this "eight hour shift" has proved very advantageous. Of course, much will depend on the energy and conscientious effort put forth by the workmen in their work. Leaders of industry, of the standing of late Lord Leverhulme, have been advocating the introduction of a six hour day, in common with labour leaders. It is easy to understand that a workman working for eight hours a day may produce as much quantity and quality of work as some other who is made to work for twelve hours. The difference may be due, either to the inherent superiority of the former, or to the greater energy put forth by him. It is, therefore, clear, that in organizing industrial concerns, besides regulating the number of hours of work, steps should be taken to see that workmen are encouraged to put into their work as much energy as possible without actually overworking them. The increased efficiency thus secured will enable short days

to be introduced without loss or inconvenience. In the example of munition workers quoted above the employees were, owing to patriotic reasons, as anxious as the employers to put forth their best efforts, and thus, in spite of reduction of hours, the output was increased. Without incentive of one type or other the result would perhaps have been different. In India, the Factory Act, as we have seen, lays down a limit of 54 hours in any week ; or if the factory is a seasonal one, not more than 60 hours in one week, or more than 10 hours in any one day. This reduction has not affected production. Even this does seem to be a fairly long day in a tropical country, particularly in comparison with the "eight hours' shift" of England. The problem, however, is full of complications. A reduction of the number of hours in European countries is allowed on the supposition that the production will be maintained by an increased effort on the part of the workmen ; and as we have seen, that expectation seems to have been realised. Whether the same reduction, say to eight hours, can be effected in our factories without diminishing the quantity and quality of production to any appreciable extent, is a question on which opinion seems to be sharply divided.

In this connection, one factor which may be considered here is absenteeism among workmen in our factory. In connection with this, the Indian Tariff Board Report, from which we have quoted above, refers to same as a factor of great importance, inasmuch as, it affects the efficiency of the industry, as the places of absentees have to be filled by a casual recruitment, and often by an inefficient substitute. It was also found that Ahmedabad has great advantage over Bombay in this respect, as the percentage of absentees in Ahmedabad is very much lower than it is in Bombay. Various reasons are given for the slackness, and it appears that it is more due to the illiterate labourers not appreciating the idea of working for the complete month and taking advantage of full wages paid to them, than to fatigue involved in the work. The workmen, being overpaid when compared to their low standard

of living, take a holiday or indulge in drink and other vices, instead of saving money, or living in a more hygienic and healthy manner by earning full wage. The Ahmedabad workmen are in no way superior in education to those of Bombay, and the climate of Ahmedabad has no advantage over that of Bombay. In spite of that, the Ahmedabad workman is more regular in his attendance, and the rate of absenteeism is lower than in the case of Bombay workmen. The largest number of workmen generally keep away soon after the pay day, and drunkenness is said to be a cause which in a measure conduces towards this absenteeism. How far the present experiment of the Congress Government to introduce and enforce prohibition will cure absenteeism, time alone will shew. At present it is too early to dogmatise. The observations of the Indian Tariff Board are all verified by an experienced Mill Manager whom the author had occasion to consult, in common with others. According to him, certain experiments in incentive piece-work which proved successful with the Ahmedabad Mill hands, failed entirely at Sholapur. In our country we have workmen who differ so widely in modes of life and temperament, that experiments tried in one district cannot, unfortunately, be the basis of judging the capacity of workmen of a different class in some other district. They all, however, suffer from one drawback, *viz.*, want of primary education and the advantage of a high standard of living. Immediate introduction of mass education all over the country on a bold programme seems to be the most important first step in this direction. If some method could be devised, by which our workmen could be made to understand and appreciate that the time they are said to be wasting through slackness, if saved, will result in a shorter day, our mills may be able gradually to reduce the number of working hours per day without adversely affecting the production. The question of fixing a standard working day suitable to all is further complicated by the fact that the pace at which a workman is made to work also governs physical exhaustion, *e.g.*, a workman, working in a depart-

ment, or on a process where the pace is slow, *i.e.*, where he has not to go through rapid movements of the body, can work for a longer number of hours a day, and may not be half as much fatigued, as his brother who works on a process requiring much quicker movements. In all well-regulated concerns in Europe and America the management never loses sight of this factor. They carefully fix the pace and the number of hours which an average workman in each department can safely put through. According to Professor Jones, in his book on "Administration of Industrial Enterprises", "Unregulated piece-work is known to be a fertile cause of physical exhaustion and neurasthenia among certain groups of wage-earners. Under good management, exceptional performance will only be attempted after the conditions of the task have been subject to the minute analysis of motion study and time study, after the proposed exertion has been carefully figured on a horse-power basis by competent engineers, and after the operatives have been selected on the basis of fitness for the task." The scientific manager, therefore, should carefully regulate the number of hours of work for each department, taking into consideration the climatic conditions, as well as the nature of work the operative is called upon to put in, in connection with each of the departments.

WAGES AND HOW THEY SHOULD BE PAID.

General Principles.—Payment of workmen per month or per day, is the most antiquated method known to society, and is, from a modern scientific stand-point, the most unsatisfactory method of remunerating labour both from the point of view of the operative as well as that of the employer. Attempts have been made all over the modern industrial world, to improve upon this method by devising systems which would induce the operatives to use their best efforts and increase their efficiency. These methods try to introduce an incentive among the work people to produce more, and thereby to earn more. Experiments have proved conclusively that the part

which this incentive plays in stimulating production, when properly directed, is enormous. The methods employed make use of two factors to produce incentives, *viz.*, (1) reward by way of increased wage, and (2) penalties for falling short of standardized production. These are either combined, or are made use of separately, as we shall see in the systems dealt with later. The reward is in the form of an additional income paid to the operative directly after the work is done: and in case of continuous satisfaction, it is followed by promotion. The punishment may be in the form of a fine, or assignment of less pleasant work. Where inefficiency and carelessness is persisted in, the punishment, in the last resort, takes the form of a discharge. Now, in order to arrive at the correct wage to be paid, it should be remembered that increased wage itself does not mean increased efficiency. The amount payable as wage should be so arranged that it is neither too high nor too low. What should be aimed at, is the happy medium known as the "living wage". According to Dr. Shadwell in his excellent book on "Industrial Efficiency", "Labour may be plentiful and cheap, but it may be bad economy to buy it cheap. For what an employer wants is not labour, but the result of labour, and if he buys too cheap he will not get it; just as a man who buys a coat may buy too cheap. What he wants is not a coat, but warmth or the results of a coat, and if he buys too cheap he does not get it. Cheap labour may be dear through want of capacity or of will. The former is generally recognised, but the latter is often overlooked. Wages are the incentive to work, and must be adequate to produce it. This is the real meaning of the 'living wage'. Men may be forced by their necessities, in accordance with the law of supply and demand, to work for wages below a standard which they consider acceptable and call a living wage. Some term this the 'higgling of the market', and uphold it as based on economic principles; others call it 'sweating', and denounce it as opposed to humane principles. There is a great deal in a name—a great deal of prejudice,

blindness and confusion of mind. The economic and the humane principles are really the same, because economics deal with human beings, which economists often forget. Labour so purchased is apparently cheap, but being unwilling it is really dear and false economy." The adequate wage, therefore, ought to be paid to all workmen, but the payment of a wage higher than the adequate standard reacts on efficiency as much as one which is inadequate. This is noticed in countries like India in connection with our mill hands, where the low standard of living, combined with the scarcity of labour, enables workmen to demand and secure wages, which, though they appear to be low when compared to those earned by similar operatives in European countries, are in fact, according to experts, much higher than the margin of adequate wage. The result is, that efforts to induce these workmen to use their best efforts, with a view to stimulating production, through an offer of extra payment, or larger wage, frequently fail. It is the universal complaint, for example, that workmen employed in Indian factories leave for their native villages as soon as they collect sufficient money, thereby impairing the efficiency of Indian industries. This, according to some, is due to their being overpaid as judged from their standard of comforts. In the case of workmen who are not overpaid according to their standard of living, whether in India or in England, an inducement to earn a little more by putting forth further efforts has always proved successful; but in the case of workmen from certain districts of India this method of stimulating production has not succeeded, because, when labour is already overpaid, the offer of an extra wage fails to act as an incentive to increased production. According to an Indian mill superintendent of thirty years' experience, with whom the writer had the advantage of discussing this problem, our Indian workmen invariably stay away from work for a number of days in the month. A month is reckoned by the mills in Bombay as of twenty-six working days. According to this authority, 24% of workmen put in an attendance of

sixteen to eighteen days on the average, about 50 to 60% that of twenty days, whereas, only 15 to 20% complete twenty-four out of twenty-six working days. The mill management were not only much inconvenienced by constant gaps caused through this irregularity ; but the laying up of idle machines involved material loss through lessened production, waste of motive power, etc. The management, therefore, attempted, some years ago, to secure about twenty-four days' attendance on the average, by introducing a payment by way of bonus in connection with the wage paid. The bonus offered was Rs. 4, per head over and above the usual monthly wage of Rs. 28 to be paid to those who put in at least twenty-four, out of twenty-six working days. Only 5% of the habitually irregular men attempted to earn the bonus. This was largely due to the low standard of living prevailing among our mill hands. The wage of Rs. 28, is by no means a high one from the casual observer's stand-point, but when a bonus of nearly 16% over the usual monthly wage fails as an incentive, the only conclusion one is driven to is that the Rs. 28 wage is high enough for this class of persons. This is no doubt unfortunate.

The Remedy : Spread of Mass Education.—The only remedy for this state of affairs seems to be raising the general standard of living of our labouring classes through the spread of mass primary education, and the introduction of an element of healthy ambition among them which would make them aspire to a higher level generally. At present their wants are few. They live huddled together in dirty and unsuitable *chawls*, on the joint-family system, which is an additional help to cheap living, and one which makes them careless about earning a better wage through superior exertion. No wonder these employees can thus afford to take holidays alternately. The joint-family budget easily admits of the loss of wage entailed by the irregularities of its slacker members. Contentment is held out as a great virtue ; but a scientific manager finds it to be the greatest of all impediments to the progress

or prosperity of industries. Healthy discontent seems to be much more desirable in the field of our industrial activity, and perhaps in many other spheres of life as well. If we could infuse this spirit of healthy discontent among our working classes, the experiments of the type we have just noted would produce much more satisfactory results. The industrial strength of European countries, as well as that of the United States of America, is due in no small measure, to the high standard of living and the higher ambition of the working classes due, thanks to being educated, to the appreciation of this factor. The American worker, to take an illustration, receives the highest wage of any workman in the world. His standard of living is higher than that of the English labourer. In spite of this, production in America is at a cost cheap enough to enable that country to compete with England in foreign markets. This is due to the higher efficiency of American labour all round, which enables the employer to pay higher wages, wages high enough to tempt many an English workman to migrate from his mother country across the Atlantic—without reducing the employer's profits. The Americans are thus much nearer the ideal of higher wage, increased output, shorter day and cheaper production than most of the industrial nations of the world. According to the late Lord Leverhulme, at Ford's Works they employ 40,000 persons. "A boy there can get £1, per day, and all employees are paid double Trade Union rates; and there . . . it is the exception for the workman not to have his motor car They will not get motor cars under a system of restricted output; there won't be enough to go round. Every time we increase the output and reduce the cost we have a fund out of which we can increase the wages."

THE NEED FOR WELFARE WORK.

The remedy for the above position is naturally the proper organization of what is known as welfare work among our

workmen. In this connection the Indian Tariff Board Report of 1927 is rather instructive. It says, in para. 67, as follows :—

“We were greatly impressed by the difference between the best upcountry mills and the best mills in Bombay in regard to the work which is done for the welfare of their employees. It must be admitted that most upcountry mills are much more favourably situated in this respect than are the mills in Bombay. Direct contact between employer and employee is much easier in upcountry centres than it is in Bombay and, in most cases, ample space is available for the provision of such amenities as crèches, hospitals both general and maternity, recreation grounds, schools, canteens and co-operative stores. Our inspections have shown that the most efficient mills in upcountry centres fully realise the effect which the provision of such amenities has on the efficiency and contentment of labour and we consider that it would be in the interests of the Bombay industry to follow their example in this respect. It is unfortunate that more was not done in this direction when the financial position of the mills rendered it possible but, in the present condition of the industry, we recognise that any large expenditure under this head is out of the question. We trust, however, that when conditions improve the mills will regard provision for welfare work as one of the first charges on profits.”

This accounts for the fact that during the period of labour troubles in Bombay, with their accompaniment of a series of lightning strikes, the upcountry mills were working over-time to advantage. The Bombay Millowners cannot do better than take a hint from this experience, and make an early move in the direction of providing proper welfare works and amenities for their workmen, with a view to raising their standard of living. In Bombay the mill area is of manageable size, where, besides the welfare work of the usual type, collective propaganda of an educational character can be carried on and directed easily, through the co-operation of the Labour Unions with the Millowners' Association. Instead of each mill dissipating

its efforts on this work, central recreation grounds, with clubs and theatres attached, should be provided for all employees under the Association. Cinemas may be used for illiterate labour, for instructing and explaining to them the various operations which their vocations require them to efficiently perform. Also the modes of life on a higher standard among the labouring classes on the Continent and the U. S. A. may be demonstrated, teaching them how to live well and attempt to rise to higher grades of life, as in advanced countries, where, according to Dr. Shadwell in his work on *Industrial Efficiency* "the development of manufacturing industries was chiefly a process of workmen rising to be employers." It is said that in the U. S. A. communistic doctrines have not made much headway because there every workman expects to rise and become a capitalist, as many of his compatriots have done.

The Difficulties Must be Faced.—In the above programme the difficulties that will have to be faced are not lost sight of. The employers in other industrial centres have successfully grappled with them, and a clear cut history of their experiences is at our disposal. According to Professor Jones of America (perhaps the most advanced country to-day in this regard) in his book from which we have already quoted above, "It is not easy to make a success of welfare work. There are projects to choose from and innumerable ways of proceeding. There are many kinds of people and there is an infinite variety of local condition. There will inevitably be some embarrassment for employer and employed in finding a footing in matters where orders are out of the question. Workmen have well defined opinions about the conduct of their lives ; and into contact with those opinions any plans which go beyond customary industrial practices are bound to come. It is natural that there should be a heritage of suspicion descended from the time when employers planned entirely for their own profit. It is natural also, that trade unions should be cold toward benefits which the employer has the power to withdraw at a

moment's notice." How similar appears to be the problem on our side. The learned author might as well have written of the difficulties of pushing forward welfare work over here in the same passage, without altering a word. The American and European employers have, in spite of all these difficulties, succeeded through sheer perseverance, which is also the course open to our friends of the Millowners' Association to follow. The trade unions, particularly those led by sober leaders gifted with practical ability, may, with advantage be invited to co-operate in these honest exertions for uplift of the worker.

THE FIRST STEP IN PROGRESS: FIGHT ILLITERACY.

Welfare work is a first step in progress, a march towards that goal which, when reached, would make the employee independent of the employer even in that regard. Our trade unions are at present mere fighting political machines led by outsiders, *i.e.*, non-labourers who are more interested in their political dogmas and prejudices than in the economic uplift and social betterment of the operatives who are steeped in illiteracy. No wonder that our trade unions have not reached that stage when they can function also as benefit societies. Under the present condition of illiterate and backward labour, it is hardly possible for them to expect the workmen to contribute a good proportion of their wages, as in advanced countries, (even though the wages were to be raised considerably on the footing of these countries) for the use of their unions. For the present there appears to be no other practical course, we submit, than to be content with the "patriarchal order of things", and look to the employers to provide the means as well as the administrative machinery for this purpose. In gradual course of evolution this may, it is hoped in the near future, bring us near the day when a new and enlightened generation of workmen, led by their own class, possessed of the ability to organize independently of external assistance and fully appreciative of the advantages of scientific co-operation

in management, may demand the right to manage their own welfare institutions. That would, of course, take at least a generation, and that too, if an immediate move is made in that direction. When that day arrives labour will, as in Europe, demand, in the words of Dr. Shadwell "not favours but justice, not gifts but a fair share of takings, with the means and opportunities to provide its own welfare institutions." None should more cheerfully welcome that "aspiration inseparable from the organic development of society" than the employer; for "What an honest employer really aims at is justice", and so it ought to be. Till then, of course, the burden, the responsibility and the initiative must lie with the employers of our mill labour: and we urge them not to delay taking proper steps in that direction. We also sincerely trust that the labour leaders, particularly those who have looked at the problem of the industry from a practical stand-point, would co-operate in this direction, if not, at least encourage and not obstruct properly devoted welfare efforts of the millowners.

WORKS COUNCILS OR WORKS COMMITTEES.

Works Councils or Works Committees are most desirable. Here, in every factory, mill or workshop, if we had a Works Committee of the type they have in Germany and Sweden, where representatives both of the employers, *i.e.*, management, and of the work people, take counsel in conference on all questions of common interest, it would be of great advantage. In this connection it is interesting to quote from "Britain's Industrial Future", being the Report of the Liberal Industrial Inquiry, 1928:—

"We sent investigators to Germany to report upon the working of the scheme there; they reported that the work people regarded it as of real value, and would not willingly part with it; and that while some employers made little of it many spoke warmly in its favour. It is held by many in this country that to make such a system compulsory would be unwise, since

its effectiveness must depend upon the readiness of the management to use it, and an indifferent management can reduce it to futility. Those who take this view believe that the application of compulsion may retard rather than assist the practice of consultation. We recognise that there is some force in this contention. There are two purposes for which a Works Council can be used ; the first is the ventilation of grievances, and the assurance of an opportunity of expressing the work people's view with regard to the rules under which they have to work ; the second is the pooling of ideas and the enlisting of work people's help in securing efficiency. The latter can be made of no avail by a hostile and indifferent management, but the former can certainly be secured if regular meetings are bound to take place. We conclude therefore and our opinion is fortified by German experience that the advantages of a compulsory establishment of Work Councils outweigh any defects which may attend it."

The compulsory establishment of such councils will be for the benefit of all concerned. As far as the workmen's representatives are concerned, it would be best if it is insisted upon that outsiders should not represent them, but that only wage-earning units should be returned on such councils. The actual proportion in which they should be represented is a question on which there may be some difference of opinion. The Whitley Committee of 1916 recommended 50% representation on either side, and we believe that that would be a proper data of representation in order to inspire confidence in the working classes as to the efficiency of their representation. Of course, the function of the council will be more or less of a consultative nature, and if conducted sympathetically, might promote good relations between the employers and the employees. They may be consulted for example (1) on the working rules of the factory as well as those (2) in connection with dismissals. In this connection, special rules if created in consultation on both these heads, particularly the latter, would tend to avoid ill-feeling which is the chief cause of many industrial troubles. Dismissals

may be due to either inefficiency, insubordination or slackness at the factory: and in either of these cases a council such as the one we are suggesting will be of great assistance, tending, as it is sure to do, towards smoothness in place of unpleasantness. In connection with welfare work, also, these joint councils connected with each factory will be of great help. In this connection it is advantageous to quote here a passage from the excellent book by Professor Henry Clay of the University of Manchester entitled *Industrial Councils as recommended by the Whitley Report of the Whitley Committee*. The author has to admit that "The experience of the industries that did adopt the Whitley Scheme points to the same conclusion that the continuous contact and co-operation over non-controversial business, which an Industrial Council involves, are an aid to the peaceful settlement of difference, even if they cannot offer a complete guarantee of peace."

The Industrial Commission's Finding.—The Industrial Commission's Report, though issued in 1918, is even to this day a document of great interest, as conditions have not much altered in good many directions. It particularly refers to the scarcity of labour all over India in almost all industries. It also notes that the rate of wages has also proportionately risen all over the country. The cause has to be found in the rapid advance which industry has made all over the country, and which has called forth a larger supply of labourers than the increase of twenty million in population could supply. Considering that most of our labour supply is drawn from agricultural centres, our mines, factories, railways and other workshops would be in a position to get a more plentiful supply if we were able to draw a substantial number from those engaged in agriculture. This of course should be done without impairing our agricultural output. A key as to how this can be done is to be found in the said Industrial Commission's Report, where the Commissioners regret that much of the Indian agricultural labour is wasted owing to our neglect in taking advantage of the latest machinery, both power and

hand-driven. The introduction of these up-to-date inventions would considerably increase the supply of raw products, which could be utilised by the manufacturing industries locally. It would also stop the import of various necessities, such as sugar, from other countries, because the local industry would produce the same in sufficient quantity. At the same time, a sufficient quantity of hand labour will be released for employment in manufacturing industries. To quote only one paragraph from this report, "In British India, the area under cultivation is approximately 250,000,000 acres, of which 40,000,000 acres are, for the time being, fallow and unworked. The Census Returns of 1911 show that of the total population, 80,000,000 are directly employed on the land, or one person to every 2'6 acres of cultivated land. Previously to the outbreak of war the corresponding figures for Great Britain and Germany were 17'3 and 1 to 5'4 acres, respectively. The only crops grown in both England and India on a large scale are wheat and barley; the respective standards of yield are 1,919 lbs., and 814 lbs., per acre for wheat, and 1,645 lbs., and 877 lbs., per acre for barley. It becomes, therefore, regrettably clear that agricultural operations are conducted with much greater efficiency and economy of human labour in both Great Britain and Germany than they are in India. This is partly due to the superior physique and education of the cultivators themselves, partly also to the superior quality of their cattle, but it very largely results from the extensive employment of horse and motor-driven machinery in the varied operations of a modern farm, such as ploughing, reaping and threshing. The census of production of 1908 revealed the fact that the farmers of Great Britain in that year employed nearly 35,000 engines developing well over 200,000 horse power, and it cannot be doubted that since that date the use of small motors and power-driven tractors has greatly increased, as agricultural engineers both in Europe and America have devoted much time and labour to devising improved machinery of this class. In India, agricultural conditions are widely different, but there is equal,

if not greater, scope for mechanically-operated plant. As yet, very little is in use, chiefly because holdings are small and scattered, and ryots possess little or no capital."

Under the present conditions, what actually happens is that the agriculturist who comes either to the cotton mills of Bombay from the Deccan and Konkan, or those who migrate to the coal fields of Bengal from Chota-Nagpur, or the labourers from Bihar and the Eastern Districts of the United Provinces who try their luck with the Calcutta jute mills in large proportion, keep one eye on their small holding under cultivation and the other on the factory and mine where they go during certain times of the year to make extra money. Of course the new generation of workers is now growing up in manufacturing centres, which has got so used to factory work and town habits, that the agricultural country side has lost most of its attractions to them. This population must in course of time considerably increase: and if adequate arrangements could be made to house and lodge them near their factories or mines, and conditions of life made more attractive than they are at present, the problem of India's shifting labour would be largely solved. The idea is to induce them to work in one particular industry from sire to son for generations, as they do in Europe and America. The stoppage of emigration to the colonies, where labour during past years used to be taken under the much abused indentured system, will also help to increase the number of available operatives for our factories and mines. Last, but not least, if a properly organized effort were to be made by the heads of our manufacturing and mining industries for recruiting labour on scientific lines, and providing it with housing accommodation, the labour supply in industrial centres would be very largely augmented. When that stage is reached we shall be much nearer the problem of an eight to six hour day in factories, where, with the help of the larger number of hands, two to three shifts within twenty-four hours, instead of one, can be introduced.

Wages in Comparison to Production.—Returning to our subject, the next point to be noted in connection with wages is, as we have already noticed, that it is not the actual amount paid which matters, but it is the amount of wage taken in comparison with the quantity of work produced which forms the main economic factor conducing to the efficiency of labour. We have been repeatedly told by those who ignore, or lose sight of this factor, that labour in India being "cheap" we are at an advantage compared to other countries. The Indian workman, though intelligent enough to be able to pick up work that may be shown to him is, in the absence of specialised industrial training, lacking in the usual standard of education, and is influenced by various other climatic and physical causes. He is, therefore, more expensive economically in comparison with his brethren in Europe and America. In order to bring him up to the standard of the average European workman, his efficiency would have to be improved a good deal.

The high wage paid to efficient workmen pays both ways. The production is larger proportionately, and at the same time, there is a constant incentive to improve efficiency. There is less wastage in the use of raw material and less supervision expenses. In these days of exceptional prosperity for the textile industry in India, the slackness and inefficiency of our mill labour has done incalculable injury, because, though fortunes have been made by mill magnates, still larger prizes have been lost through our not being able to take the fullest advantage of the exceptional opportunities afforded by the war, when Lancashire goods were practically shut out from our markets through freight and other difficulties. The inefficiency of our labour is the greatest handicap to an industry like the textile industry, where raw material constitutes an insignificant addition to the cost of production as compared to the cost of labour and motive power. The increase in wages, or the experiments in their payment on scientific lines as dealt with hereafter, are based on the assumption that the workman concerned is ambitious enough, and will try to earn a higher

wage by improving himself. Where however such ambition is absent, these experiments are bound to fail. According to Dr. Shadwell, "If wages are to secure efficiency they must be earned. Wage-takers are always ready to handle more money, but they are not always ready to earn it." That is the difficulty experienced with workmen who are either too lazy or contented, or whose standard of living is below the average. It is thus, curiously, in the interest of both the capitalist and the workman that the latter should be encouraged to attain a higher standard of living.

Some Root Causes of Inefficiency.—In this connection it will not be out of place to note some of the causes of industrial inefficiency as dealt with by Mr. Forrest E. Cardullo in one of his articles on Scientific Management in the American paper entitled "Machinery". According to this authority, both the management and the workmen are occasionally to blame. The first cause which is described as the most prolific source of inefficiency is "mental laziness" on part of both the management and labour. In a large number of cases the management fails to take the trouble to think out and devise methods of work. Things are left to subordinates to be worked out as best they can, and each tries to get it through by using as little mental effort as possible. This ought not to be; and both the management and the workmen should be made to think out, and work on, the most scientific principles. In fact the management should take all the initiative here. The second cause of inefficiency is timidity in the employment of capital with a view to keeping the equipment and tools as up-to-date as possible. The third is want of adaptability to changing circumstances. The fourth is the want of a system for the payment of wages which will stimulate effort and increase efficiency. The fifth is the contempt with which workmen are looked upon by some employers which makes co-operation between them impossible. The sixth is avarice which makes employers grudge to pay an adequate wage, and to spend money on the comfort and convenience of workmen. The seventh is the natural disinclination

on the part of a certain type of labour to increase its pace. The eighth is lack of ambition. The ninth is a feeling of enmity on the part of labour towards capital.

The fourth, fifth, seventh, eighth and ninth causes may be remedied by a proper system of wage payment being devised, as well as by welfare work being introduced with a view to making the workmen's lot as easy and happy as possible. Dr. Shadwell also emphasises this point when he speaks of English labour, *viz.*, that "Where the wage incentive has been of such a character as to stimulate the workers to do their best, there the lead which England gained a long ago has been maintained; whereas under the ordinary time-work system which does not provide that incentive, but discourages effort, the once still greater lead has been entirely lost."

ILLITERACY OF INDIAN LABOUR: THE DUTY OF THE STATE.

Duty of the Employer and the State.—In this connection the remarks of the Bombay Industrial Disputes Committee in their Report issued in April 1922, should be studied with advantage:—

"Every witness who has appeared before us has deplored the low standard of literacy amongst the operative class and has urged the adoption of free and compulsory primary education. But here we must enter a *causat*. The view that the spread of education will in itself arrest or cure, labour unrest seems to us to be a chimera. On the contrary an educated labour force would not tolerate the depressing conditions under which the general body of workers in Bombay are housed and have their being. Any rapid extension of education in Bombay without a corresponding improvement in the conditions in which the operatives live would accentuate rather than redeem labour unrest. . . . The sole responsibility for providing education through every chain of the educational ladder rests with the State, or with the body to which the State has delegated this responsibility. . . . Nevertheless in view of the bene-

ficial effect of supplementary work, which in the case of Sholapur Spinning and Weaving Company has raised the standard of literacy in the mill to 15 per cent as compared with a general average in the District of five per cent, we suggest the employers should co-operate with the Municipality by the opening of schools for half-timers and night schools wherever an attendance can be secured."

Thus it is universally admitted that illiteracy of our workmen is a great impediment to the progress of industries as well as to the well-being of the working class as a body. The Committee, whose primary function was to investigate and report on the question of industrial disputes with a view to preventing strikes, is naturally nervous lest the spread of education may result in intensifying the situation, as according to them "an educated labour force would not tolerate the depressing conditions under which the general body of workers in Bombay are housed." Quite so: and that is, the author submits with great respect, the exact state of affairs the scientific manager would like to create. The educated workers are more likely to be amenable to reason, and logical arguments are more likely to be appreciated by such a class, and thus the incentive methods of progressive wage payments, as discussed hereafter, could be more successfully applied in their cases. Being educated they would try to discard the present depressing conditions around them and aspire to a higher standard of living. A high standard of living, as we have already seen, improves efficiency and earns an adequate wage, which the industry, which also benefits by the same, cheerfully pays. The committee suggests that we should rather go at a slow pace as far education is concerned, because "any rapid extension without corresponding improvement in the conditions" would lead to unrest. The nightmare of unrest seems naturally to have largely influenced this decision. From the stand-point of one who has studied the progress of English and American labour, education has preceded "improvement in conditions" instead of following it. An illiterate set of workmen will never

appreciate the advantage of a high standard of life, and must cling tenaciously to the conditions to which they are used for centuries. The spread of education, however rapid, must take its own time. This would give an ample margin to our leaders of industries and public life within which to complete preparations for meeting the much-desired demand from the educated labour for improved conditions. Even taking the elementary rule of economics, the demand, and that too of a healthy type which has come to stay, must expedite the supply in due course. The most-cherished privileges either in politics, or in the history of modern industrial labour across the Mediterranean or the Atlantic, have been won through pressure of demand (frequently misnamed "unrest"), and there is no reason why Indian industrial labour should be expected to travel along a path different from that of its compatriots in other civilised countries. As to the duty of providing education, the State is the principal agent. The employer no doubt also shares with the workmen the benefit of improved efficiency, and therefore, it is but just that he—as distinguished from the nation which the State represents—should bear at least some part, if not the whole, of the burden of educating his employees. This seems to be the principle in view in the committee's recommendation to the effect that the employers should co-operate with the Municipality by opening of schools for part-timers, etc. Under the circumstances, now that we have a popular Government in power in the majority of provinces, we have a right to demand that mass education should be their first care, and that the pace should be as rapid as it can be accelerated with due regard to financial possibilities of a poor country. This can only be achieved if the financial resources of the country are carefully conserved, and utilised in the first instance on national objectives of primary importance, *viz.*, (1) mass education, and (2) rural uplift of the agriculturist. No other want can be considered to be more urgent in a country where over 73% of the population subsists on agriculture directly or indirectly and the rural population is said to have increased by 30 millions

during the ten years from 1921—1931, *i.e.*; from 285 millions to 315 millions.

While dealing with illiteracy, it will not be out of place to refer to the question of technical education of our workmen. According to the Indian Tariff Board Report of 1927, para. 68, the necessity of spreading technical education, both among superior workmen as well as inferior operatives, is very great if our mills and factories are to withstand foreign competition. The Board first held that technical training among operatives, as provided at present, is grossly inadequate and they strongly emphasised the necessity for the provision of more facilities in this direction. We recommend that the beginning be made with jobbers and those who wish to occupy that position; and that trade schools should be started at convenient centres through the joint action of the Government as well as the Mill Industry. They go further, and say that attendance at such schools should be treated as attendance in the mills, and that certificates should be issued at the end of the course.

THE METHODS OF REMUNERATION AND COST OF PRODUCTION.

It should be remembered that in every industry the cost of labour is the most important factor, because of general competition within the country not only from indigenous concerns, but also in connection with imported manufactured articles. Every scientific manager, therefore, is anxious to see that the cost is kept as low as possible in order to achieve success for the enterprise. Of course, though the reduction of labour cost is one of the objectives, it must not be forgotten that the efficiency of labour itself will largely be the deciding factor; inasmuch as it has been recognised all over the world that, in case of complicated labour saving machinery, production is so large and superior, that payment of the highest wage in money leads, notwithstanding, to low labour costs. Thus efficiency is the guiding factor; and the actual amount of money given to every worker for a certain number of hours' work is not the

economic factor which weighs in the balance. Various schemes of remuneration of labour have been devised and experimented on, and the results carefully watched, which it is our object to examine, criticise and study under this heading. Some of these systems have not succeeded on account of their complexities, whereas others have succeeded in certain concerns only; but there are many of these newly adopted systems which have proved generally satisfactory. The difficulties of introducing a complicated system has been considerably enhanced either through the workmen not understanding the system, owing to its complexity; or through the labour union's hatred of any device which is likely to cause reduction in the number of workmen employed in a factory, even though the system may tend not only to a rise in the wages of those who are retained, but also, ultimately, to the expansion of industry to the general welfare of the largest number of labourers who would be called upon to serve: and that, too, at higher wages than those which they originally secured. Whatever system of wage payment is introduced in a mill or factory, it has been found from experience that it is best to make it simple and easy to be understood by the class of workmen employed therein, if it is to be successful. With these observations we shall now proceed to consider the methods of remuneration most prominently and usually employed. The most prominent of these are the following:—

- (1) Time or day wage.
- (2) Piece-wage.
- (3) Time and piece rate combined, *i.e.*, a compulsion of producing a certain standard of work laid down within the time stipulated, coupled with an inducement to produce more through an offer of extra payment.
- (4) Profit sharing.
- (5) Co-partnership.
- (6) Commercialisation of labour.

We shall now deal with each of these factors with a view to studying their influence on efficiency.

TIME OR DAY WAGE.

Under this method a given sum is paid for a fixed period of time, *viz.*, so much per hour, day or month. This is the least satisfactory method of remuneration. The time wage system carries with it numerous drawbacks. The workman, for example, knows that as long as he manages to do a minimum of work without exciting comment, he need not do more, particularly so, when he does not expect any reward for the extra output he may produce through extra effort. Another reason is that as a quicker workman hates to show up his slower comrades, he generally slackens his pace and does not produce according to his capacity. The advantages claimed under this system are that it involves very little labour in the calculation of wages, and that the work produced is likely to be more perfect, as the workman is allowed to take his time instead of being tempted to rush it. The disadvantages are obvious. The superior workman in the group is not encouraged. He is paid the same wage as one on the average level of efficiency in his group, or one on the lowest margin of efficiency, whereas in fact, the workman below the average actually gets more than what he deserves. This is most demoralising, and has the unfortunate tendency to drag the superior workman to a lower level. It is also doubtful whether the advantage claimed, *viz.*, that the best work is produced because the workman is allowed to take his own time is one which is attained in every case in actual practice. However there are circumstances in which time work wages are distinctly advantageous. For example, in the case of tool room and pattern shop, where the work demands not only the greatest skill from the men, but also the best possible care and thought: here, if speed of production is enforced on the temptation of higher wage, that might lead to loss in the quality of production. In small workshops where supervision is intense, time wage may

also be paid with advantage. The point is, that even in larger works where time wages have been introduced with success, an amount of money has to be laid out and spent on intensive supervision and careful management. There are cases where manufacturers argue and believe that even day rate of wages can be as effective as piece wage, or progressive wage, if the wages paid are a little higher than those prevalent in the locality, and intensive and close supervision is maintained. What is here done is, that in consideration of the payment of the higher wage the employee is called upon to exercise special effort, and take particular interest in his work: and as a higher wage is paid, the natural result is that applications for employment are more numerous than the vacancies, with the result that the selection can be made of the most competent workmen who can work up to the high standard of efficiency and output which may be laid down by the management in consideration of the higher wage. The maintenance of this high wage also results in the employee being anxious to retain his remunerative job and thus a continuity of employment is secured. This method of remuneration has, in other cases, been found to be the most wasteful; and has been superseded by more scientific methods (as dealt with hereafter) in all industrial centres of Europe and America. In the words of Mr. J. Russell Smith, from whose book on "The Elements of Industrial Management" we have already quoted, "There is little doubt that day wage is a very unsatisfactory method, both from the point of view of theory and practice, for the reason that it can give little or no recognition to the fact that men are of different values. The attempt to reward A is apt to make B dissatisfied. Because of the lack of definite measurement of output, B thinks he is as good as A, or at least claims that he thinks so, which amounts to almost the same thing from the stand-point of diplomacy and relationship within the works. As an evidence of the weakness of the system of day work, experiments have produced double the output with no increase of wages, merely because it became known just what every man was doing. By this mere turning

on of the light, or of having knowledge (like the force of public sentiment) we produce this 100 per cent increase." There is therefore no room for doubting the proposition that mankind is not inclined to do its best unless an element of encouragement, in one form or other, is introduced. The best medium through which the workers' efforts can be encouraged, is through the introduction of a system which measures the result of their work, and rewards them in proportion to the quality and quantity of production. This brings us to the consideration of a system known as remuneration of labour on the piece-wage basis.

THE PIECE-WAGE SYSTEM AND ITS VARYING MANIFESTATIONS.

Under this system the employer pays a set rate per job or unit produced. This is, of course, a question of contract between the employer and the workman. The rate is arrived at after a careful calculation of the previous performance of the average standard of workmanship on the time rate principle. Under this system a workman is encouraged to put in his best effort, and save as much time as possible with a view to producing more, and thus, it may be worked to the mutual advantage of the employer and the employee, as long as it is not allowed to be overdone, for any excessive zeal shown here may lead to overwork, which may impair the health of the employee and consequently injure his efficiency—a tendency which has to be closely guarded and provided against. The employee under this system is more inclined to help the management in its efforts to provide the right kind of raw material, and dislikes delays through break-down, which he tries his best to prevent. The cost of general supervision is also lowered, as it is to the employee's advantage to be more careful and industrious. The chances of loafing, or wasting of time in any other form, are also minimised. Besides these points, the employee who is not satisfied with the average wage earned on the day-wage system, and who possesses reserve powers for extra production by extra effort, is given a full chance to make

use of his ability and earn more. If these experiments on the piece-wage system result in an appreciable increase in the output, as they generally do, the employer can in course of time afford to reduce the number of hours of work per day without lessening his normal production. Another advantage afforded by this system is that in calculating the cost, the employer's work is much simplified owing to the fixed rate he pays per unit of production; whereas, under the time-rate the cost constitutes a fluctuating item. This factor, *viz.*, the convenient and easy standard for calculation of the cost of production, is in itself of great advantage in these days of keen competition among manufacturers, when quotations must necessarily be as low as possible in order to secure business, at the same time guaranteeing a fair margin of profit. In certain trades, particularly in the textile manufacture by machinery, the piece-wage system can be employed with advantage, as here the quantity of work done can be accurately measured. The workmen engaged in this branch of industry in Europe and America generally prefer the piece-wage method of remuneration, as they have found by experience that it ensures identical payment for identical or equivalent effort. In the boot trade, also, the piece-wage method is generally preferred and largely employed. On the other hand, in industries where a fair agreement between the employer and employee as to the identical payment for the identical effort or production cannot be arrived at, owing to the peculiar nature of the enterprise, the piece-wage system is objected to by the employees. This is the case where a workman has to be employed on a variety of operations in factories where the output varies from day to day, such as the engineering trade.

The disadvantages said to be inherent to the piece-wage system must also be considered. It is alleged that workmen in their efforts to produce as much as possible in the day are less likely to spare machinery, tools and raw material. It is also asserted that under the piece-wage system the quality of production may suffer. With regard to the latter objection it

might be added that in most of the trades where the piece-wage system is in force, this tendency to sacrifice quality to quantity is guarded against, both through the medium of careful inspection and by limiting of the total output per employee per day. Another danger is that the employer may cut the rate when he finds the employees earning high wages. This tendency is no doubt present in some cases, but it strikes at the root of efficiency, and only the most short-sighted of employers stoop to adopt such a dishonest course. A further drawback is that workmen are, in some cases, inclined to take long intervals of holidays, because they have managed to earn more, and can afford to take these holidays out of their savings. The fact that this system may lead to excessive fatigue has already been referred to. This danger is accentuated in cases where the basis on which the piece-wage is calculated is so unjust as to force employees to work their hardest, at the greatest speed, in order to earn just a subsistence wage, as is the case in some of the sweated industries of Europe. With all these drawbacks a well regulated piece-wage system is undoubtedly superior to the day or time-wage system.

In connection with piece-wage payments the actual rates of wages to be paid should be fixed after careful calculation; because if they are once so fixed, and are then found to be higher than is warranted by the output in quality and quantity, it is very difficult to lower the rates without creating discontent and friction with the employees. Frequently this discontent is sought to be got over by re-arrangement in the operations or units, and thereafter fixing new rates based upon such re-arrangement of operations and units. The usual basis on which piece rates are calculated is on the basis of an averagely efficient workman's time and the usual production under the time-wage system per hour.

The balance system and the balance debt system are the two most prominent systems employed in connection with piece-wage. In the case of the balance system, the workman is employed at a certain rate per hour in wage and the piece-work

which he has to do is fixed per job. If he earns on piece-work a larger amount than he would have earned on the rate fixed per hour, the balance of excess wage will be paid to him in addition to his per hour wage: but if his piece-wage earning is less than his wage per hour, he will be paid according to wage per hour. Here time has to be carefully noted as well as production.

As regards the balance debt system, if the piece-wage earned is higher than the day-wage, the workman is paid the piece-wage, but if on the other hand the piece-wage earned by him is lower than the day-wage, the balance is debited to him as a debt, and carried forward against him to be deducted from any subsequent balance of piece-work in his favour.

It may be mentioned here that piece-wage may be divided into (1) a plain or straight piece-work wage, where each individual is paid directly according to his output, etc., or (2) a group piece-wage where the individual workman receives an allotted share of the earning of the group of which he is a member, and which is working on the piece-wage system, or (3) a combination of time and piece-wage rates as the weekly number of hours and wage paid on it, together with the actual price of piece-wage production in excess of the stipulated amount.

Mr. Cadbury in his book on "Experiments in Industrial Organization" puts the case in favour of the piece-wage system on grounds which his practical insight has helped him so accurately to gauge, *viz.*, that "After a good deal of experience with thousands of piece-workers it has been found that from five to ten per cent have a natural gift for speed, and will always earn about 20 per cent above the average upon whatever process they are engaged. These workers pay the employers best and should be encouraged, and an enlightened employer will never grudge the extra money they earn."

Time Recording.—In connection with the above discussion we notice how important it is to provide for an accurate recording of time in a manner which is satisfactory both to

the employer and the employee. The modern factories and mills use the latest devices for this purpose, known as "Time Recording Clocks". Each workman is given a number which number is printed on a card and placed in a rack at the entrance to the works under the supervision of the gate-keeper. On arrival the workman takes his time card bearing his number from the "out" rack, and after placing it in the "in" rack, presses a button or depresses a lever, with the result that the time of his arrival is duly recorded upon the card. Thus a glance at the "out" rack will give the numbers of the cards of employees who are either absent or late in arrival at a particular time. In the case of late arrivals, the machine begins to print the time in red ink, and thus the late arrivals are distinguished on the cards from those who arrived in time. Intensive supervision has to be maintained, in order to see that the workman does not oblige a friend who is absent or late by using his card, and thus cover a late arrival or absentee. Frequently, with a view to preventing this trickery, the arrangement is that the workman has to hand over his card to the gate-keeper, who has to place it in the machine and get the time printed on the said card. The same procedure will be followed at the time of leaving the factory, either during the day or at night; and the cards will then be replaced in the "out" rack after the time of departure is recorded on them. There are, of course, different makers offering different types of time clocks and machines, and each factory selects one which is suitable to its requirements.

The other method is where numbered discs are used, and each workman as he arrives takes his own numbered disc from the "out" board and hangs it on the "in" board. These discs are all collected after the time fixed for the arrival of all workmen has expired and the out board is removed, so that every workman who arrives late has to obtain his disc from the gate-keeper or time-keeper who takes note of the exact time of arrival of the said workman. This is of course an old-fashioned system: the time recording clocks being the latest

and most modern method, are now universal in all advanced factories and workshops.

TIME AND PIECE RATES COMBINED.

Progressive Wages.—Other employers besides Mr. Cadbury have discovered that a certain percentage of workmen have a special capacity for speed, and will always earn about 20 per cent above the average if they are given the chance to do so. What is more, even the average workman seldom gives the best result of his work to the employer unless some incentive is offered to him to do so. They had recourse to the piece-wage system described above as an improvement on the day-wage method of remuneration. One of the objections to the piece-wage system was that the employee was not guaranteed any minimum wage, and in cases where the supply of labour was abundant, the piece-wage rate was so lowered that it led to sweating and other evils. Workmen's associations and trade unions began to object to the piece-wage system pure and simple, and agitated for a guarantee of a fair minimum wage in connection with certain trades. This gave rise to a number of systems of wage payment which technically came to be known as the "Progressive Wage" systems, or Premium Bonus methods of payment, under which the employee, besides being guaranteed a minimum wage, the amount of which is based on a certain time occupied by him, is promised an extra reward in case the output in that time were to exceed the standard laid down. This reward was to be either a fixed amount or in proportion to the actual extra output. To cite an example, suppose in an engineering workshop a workman were to be employed to produce valves. Here in the event of his producing a larger number of valves than the standard laid down for a fixed number of hours, he gets, besides his usual time-wage, so much extra for each extra valve produced. The standard of production laid down is based more or less on the basis of approximate output which an averagely efficient workman was expected to produce in the usual course. In England this system takes various forms. There is the system as above

described under which the extra payment is made in proportion to the extra output. In other cases a fixed bonus, or premium, is paid for exceeding a certain minimum production laid down for a fixed time. In the latter case, the standard of production laid down is usually high, based as it is on the average output of a first class workman, and the object is to encourage every workman to attain that standard. The employee no doubt gets his usual time-wage, whether he attains that standard or not, but if he does attain it, he gets in addition the prescribed bonus. There is a further modification of this system under which a sort of race, or competition, among workmen is introduced, by which the workman who brings out the largest output of all others during a certain time, is given a certain reward, and it is thus hoped that by making all the employees work and strive to secure the prize, the general output may be largely increased. Efficiency is also sought to be improved by other methods under which a workman is given an additional reward for an improved quality of production. Waste in raw material is also prevented by offering premiums or rewards for saving in the use of raw materials.

To put it briefly, all these premium or bonus plans have as their objective the quickening of production, and constitute a combination of the normal day wage and piece rate ; but the bonus or premium is calculated in the terms of hours saved. The different systems differ mainly on the principle of calculating bonus, and also as to the basis on which the advantage of saving of time is assured between the workman and the employer. The most prominent method employed is to fix a standard time in which a specified job or a portion must be performed, and if the workman performs it within a lesser time, a specified proportion of the value of time thus saved forms the standard of calculation of the bonus which is to be paid to him. The most prominent of these systems are the Halsey, Taylor and Rowan premium plans.

The Halsey System.—The method commonly known as the Halsey system, after its inventor Mr. Halsey, is one under

which a standard output, based on an average workman's result of past efforts is laid down, and every workman who produces that much, within the time laid down, is rewarded according to the actual time saved. This system encourages every workman to try his best to earn the premium. In laying down this standard, care must be taken to fix an output which is a fair one, which an average workman generally produces: as otherwise, if too high a standard is laid down, the majority of workmen might lose heart after having vainly tried to attain the same by repeated efforts, and may give up trying to increase their output or raise their speed. The premium fixed should also be moderate and not very high, as otherwise, the employees may begin to earn very high premiums to the detriment of the employer, who will find it very difficult to improve matters by trying to cut down the rate. It is always easier, and more encouraging, if a moderate rate of premium is gradually increased as circumstances permit, but the cutting down of a rate, which was through a mistake originally fixed at a higher scale, strikes at the root of efficiency and leads to heart-burning and troubles. In the words of Mr. Halsey "If the premium be cut, the workmen will rightly understand it to mean, as under the piece-work plan, that their earnings are not permitted to pass a certain limit, and that too much exertion is unsafe. The very purpose of the plan is to avoid this by so dividing the savings between employer and employee as to remove the necessity for cutting the rate, and hence enable the workman's earnings to be limited only by his own ability and activity. The baneful feature of the piece-work plan is thus completely obviated, and instead of periodical cuts, with their resulting ill feeling, the premiums lead the workman to greater effort, resulting in a constant increase of output, decrease of cost and increase of earnings."

The Rowan Premium Plan.—Under this system the workman is guaranteed a minimum, which is his daily or hourly rate of wage on the time system, and thereafter, for every piece-work, or job, or portion, assigned to him, a standard time is fixed for its completion and if he completes that work within

that time, the bonus will be paid on the basis of the time actually saved. The premium is actually the proportion of the time actually taken to perform the job which the time saved bears to the standard time allowed to the job. The Rowan system is less favourable to the workmen while compared with the Halsey system, as it is possible, under the Halsey system, to earn a higher wage, because in this system the worker receives a fixed percentage of increasing sum ; whereas in the case of Rowan, the bonus is an increasing proportion of a decreasing sum.

Thus in the case of the Halsey plan, supposing that the standard time fixed for the operation is 10 hours and the actual time taken is 7 hours, the workman receives his usual day wage for the actual 7 hours for which he worked and in addition he is paid a certain fixed percentage, say 30 or 40 per cent, of the time actually saved, by way of bonus, the time saved being three hours. The 40 or 45 per cent of the wage payable for three hours which the workman has saved will be paid.

In the case, however, of the Rowan plan, if the time fixed is 10 hours, and the workman completes the work in 7 hours, the time saved is three hours, which works out at 3/10ths of the standard time, *viz.*, 10 hours, and the premium payable is based upon 3/10ths of the time taken, *viz.*, 2.1 hours.

Where however the time saved is greater, as in a case where, out of 10 hours fixed for the work, the workman performs same in four hours, the Rowan plan gets him a lesser total remuneration than the Halsey plan would do, as the following calculation taken from Mr. W. W. Bigg's Cost Accounts would show :—

Halsey Plan.

Hourly rate for time taken—4 hours @ 1s. 6d. ...	...	6s. 0d.
Time saved ... ..	...	6 hours
Worker will receive 4 hours' wages plus 50 per cent of the time saved by way of bonus, <i>i.e.</i> , a further 3 hours' wages.		
Total remuneration—7 hours @ 1s. 6d. ...	...	10s. 6d.



Rowan Plan.

Hourly rate for time taken—4 hours @ 1s. 6d. ...	6s. 0d.
Time saved	6 hours
Proportion of standard time—six-tenths. Premium—six-tenths of time taken, <i>i.e.</i> , six-tenths of 4 hours ...	2½ hours
Total remuneration (6s. 0d.+3s. 7·2d.)	<u>9s. 7·2d.</u>

It will be interesting to take the calculations given by the same author in connection with the lesser number of hours saved under both systems as under:—

Halsey Premium Plan.

Standard time for given operation	10 hours
Hourly rate of wages	1s. 6d.
Actual time taken	7 hours
Worker will receive 7 hours' wages plus, say, 50 per cent of the time saved by way of bonus, <i>i.e.</i> , a further one and a half hours' wages.	
Total remuneration —8¼ hours @ 1s. 6d.	<u>12s. 9d.</u>

Thus a saving in direct wages of 2s. 3d. is effected by the employer, whilst the employee enjoys an increase of over 22 per cent on his hourly rate of wages.

Rowan Premium Plan.

Taking the details given for the Halsey plan the worker's wages and premium would be as under:—

Hourly rate for time taken—7 hours @ 1s. 6d.	10s. 6d.
Time saved	3 hours
Proportion of standard time—three-tenths. Premium—three- tenths of time taken	2·1 hours
Total remuneration (10s. 6d.+3s. 1·8d.)	<u>13s. 7·8d.</u>

The Taylor System.—Under the Taylor differential piece-wage system, invented by Mr. Fredrick N. Taylor, a standard of work is laid down which a first class workman is expected to produce or finish within a certain time. If the workman finishes the work in that time he is given rapid promotions. If, on the other hand, he fails in that attempt, his wages are

proportionately cut. Here, of course, the daily task is clearly laid down for each man, which standard is arrived at after much care and deliberation and the main object of this system appears to be to encourage the best class of workmen, as opposed to inducing those of a lower calibre to improve themselves.

COLLECTIVE WAGE SYSTEMS.

The various forms of remuneration of workmen as dealt with above are shown as applied to individual workmen. These methods are improved upon, and a group of workmen is made to work on methods which are more or less applications of the system described above; the only difference being that they are applied to groups instead of to individuals. They are known under designations such as (1) collective task-wage, (2) collective piece-wage and (3) collective progressive-wage.

Collective Task-Wage.—Here a group of workmen is given a set of work which is to be finished by a fixed time. If they complete the work within the time allotted, they are paid the amount of wage agreed to. If, on the other hand, they fail to complete the same, their wage is proportionately cut. There is a further stipulation that no extra payment is to be given for the excess produced.

Collective Piece-Wage.—Here, also, the principle as applied to the piece-wage system described in the case of a single employee holds good. The difference is that a group of workmen are carefully selected to do a set piece of work, and they are paid a lump sum in proportion to the actual production turned out. This lump sum is divided among the individual members of the group, in proportions fixed beforehand according to the nature of the work on which they are employed. This method of remuneration is largely applied in Europe and America in the ship-building trade, glassworks, dockyards, etc., with excellent result.

Collective Progressive Piece-Wage.—Under this method, a group of employees, whether of equal merit or otherwise, is

employed at fixed wages at so much per day or week. A minimum production for each group is laid down, which, if exceeded, entitles the group to a premium proportionate to the excess. This premium is divided among the workmen according to the recognised merits of each member of the group. The wages fixed *per* time must be paid, even where the requisite minimum is not reached. Further modifications of this system are also in work, with which we need not deal here.

The Collective Cost Premium Bonus Scheme.—Here the standard cost of materials, day wages, and such proportion of overhead expenses as it is possible for the employees to influence as regards the reduction in cost, is taken. If the actual cost as worked out falls below the standard thus arrived at, a proportion of this saving is treated as a bonus, to be paid to the employees.

Towne Gain-Sharing System.—This system is named after Mr. H. R. Towne, who was the first to introduce it. Here, half of the reduced cost of labour, calculated on a proper standard output, and based upon previous results, is distributed by way of bonus among the workmen, including the foreman. The foreman gets a certain percentage as fixed in advance, and the balance is divided among the workmen engaged in the operation. It is said that as this bonus is paid half-yearly, it loses some of its importance as an incentive to individual workmen ; though it is admitted that the fact that the foreman gets a share of it tends towards co-operation between the foreman and the workman.

Priestman's Production Bonus.—In this case the standard production per week is arrived at, and is valued in so many points for each class of manufacture. If the output of any week happens to be above the standard thus laid down, a bonus is distributed among the employees after calculation of the value of the points in excess.

PROFIT SHARING.

Profit sharing is a system under which the capitalist allows his labourers a share in the profits over and above their wages. It is thus attempted to give the workmen a direct pecuniary interest in the profits made by the enterprise and thus stimulate their efficiency all round. They are thus likely to waste as little time, raw material and motive power as possible, and try their best to save tools and machinery. The net result of their efforts, it is expected, would more than compensate the employer sufficiently for the amount paid out as profits to workmen. The original inventor of this idea is said to be the French house-painter M. Laclaire, who calculated that if he could make his employees waste less time, and economise the use of raw materials and tools, he could effect a net saving of over £3,000. He offered to pay a portion of it to his workmen as a share in the profits. These profits are either paid out yearly, or a portion, or the whole of it, is placed to the credit of the employee to create a sort of provident fund, which has the additional merit of preventing him from leaving the service of his master. According to Mr. Sedley Taylor, "the increased activity of the workman, his greater care of tools and materials entrusted to him, and the consequent possibility of saving a considerable part of the cost of superintendence, enable profits to be obtained under a participating system which would not accrue under the established routine. If these extra profits were to be wholly divided among those whose labour produced them, the employer would still be as well off as he is under the existing system. But assuming that he distributes among his workmen only a portion of this fresh fund, and retains the rest himself, both he and they will, at the end of the year, find their account in the new principle introduced into their business relations."

The usual method employed is to fix a reserved limit out of profits, which is to be applied towards the payment of partners or proprietors of the concern by way of their share of profits, in consideration of their capital employed, plus

salaries for the actual services rendered by them as managing partners. If the said reserved limit is exceeded, the employees share in the excess as arranged. Of course, much would depend on this reserved limit, and great care and careful calculations on the basis of past experience have to be gone into, before arriving at a limit which will be fair to both parties. In other concerns, instead of providing for a division of profits among the employees in general, as of the whole establishment, it is arranged to divide the business into departments, and then to prepare a system under which the employees are given an interest in the profits made, which are calculated on the basis of the working of each department.

There are other cases, where the employee is made to purchase a share in the capital in one form or other by permitting his profit bonus to be credited to him, instead of being paid out in cash, until a certain minimum is collected, after which, the excess is allowed to be drawn out. This takes the form known as profit-sharing and co-partnership. Mrs. Fawcett speaks of the instance of the Metropolitan Gas Company in this connection as follows:—"In the year (1899) the managing director and chairman of the company, Mr. (now Sir) George Livesey conceived of the idea of profit-sharing or co-partnership as a means of securing mutual confidence between employers and employee, and of inducing the men to take a real interest in the welfare of the company. The Gas Workers' Union and Coal Porters' Union had lately been formed, and the companies were continually harassed by what they felt to be unreasonable demands on the part of these Unions, and also by the evidence of hostility and antagonism which they constantly displayed. In October 1889, Sir G. Livesey made to the whole of the workmen, numbering about 3,000, the following offer; those who would sign an agreement to work upon given terms for twelve months were offered a share in the profits of the company in the form of a percentage on their wages; and in order to make the advantage of this offer at once a tangible reality, its effect was to be retrospective; that is to say, the

company, in October 1889, offered to every man who accepted the agreement, and who had been three years in their service, a bonus of 8 per cent calculated on one year's wages ; thus if a man were receiving 30 shillings a week, he would, if he accepted the company's terms be at once credited in their books with a sum of rather more than £6 ; and besides this he would in future participate in the profits earned in proportion to his wages. About 1,000, out of 3,000 men employed by the company, accepted this offer, and the sum credited to them by the company amounted to £8,000 ; the participation in profits by the workmen gave them a direct pecuniary interest in trying to make gas as cheap as possible ; that is, it was a constant stimulus to them to work with efficiency and economy." According to Mrs. Fawcett "the profit-sharing principle has since steadily developed in this company side by side with its growing prosperity."

The drawback peculiar to this system of profit-sharing is, that it does not give the workmen any voice in the management, and that under it the more capable workmen receive the same remuneration as that paid to the less competent, a factor which is likely to discourage superior men. According to Dr. Shadwell (*Industrial Efficiency*) "From the efficiency standpoint it is not so bad economically as ordinary time-wage condition because the earnings of all alike depend directly upon their exertions. It does not differentiate between individuals according to capacity."

To summarise, the advantages are :—

- (1) this system reduces friction and tends towards co-operation between the labour and capital,
- (2) the workmen being interested in the profits, there is less waste of material, fuel, power, etc., and greater care in the use of machinery and tools,
- (3) intensive supervision is unnecessary and thus supervision costs are reduced,
- (4) the incentive thus created results in improvement and increased efficiency of the workmen.

The disadvantages are:—

- (1) that this system has a tendency to break the solidarity of trade unions, because the workmen engaged in profit-sharing groups begin to look upon their own group as a unit to be reckoned with, and disregard their unions. The resultant effect of which is the attitude of workmen opposed to profit-sharing schemes,
- (2) where profits are not sufficiently large, incentive may be absent and the scheme is likely to fail,
- (3) unless the management is sufficiently efficient, the fruits of the workmen's efforts towards larger profits may be destroyed through managerial inefficiency,
- (4) unless an arrangement is made for calculation of profits at short intervals, the incentive may fail.

CO-PARTNERSHIP.

In the case of co-partnership proper, workmen are represented on the board of management and receive a share of profits. According to Mr. Chapman in his book on "Outlines of Political Economy", "it implies both control-sharing and profit-sharing." Co-partnerships have met with greater success than productive co-operation or profit-sharing pure and simple. This system has proved most successful in businesses where a constant change of workmen is detrimental to the efficiency and success of the business ; and it is claimed for it that it creates an interest in the business among workmen of a much higher order than that created by the other systems dealt with above.

With reference to co-partnership, it may be noted that one redeeming feature happens to be that here the workman can, through investment of the profits distributed to him as a bonus on a profit-sharing scheme in shares of the concern, become both a proprietor as well, as a sharer in profits, in addition to his position as a workman. As against that, it should be remembered that in most cases, the share which comes to an average workman is too small to enable him to hold a sufficiently substantial number of shares to get effective control by way of voting power in the company concerned. The other argument against this system is, that it is dangerous for a

workman to invest all his saving in one concern, in which he is serving because failure of the concern may deprive him both of his job and his savings. Great care has to be displayed in connection with the distribution of these profits among workmen according to their efficiency and class, in order to avoid dissatisfaction and agitation on this score. The usual method followed is to base the share of the workman's salary or a compensation of salary on the length of his service. There are other cases where percentages are fixed on the basis of the posts held ; such as managers, foremen, workmen, workwomen and boy employees.

MINIMUM WAGE.

Labour has generally agitated for what is called a "minimum wage", and, looked at from purely humanitarian and national stand-point, there is no doubt that sweated labour, as such, should be avoided or prevented. The difficulty only arises in the case of industries where what may be considered a minimum wage cannot be imposed without closing down the industry : and here, too, there are, of course, differences of opinion. It is generally, however, accepted, that a reasonable standard of living should be maintained, from the stand-point of the general health and well-being of the employee concerned and the class of work he is doing. Many industries have, by agreement, arrived at a standard of minimum wage based on the output ; and it is said that in the cotton trade in England, where the trade unions are generally strong, the same has been agreed to. There are other trades where legislation had to be enacted with a view to imposing compulsory minimum wages. The advantages of fixing a minimum wage are obvious. The most important is, that it prevents sweating. The disadvantages claimed are on the ground that the fixing of a minimum wage may tend to make it a maximum wage. The other objection is, that as this minimum wage must, of necessity, differ from place to place in accordance with the cost of living, etc., the standard of wages may also fluctuate

in spite of there being a fixed standard of wage all round. In India we are confronted with a similar difficulty in the present effort of the Governments to fix a minimum wage in connection with the cotton textile industry. Our difficulty is, that if a wage were to be fixed, applicable to the whole of India, a province where labour is particularly dear might be taken as a standard, and the industry in other provinces might have to pay that high wage also. This standard wage is what is sought to be achieved by the management in the industry, because it is naturally afraid that if, in one province, or even in one town, the minimum wage is fixed at a much higher rate than in other provinces or other towns, the industry is likely to migrate to the province or town where conditions are easier. The other difficulty with which we are confronted in India, is that there are ruling States where labour legislation either does not prevail, or prevails in a more or less irregular fashion : and that any enforcement of an exceptionally high minimum, or even living wage, standard, may tend to drive the industry outside British India.

LIVING WAGE.

A living wage has been defined in various manners, but according to the author, having studied the differing opinions, a living wage is a standard arrived at embracing the necessities of life, plus certain amenities considered necessary for its well-being, having in mind the condition of labour of a particular denomination. It should be a wage which acts as an incentive to the workman to work and produce sufficient, in quality and quantity, to justify the payment of such a wage by the industry in which he is employed. However, it must not be forgotten that in a country like ours, where labour is absolutely illiterate, a method of payment of a living wage, as well as the calculations by which one can fix that wage, will naturally have to be considered from a different aspect from those prevailing in the advanced countries of Europe and America. The living wage when paid to an

educated or literate workman is naturally utilised for healthy living, as well as various comforts and amenities, plus a saving for a rainy day ; but it is the experience of European and American countries, that where such a living wage was paid to an illiterate and backward class of labour, it was wasted on vices and drink, instead of for the benefit of the workman, his family and his comforts. The other difficulty which will have to be considered, and which makes the problem even more complicated, is the fact that in our country labour is not confined to one community or class. The Kokan labour which is largely employed in Bombay is so different in its temperament, outlook and methods of living from that at Ahmedabad or Sholapur. It may be that the illiterate workman, when paid a higher wage, (*i.e.*, a living wage, which embraces in its calculation items of comfort, social amenities, education of children, etc.), may, instead of utilising the money for the various purposes for which it is given, take comfort in taking holidays or absenting himself from work for so many days in the month. Absenteeism in our mills and factories has always been an important problem even under the present conditions. If he did that, or if he utilised a portion of the wage on vices instead of amenities, the object with which the living wage was paid would be defeated. In the author's opinion, therefore, instead of the wage being paid directly to the workmen in full, some arrangement must be made, either through the recognised trade union if that is possible, or through the employer, for supplying these amenities in kind : for which a percentage may be deducted from the said wage for the purpose of meeting the expenses of such amenities. One of the elements of efficiency of labour is regularity of attendance, and care should be taken to see that nothing is done which is likely to destroy that most important element in the interest both of labour and industry.

PARTICIPATION IN MANAGEMENT.

We have considered various schemes devised with a view to bringing harmony and satisfaction among workmen, and

thereby to induce them to co-operate with their employers to the benefit of both. There are, as we have seen, profit-sharing and co-partnership schemes; but the industrial organization has gone much further and has tried, if possible, to give the workmen a chance to participate in the management in one form or other, with a view to making them understand and appreciate the difficulties of management. Usually the workman has no worries of management after he leaves his work for home, but the manager, virtually speaking, is worried over the problems of his own office for the twenty-four hours of the day. This fact is not usually appreciated by labour and jealousy of the management is most common. Leaders of industry have sought to remedy this by some method or device, and thus we have the different forms of participation between labour and management.

Council Plan.—This organization is devised more or less on a political organization basis. For example there is what is called the "House", which is elected by the labourers; a superior group known as the "Senate", is elected by a foreman; and at the top of these two is the "Cabinet", made up of executives. The "House", made up of labourers, is invited to make recommendations which pass through the "Senate", with its observations and remarks if any, and ultimately find a resting place in the Cabinet, which carefully considers the propositions, and gives effect to them wherever possible to the advantage of the concern. It is said that this system has one defect, inasmuch as separate groups of workmen are not brought together in one large group, where exchange of ideas between the foreman, workmen as well as executives may be made.

Committee Plan.—We thus arrive at what is called a "Committee Plan", under which the representatives of workmen, foremen and the executives meet together and discuss the problems of the work. Thus a humble workman may be brought face to face, on equal footing, with the highest executive, and is given a chance to consider the managerial

difficulties and problems, as well as to put before the principal executive his own point of view. This bringing together of workmen and foremen with the management is said to be most advantageous from all points of view. A satisfied workman on this Committee goes back and explains the position of the management, and its difficulties, to his fellows ; and thereby brings satisfaction and harmony, and avoids friction and misunderstanding, which are the causes of industrial disputes.

COMMERCIALISATION OF LABOUR.

Under this system the manufacturer contracts with the trade union for a certain quantity and quality of production at an agreed price. The manufacturer provides the factory, machinery, plant, raw material and skilled supervision, and the union finds and pays the labour. The drawback in the working of this system according to Dr. Shadwell is that, "it lacks the distinctive advantage which attaches to profit-sharing. This lies in giving to the wage-earners a direct interest in the success of the undertaking as a whole, which is quite a different thing from the differential incentive of the individuals. The latter elicits the best effort of each man by paying him accordingly, but it offers no incentive to him to promote the interest of the whole by care of machinery, for instance, or by economy of power or raw material. It may even tempt him to be particularly extravagant or careless about these things in the effort to increase his own output." The main object sought to be attained by this method of remuneration is to avoid all possible cause of friction between organized labour and capital by leaving in the hands of the trade union the work of remunerating each individual workman.

HOUSING OF WORKMEN AND LOCATION OF WORKS.

The housing of workmen is no doubt one of the most important factors of health and the continued state of physical fitness. This is now receiving greater attention than it did

in the past, and the modern factory planning takes this factor increasingly in calculation. Now-a-days the founders of factories locate them in the most advantageous site, in which the convenience of market, power, transportation facilities, labour and raw material are taken carefully into account. For example, in an industry engaged in the work of the canning of fruits and vegetables, the factory location has to be arranged in a place which is situated within as easy a reach of the sources of supply as possible, whereas, in the case of iron industries, the works have to be planted in the vicinity of the mine, as the transportation of a large quantity of raw material to any appreciable distance would involve a heavy burden on the cost of production and manufacture. Where factories and works have necessarily to be located in centres which are far away from the centres from which labour can be recruited, special arrangements have to be made for the housing of the employees who are brought from long distances. In other types of industry, like the cotton or woollen industry, the cost of transportation is so comparatively light, that the factories for the working of such industries are located far away from the centres of production of raw materials. In such cases the manufacturer generally prefers suburbs to the city or the countryside. The city offers, no doubt, an advantage in the sense that skilled, as well as unskilled labour, is generally obtainable in good quantity, because there a family made up of grown up people as well as children can find situations suitable to each ; which a location far away from the city will not admit of, particularly where the factory is isolated from other industrial enterprises. The city location entails, however, higher rent of land and building compared to that in the country, and thus, the factory buildings have to be cramped for want of space, and on other considerations of economy. The location of industries in the city also gives rise to objections on the question of the general health of its population, with the result that, as the cities go on expanding, factories and works are forced, through the action of the local authorities, to move out of

the centre of population. The housing accommodation for employees in the city is also far from being satisfactory.

The countryside offers comparative advantages from the point of view of cheapness of land and site, and the wages, too, are generally cheaper. The difficulty experienced is that skilled and superior labour is reluctant to reconcile itself to an isolated existence in the countryside, and in order to make their prospects more inviting, high salaries have generally to be provided for this class of labour.

The suburb, however, combines the advantages of a city as well as a country location. Its situation in the vicinity of a city makes it more acceptable to skilled labour. The land and site are comparatively cheap. It also affords sufficient opportunities for recreation in the open fields, where the workmen can settle down in a sort of a garden city built for them, enjoy plenty of fresh air and take part in outdoor games during their leisure hours. Thus the chances of degeneration of the labouring population, as marked in connection with all city industries, can also be minimised. A model factory town should, according to the best authorities, be built or allowed to grow up in the suburbs, particularly in connection with industries where the location has not, as in the case of industries like the mining industries, to be compulsorily fixed far away from the centres of population.

In older forms of industrial organization, however, where the industries are located in towns and cities, the housing accommodation for workmen is unfortunately left to be provided for by investors, who specially build these houses for profit, and try to make their investment as paying as possible. The commercial zeal of the investors of this class has frequently led to the building of houses on plans where modern sanitary principles are, for the most part, neglected. In Bombay we have a number of buildings used by our working classes as residence which in other advanced countries would not be tolerated for a day. Not only are these *chawls* far from being sanitary from a modern stand-point, but they

are also woefully overcrowded. This is no doubt most adversely affecting the health of our workmen, with consequent injury to the efficiency of our labour. Nothing could be more desirable in the interest both of efficiency and industry, than to see these insanitary houses giving place to buildings on up-to-date plans specially built for our workmen. In Europe this ideal is being rapidly attained, according to Dr. Shadwell, as follows:—

(1) *Self-help*.—Agencies which include building societies, co-operative societies, friendly societies, etc., started by the working classes themselves, through the help of various labour organizations that have grown up in connection with the various industries there.

(2) *Philanthropy*—which is represented by the employers of labour who voluntarily provide cheap and sanitary buildings for their workmen at moderate rents.

(3) *Socialism*—which means State or Municipal efforts at providing cheap residences for the working classes within easy reach of industrial centres.

All the above named agencies are at work in Europe and America, where labour finds increasing facilities with regard to its housing. The English and American working classes, however, are gradually getting so well organized in their countries, that in course of time State help or philanthropy will have very little to do, as they are, in return for an adequately higher wage, attempting to provide their own housing as well as welfare institutions. The beginning was no doubt made on the patriarchal system, which is giving place to self-help. Our workmen will have to be helped along in the same manner. The patriarchal system, in the form of employers' philanthropy and state-help, will have to be the starting points with us, as in Europe and America, until our labour arrives at that stage of advancement and organization, when it can be looked upon to provide its own wants in this direction by self-help. To quote Dr. Shadwell once again a "patriarchal order of things existed before the organization of society came about." "The labour in Europe demands to-day not favour but justice, not

gifts but a fair share of takings, with the means and the opportunity to provide its own welfare institutions. This is indeed a sound, wholesome and proper aspiration, inseparable indeed, from the organic development of society. Nor is it one to which the benevolent can object, for benevolence includes justice and liberty. Those who wish well to others, wish them at least that. What an honest benevolent employer really aims at, is justice. In the older state of society it is attained in one way, in the newer, in another." That is a state of affairs far off from the reach of un-organized, illiterate and relatively backward labour. At present our Indian labourers badly need the sympathetic and nursing care of their more enlightened countrymen, particularly their employers, who are no doubt in a position to assist them in a large way in this direction, in the common interests of labour in particular, and that of the infant industries of India in general.

The Disputes Committee on Labour Housing.—The report of the Bombay Industrial Disputes Committee, when dealing with the housing problem, lays great stress on this point. They are in favour of provision of housing accommodation by the State rather than by the employers because, according to them, "the employer is not the ideal house builder, if for no other reason than because it makes his employee doubly dependent on him—dependent on him for his wage and for his home. In case of dismissal he loses both." The Municipality, the Improvement Trust, the Development Directorate are asked to hurry up, and according to the Committee "the need is so great, the city is growing so fast, that no effort can be spared to quicken up the building programme." Even the employers, whose "special responsibility" is also acknowledged in this direction, are urged to co-operate in building residential quarters for their employees on easy terms. Buildings built by the State are to be provided for by public taxation, and it is but fair that the employers who benefit directly from the results of labour of their employees, should be made to share as large a portion of the burden as can be conveniently

assigned to them. As we have already stated, at the present stage our labour must accept "the patriarchal order of things" as a temporary step, till it reaches a stage when, as in England, it can ask for "a fair share of takings" and build its own houses, out of its own increased income, on co-operative and other basis. By carefully studying the experiences of English and American industries, and thereby avoiding errors, we can expedite our progress in this direction.

COST OF LIVING.

This element also plays a significant part, both in the determination of the standard of an adequate "living wage" for workmen, and the building up of their physique. It is no doubt to the interest of the efficiency of the industries concerned that the necessaries of daily life, particularly articles of food and clothing, should be procurable by working classes at the most advantageous rates. It is hardly necessary to state that well fed, properly clothed and adequately housed labour is generally able to maintain its standard of efficiency at a uniformly high standard. If, therefore, these necessaries are procurable at rates which are most advantageous from the point of view of labour, the wages of labour are also likely to be cheaper. In those locations, particularly where owing to the plentiful supply of labour, wages are rather low, the physique of workmen generally deteriorates owing to the want of sufficient nourishment, the insanitary conditions under which they are forced to live and the inadequate protection afforded by cheap garments in cold and damp weather. In such locations the need for an organized effort with a view to supplying these necessaries in a form most wholesome, as well as cheap, is no doubt greater when looked at both from the moral as well as materialistic stand-point. The employers of labour realised this in European countries some years ago, and started special shops and stores where food-stuff and clothes, suitable to the requirements of the working classes, were offered for sale at wholesale rates. This movement at a later stage developed into an

effort to supply its own wants, on the part of organized labour itself, with the result that co-operative stores run by labour associations are quite a familiar adjunct to modern industrialism.

The cost of living of our Indian labour is perhaps the lowest, when compared to any other industrial country, in the world. The effect of this on efficiency has been already dealt with in the early part of this chapter. Grain and cloth shops for the working classes, which have of late been opened under the patronage of certain well meaning employers and enthusiastic public-men, are bound to do an amount of good. The difficulty experienced in this regard, at least in Bombay, is largely due to the system of borrowing prevailing among the working classes, which keeps them perpetually indebted to the grain dealer, who also acts as money-lender. These grain dealers keep on supplying grain, even cloth in some cases, on credit. They also advance money on interest in cases where sudden illness, or the death or marriage of a member of the family entails too heavy a burden on their very modest family budget, which amount is gradually recovered by them out of their wages. In order to make these workmen buy at, and deal largely with, grain shops opened specially for them, some system will have to be devised which would help work-hands to close their accounts with money lending grain dealers, and at the same time enable them to secure a loan on advantageous and easy terms in case of contingencies of the type mentioned above.

CONSTITUTION AND PHYSIQUE OF WORKMEN.

The physique of workmen is also one of the factors which influence their efficiency. Persons endowed with great vitality, and enduring powers, can withstand mental and physical strain for a longer period than those less fortunate in that regard. In certain class of heavy work, which entails lifting of heavy weights, etc., the workmen selected are those gifted with strong constitutions. Even in the ordinary walks of life, not excluding the learned professions, a robust

constitution is an advantage of no mean value. The items that play an important part in relation to the physique of a nation are, (1) climate, (2) care of women and children, and their mode of life, (3) early education and care taken of the average youth during his school and college life, (4) quality of diet and the mode of its preparation, and (5) observance of the laws of hygiene.

The influence of climate on constitution or physique is too well-known to need any lengthy treatment here. In India the various provinces differ so widely in their climate, that we commonly see a particular class, or race, hailing from a particular district, enjoying a sort of monopoly for particular type of work for which they are physically best fitted. Mr. Sirkar in his book on Indian Economics, from which we have already had occasion to quote, states, that, "Bihar peasants are most industrious and patient, who have hardly any equal elsewhere in steadiness, intelligence and self-reliance. But in the pestiferous climate of Bengal and Assam they have grown rather languid and fond of repose. The labourers of Bombay and Upper India are strong and hard working."

The influence of care on women, the mothers of the future generation of workmen, has already been dealt with. The same zealous regard must be paid for the health and well-being of children employed in factories, farms, mills, etc., as they are to provide our adult labour in course of time, and are to be the parents of the future generation of workmen. Various factory laws, as well as special legislation passed for the protection of children, aim that way. All possible attempts should be made for providing the best means for recreation of children employed in industries, and play-grounds and special accommodation should be provided for. Arrangements ought also to exist for imparting elementary education to this class of labour during leisure hours. Much also depends on care taken of boys while at schools and colleges. If they were to be burdened with a heavy curriculum, it would no doubt adversely affect their physique, but the tendency to cram through

a course prescribed for gradual assimilation through a definite period of study of, say, a couple of years, in the last few months before the final examination, has perhaps done more damage to the constitution of our young college students than all other factors taken together. This tendency to cram is unfortunately noticeable all over the world. In Indian Colleges, also, a good proportion of students do not work to a fixed timetable throughout the course as they are expected to do, and attempt to cram through their examinations at the last moment. The advantages of regular and sustained study, with a view to acquiring a deep knowledge of the subjects concerned, and with an eye to the development of the intellect by systematically graded mental exercise, is appreciated by a comparatively smaller number. The result is that our young college men, the principal source of supply of our intellectual labour, are physically, as well as intellectually, not as strong as we should like them to be.

The other factor which affects national health is the nature of diet and the mode of its preparation. The author does not propose here to enter into a long discourse on the merits or otherwise of vegetable as compared to meat diet; but it cannot be denied that in order to sustain the constitution in the fittest condition, the diet should be so prepared as to enable the system to imbibe the best nourishment out of it. If the culinary art is developed, as is frequently the case, more with a view to please the palate than to answer the daily requirements of the constitution, the same is bound to affect health, and impair the efficiency of the persons concerned.

ORGANIZATION OF LABOUR.

Labour has organized itself under associations and unions for self-protection as well as self-help. The very origin of the trade unions may be traced to the early conflicts between capital and labour in Europe and America. Separate unions are formed in connection with each industry. The early history of trade unions is full of bitter struggles, both against

the employer, and the obstacles presented by law in force in those days. They have managed, however, to get over all their difficulties, and occupy to-day a dignified position full of power and influence. The good influences exercised by these unions according to the best authorities are as follows:—

(1) They help to keep the wages on a uniform level: and that too according to the actual economic value. This has to a large measure made the employer's work easier, as in the early days of the trade unions the employees, seeing their power and strength as a united body, began to extort through strikes unreasonable wages, with the result that industry itself suffered, thus reacting on the workmen themselves. The trade unions and their leaders in Europe and America gradually began to appreciate the value of amicable settlements, so that to-day they hesitate to resort to this extreme course without exhausting all efforts to arrive at a more peaceful settlement. The author trusts that in India also similar conditions will be established at an early date through the spread of mass education and a wise guidance to labour by those in command.

(2) The unions also enforce a spirit of self-reliance and self-respect among workmen, and thus build up national character. A self-respecting workman disdains to receive anything by way of gift or alms, but wishes to be paid a fair share of takings, according to the actual work produced.

(3) Being united under the banner of an organized body, the workmen are able to negotiate with the employer with a status and self-respect. They are in a position to bring pressure on the employer to see that the factories are kept in a healthy condition, and that the hours of labour are conveniently arranged. They are in a position, in case of a grievance, to represent their case through the union, which prevents unnecessary fight and disruption of work. Any unreasonable demand on the part of any particular set of workmen, when brought before a properly regulated union, is bound to be rejected by its committee, which is selected in advanced countries from the most intelligent of workmen who, through

experience, observation and voluntary study of the economic situation, are able to fully appreciate the problems set before them.

(4) Formerly, unorganized labour was not able to command the advice and assistance of experts, and being itself either illiterate or half-educated, could not act with any substantial result. To-day the trade unions can get the best professional assistance, and are thus able to meet the employer on an equal footing.

(5) The trade unions in advanced countries are now sufficiently advanced to be able to undertake the work of improving the efficiency of their members by professionalising their respective occupations, and laying down a standard of efficiency and experience as a condition precedent to full membership. Thus the "idler and the incompetent have no place in the Union."

(6) The advent of trade unions has also raised and improved the general standard of living among the European and American workmen—an advantage of no small value in countries where the systems of incentive piece and time wages, on the most scientific principles, are now in full application.

(7) Trade unions with their growing power and influence, as well as the proper appreciation of the economic condition of industries, and the position of the capitalist in relation to industries, have brought into existence conciliation and arbitration boards, composed of the representatives of both capital and labour, thereby leading to a better mutual understanding between these two hitherto conflicting factions.

These are no doubt the advantages. The disadvantages, as stated by various authoritative writers and thinkers, seem all to arise through the misuse of the powers of combination which these unions represent. A powerful union of workmen in any trade or industry, particularly in one like the coal mining industry, may, through an unreasonable demand for higher wages, bring not only the coal trade, but also all other

industries depending on the supply of coal, to a standstill, by going on strike on refusal of their unreasonable demand. Thus the innocent workmen engaged in other industries have to suffer for the obstinacy of a body in whose quarrel they have no share. If this unreasonable body were to succeed in getting unduly enhanced wages, thereby bringing about a rise in the price of coal, it might adversely affect other industries depending on coal in these days of keen industrial struggle between nations, particularly in foreign and colonial markets. This might either result in the ruin of the industries concerned, or in the reduction of wages of workmen therein who may not be equally organized. If the workmen engaged in industries where the standard wage is lower, change to those where the wages have been thus artificially forced up, the members of the union concerned attempt to adopt the equally unreasonable and arbitrary course of limiting their number by refusing admittance into their unions, and of preventing the employers concerned from employing these non-unionists under the threat of a general strike. They also indirectly force the employer to engage a number larger than is absolutely necessary, through rules under which a superior workman is prevented by his union from undertaking a particular piece of work without being assisted by an allotted number of juniors, to each of whom the employer has to pay a wage as per a standard fixed by the union.

In spite of all these dangers and drawbacks, the trade unions can justly claim that the balance works out in their favour, and considering the fact that with the growing experience of these bodies, whose members have considerably advanced through the superior education brought within their reach in modern times, many of the mistakes of the past are not likely to be repeated. To-day both the employer and the unions understand each other better, and it is increasingly recognised that interests of capital and labour instead of being in conflict ought to be identical and in harmony for the common good of all.

INDIAN TRADE UNIONS ACT, 1926.

The Trade Union.—The trade union is defined by the Act as any combination, whether temporary or permanent, formed primarily for the purpose of regulating the relations between workmen and employers or between workmen and workmen, or between employers and employers, or for imposing restrictive conditions on the conduct of any trade or business, and includes any federation of two or more trade unions.

Registration.—Any seven or more members of a trade union may subscribe their names to the rules of the trade union, and otherwise complying with the provisions of the above Act, apply for registration under the Act to the Registrar of Trade Unions appointed by the local government for the province (secs. 3, 4). The application has to be accompanied by the following :—

- (1) the names, occupations and addresses of the members making the application;
- (2) the name of the trade union and the address of its head office; and
- (3) the titles, names, ages, addresses and occupations of the trade union (sec. 5).

This registration shall not be given unless the executive is constituted according to the provisions of this Act, and the rules of the union provide for the following matters :—

- (1) the name of the trade union;
- (2) the whole of the objects for which the trade union has been established;
- (3) the whole of the purposes for which the general funds of the trade union shall be applicable, all of which purposes shall be purposes to which such funds are all fully applicable under this Act;
- (4) the admission of ordinary members who shall be persons actually engaged or employed in an industry with which the trade union is connected, and also the admission of the number of honorary or temporary members as officers required under section 22 to form the executive of the trade union;

- (5) the maintenance of a list of the members of the trade union and adequate facilities for the inspection thereof by the officers and members of the trade union;
- (6) the conditions under which any member shall be entitled to any benefit assured by the rules and under which any fine or forfeiture may be imposed on the members;
- (7) the manner in which the rules shall be amended, varied or rescinded;
- (8) the manner in which the members of the executive and the other officers of the trade union shall be appointed and removed;
- (9) the safe custody of the funds of the trade union, an annual audit, in such manner as may be prescribed, of the accounts thereof, and adequate facilities for the inspection of the account books by the officers and members of the trade union; and
- (10) the manner in which the trade union may be dissolved.

The precaution to be taken with regard to (10), is that the name under which the trade union seeks to be registered is not similar to that of any existing union (sec. 7). On registration the Registrar issues a certificate of registration in the prescribed form which is conclusive evidence of the fact that the said trade union has been duly registered.

The Registrar, of course, has the right to withdraw or cancel this certificate either on application of a trade union or the trade union concerned, or where the Registrar is satisfied that the certificate has been obtained by fraud or mistake, or that the said trade union has ceased to exist, or, after receiving notice from the Registrar, has wilfully contravened any provision of this Act. The same would be the case if the union had allowed any rule to continue in force which is inconsistent with any such provision of the Act, or had rescinded any rule providing for any matter, provision for which is required by sec. 6 (sec. 10). The party aggrieved either through the withdrawal or cancellation of certificate, has a right to appeal within prescribed period to such Judge not below the grade of an additional or assistant Judge of a principal Civil Court of original jurisdiction as the local government may appoint in

this matter. Acts such as the Societies Registration Act, 1860, the Co-operative Societies Act, 1912, the Provident Insurance Societies Act, 1912, the Indian Life Assurance Companies Act, 1912, and the Indian Companies Act, 1913, shall not apply to any trade union.

The Funds of the Trade Union.—The funds of a registered trade union cannot be spent on objects other than those laid down by the Act, such as,

- (1) payment of salaries and allowances and expenses to its officers or payment of expenses for its administration including audit of accounts;
- (2) for prosecuting or defending a legal action to which the union or any of its members is a party, when such prosecution or defence is undertaken for the purpose of securing or protecting any rights of the union or any rights arising out of the relations of any member with his employer or with a person whom the member employs;
- (3) the conduct of trade disputes on behalf of the trade union or any member thereof;
- (4) the compensation of members for loss arising out of trade disputes;
- (5) allowances to members or their dependants on account of death, old age, sickness, accidents or unemployment of such members;
- (6) the issue of, or the undertaking of liability under, policies of assurance on the lives of members, or under policies insuring members against sickness, accident or unemployment;
- (7) the provision of educational, social or religious benefits for members (including the payment of the expenses of funeral or religious ceremonies for deceased members) or for the dependants of members;
- (8) the upkeep of a periodical published mainly for the purpose of discussing questions affecting employers or workmen as such;
- (9) the payment, in furtherance of any of the objects on which the general funds of the trade union may be spent, of contributions to any cause intended to benefit workmen in general, provided that the expenditure in respect of such contributions in any financial year shall not at any time during the year be in excess of one-fourth of the combined

total of the gross income which has up to that time accrued to the general funds of the trade union during that year and of the balance at the credit of those funds at the commencement of that year.

Constitution of a Separate Fund for Political Purposes.

—The trade union is permitted by the Act to institute a separate fund, from contributions separately levied, for such funds: and out of this fund payments may be made for the promotion of the civic and political interests of its members in furtherance of the following objects:—

- (1) the payment of any expenses incurred, either directly or indirectly, by a candidate or prospective candidate for election as a member of any legislative body constituted under the Government of India Act or of any local authority, before, during, or after the election in connection with his candidature or election; or
- (2) the holding of any meeting or the distribution of any literature or documents in support of any such candidate or prospective candidate; or
- (3) the maintenance of any person who is a member of any legislative body constituted under the Government of India Act or of any local authority; or
- (4) the registration of electors or the selection of a candidate for any legislative body constituted under the Government of India Act or for any local authority; or
- (5) the holding of political meetings of any kind, or the distribution of political literature or political documents of any kind.

The above is subject to the condition that no member of the union shall be compelled to contribute to the above fund for political purposes, and that the union shall not have the right to exclude such member from the benefit of the union, or to inflict any disability by reason of such non-payment. Neither shall the union have a right to make such contribution for political purposes a condition precedent for admission to its membership (sec. 16).

Books of a Trade Union.—The books of accounts of a registered trade union and its list of members shall be open

to inspection by any officer or member of the trade union at such times as may be provided for in the rules.

Dissolution.—When the trade union is dissolved, the notice of such dissolution, signed by seven members and the Secretary must, within fourteen days of such dissolution, be sent to the Registrar. The Registrar has to see that the said dissolution has been effected in accordance with the rules of the union. If the rules do not provide for the distribution of funds on dissolution the Registrar is given the power by the Act to divide the funds amongst the members of the union in such manner as may be prescribed.

INDIAN TRADE DISPUTES ACT, 1929.

At the close of the war of 1914-1918, there was great outbreak of industrial unrest on a large scale, which led to the passing of the above Act by the Government of India after exploring the possibility of providing some machinery for the settlement of industrial disputes. The objects and reasons of this Act state that enquiries made with this objective in the year 1920, led to the conclusion that in the conditions then existing, legislation for this purpose was not likely to be effective, but that succeeding years saw a distinct change in the position through the growth of organizations of industrial workers, and the increasing influence exercised by public opinion on the course of disputes. Thus the above Act came to be taken seriously in hand and passed. The main chapters, 3-14, of this Act, relate to the establishment of tribunals for the investigation and settlement of trade disputes, and the material has been taken generally from the British Industrial Courts Act of 1909. The Act provides for some sort of a tribunal to which industrial disputes may be referred, and here it differs from the British Act, inasmuch as the said Act sets up a standing Industrial Court; whereas the Indian Act provides for Conciliation Boards which are to be appointed *ad hoc*, like the Courts of Enquiry, in order to deal with disputes.

The Indian Trade Disputes Act, 1929 extends to the whole of British India including British Baluchistan and the Santal Parganas. It lays down that wherever any trade disputes existed or were apprehended between an employer and any of his workmen, or where the employer is the head of a department under the control of the Central Government or is the Federal railway authority or a railway company operating a Federal railway, the Central Government may, by order in writing, (a) refer any matters appearing to be connected with or relevant to the dispute to a Court of Enquiry to be appointed by the Provincial Government or the Central Government, as the case may be; or (b) order the dispute to a Board of Conciliation to be appointed by the Provincial Government or the Central Government, as the case may be, for promoting a settlement thereof. However, where both the parties to the dispute apply either separately or conjointly, for a reference to a Court, or where both parties apply, whether separately or conjointly, for a reference to a Board, and the authority having the power to appoint is satisfied that the persons applying represent the majority of each party, the Court or Board, as the case may be, shall be appointed accordingly.

For the purpose of this Act an employer is defined as under :—

“employer”, in the case of any industry, business or undertaking carried on by any department of any Government in British India, means the authority prescribed in this behalf or, where no authority is prescribed, the head of the department.

A workman is defined as under :—

“workman” means any person employed in any trade or industry to do any skilled or unskilled manual or clerical work for hire or reward, but does not include any person employed in the naval, military or air service of the Crown.

A trade dispute is defined as under :—

“trade dispute” means any dispute or difference between employers and workmen, or between workmen and workmen, which is connected with the employment or non-employment or the terms of the employment, or with the conditions of labour, of any person.

Courts of Enquiry and Boards of Conciliation.—A

Court of Enquiry is to consist of an independent chairman and such other independent persons as the appointing authority thinks fit; or may, if such authority thinks fit, consist of one independent person. This Court may act as long as there is the prescribed quorum notwithstanding any vacancy in the number of its members other than the chairman, and may enquire into the matter referred to it either in public or in private at its discretion, reporting thereon to the authority by which the Court was appointed. The Court may also, if it thinks fit make interim reports.

A Board of Conciliation shall consist of a chairman and two or more other members, as the appointing authority thinks fit, or may, if such authority thinks fit, consist of one independent person. Where the Board consists of more than one person the chairman shall be an independent person, and the other members shall be either independent persons or persons appointed in equal numbers to represent the parties to the dispute. All persons appointed to represent a party shall be appointed on the recommendation of their party, provided, however, that if any party fails to make the necessary recommendation within the prescribed time, the appointing authority shall elect and appoint such person as it thinks fit to represent that party. The Board having the prescribed quorum may act notwithstanding any vacancy in the number of its members other than the chairman, provided, however, that where the Board includes an equal number of persons representing the parties to the dispute, and the services of any such person cease to be available before the Board has completed its work, the authority appointing the Board shall appoint another person to take his place, and the procedure shall be continued before the Board so constituted. The duty of the Board of Conciliation will be primarily to endeavour to bring about a settlement of the dispute referred to it, and for this purpose the Board shall, in such manner as it thinks fit, and without delay, investigate the dispute and all matters affecting the merits

thereof and the right settlement thereof, and in so doing may do all such other things as it thinks fit for the purpose of inducing the parties to come to a fair and amicable settlement of the dispute, and may adjourn the proceedings for any period sufficient in its opinion to allow the parties to agree upon terms of settlement. If no settlement is arrived at during the course of the investigation, the Board must, as soon as possible after the close of the investigation, send a full report regarding the dispute to the authority by which the Board is appointed, setting forth the proceedings and the steps taken by the Board for the purpose of ascertaining the facts and circumstances relating to the dispute and of bringing about a settlement of same, together with a full statement of such facts and circumstances, its findings thereon and its recommendations for the determination of the dispute.

If on the other hand a settlement of the dispute is arrived at, a memorandum of settlement must be drawn up by the Board and signed by the parties; which memorandum, and Board's report of the settlement, must be sent to the party by which the Board was appointed.

It will thus be seen that the objects of the Court of Enquiry are to investigate and report on such questions connected with the dispute as may be referred to them. The object of the Board of Conciliation is to try, if possible, to secure a settlement of the dispute. Both these Courts are empowered to enforce the attendance of witnesses and production of documents. The reports of both these parties are to be published. However, neither party to the dispute is bound to accept the findings either of the Court of Enquiry or the advice of the Board of Conciliation; but what is sought to be achieved is that a publication of the reports will bring to bear the force of a public opinion which has been enabled to arrive at just conclusions by the publication of the report.

Public Utility Services.—With reference to public utility services, however, the above Act lays down a punishment, *viz.*, imprisonment, which may extend to one month or fine

which may extend to Rs. 50 or both, where any person employed in a public utility service goes on strike in breach of contract, without having given to his employer, within one month before so striking, not less than 14 days previous notice in writing of his intention to go on strike ; or where having given such a notice, he goes on strike before the expiry of the said notice.

A similar punishment, *viz.*, imprisonment which may extend to one month, or a fine which may extend to Rs. 1,000 or more, is provided for in the case of an employer carrying on a public utility service, who locks out his workmen in breach of contract, without having given them, within one month before such lock-out, not less than 14 days notice in writing of his intention to lock them out, or having given such notice, locks them out before the expiry of the said notice. Where such employer is a corporation, company or other association of persons, any secretary, director or other officer or person concerned with the management of these bodies shall be punishable unless he proves that the offence was committed without his knowledge and without his consent.

Illegal Strikes and Lock-outs.—A strike or a lock-out shall be illegal which :—

- (a) has any object other than the furtherance of a trade dispute within the trade or industry in which the strikers or employers locking out are engaged; and
- (b) is designed or calculated to inflict severe, general and prolonged hardship upon the community and thereby to compel any Government in British India, the Federal Railway Authority or the Crown Representative to take or abstain from taking any particular course of action.

The Act also provides for penalties to persons who declare, instigate and incite others to take part or otherwise act in furtherance of a strike or lock-out which is illegal under sec. 16, which penalty is simple imprisonment which may extend to three months, or fine which may extend to Rs. 200, or to both. However, it has been provided that no Court shall take cognizance of any offence under sec. 17, *i.e.*, penalties for

inciting, etc., an illegal strike, save on complaint made by or under the authority from the appropriate government.

Protection of Persons Refusing to Take Part in Illegal Strikes or Lock-outs.—Section 18 of the Act further provides that a person refusing to take part or to continue to take part in any strike or lock-out which is illegal under sec. 16, shall not, by reason of such refusal, or by reason of any action taken by him under this section, be subject to expulsion from any trade union or society, or to any fine or penalty or to deprivation of any right or benefit to which he or his representatives would otherwise be entitled, or be liable to be placed in any respect either directly or indirectly, under any disability or at any disadvantage as compared with other members of the union or society in spite of any rules to the contrary of a trade union or society.

BOMBAY INDUSTRIAL DISPUTES ACT, 1938.

The Government of Bombay passed through the two houses of legislature in the Province of Bombay an Act under the above title. According to the statement of objects and reasons, the All-India Traders Disputes Act of 1929, which provides for the appointment of the Courts of Enquiry and Boards of Conciliation, has failed in certain particulars. The procedure, it is argued, in connection with the appointment of these bodies has been found to be so cumbrous and inconclusive in character, that the Act has been rarely used in India during the nine years it has been on the Statute book. It points out that the Government of Bombay, in 1934, passed the Bombay Trade Disputes Conciliation Act, providing for the appointment of a labour officer, whose chief duties are to secure redress of the grievances of the work people employed in the textile industry in Bombay City, and for the appointment of the Commissioner of Labour as the Chief Conciliator to bring the two parties to the trade disputes in this industry together, with a view to their reaching an amicable settlement to the dispute. It was thought

possible to extend the provision of that Act so as to cover the textile industry in other centres, or to cover other trades and industries in different centres : but there was nothing in that Act making it obligatory to parties to a trade dispute to endeavour to obtain a settlement of it by conciliation before resorting to a strike or lock-out. Thus the object of the Act of 1938, according to the Government of Bombay, was to ensure that this was done. It is pointed out that most countries of the world have comprehensive schemes of legislation aiming at peaceful settlement of all disputes between employer and employee, and the prevention of conflicts which result in considerable financial losses, not only to the employers and to the employee, but also to the community at large. According to the same authority, the world legislation on this subject varies widely in character, scope and extent, and ranges from simple conciliation, either by private arrangement or through prominent conciliators appointed by the State, to the compulsory acceptance by both parties of decisions or awards given by industrial arbitration tribunals or by industrial courts.

The Act provides for registration of unions which have been recognised by the employers concerned, or which fulfil certain requirements as regards membership. This registration confers various rights on the unions in connection with representation on behalf of the workers. The Act also provides for the appointment of labour officers and conciliators for each area in the province, and a specific machinery is set up to ensure that the grievance of the workers, or any alterations in their conditions of service are fully considered. The most important principle enunciated by this Act is that there shall be no strikes or lock-outs until the whole of the machinery provided by the Act for discussion and negotiation has been made use of : and that failure to observe this most necessary first step would make any strike or lock-out that may be declared illegal.

The Commissioner of Labour is to be *ex officio* Chief Conciliator under this Act and his jurisdiction extends through-

out the province. The Provincial Government may, by notification in the official gazette, appoint any person to be a conciliator, for such local area as may be specified in the notification. Such government may also, by a similar notification in the official gazette, appoint any person to be a special conciliator for such local area or such industry in any local area, or for such industrial dispute or class of disputes as may be specified in the notification, and may, by a similar notification appoint any person to be a labour officer for such local area or for such industry as may be specified in the notification.

Board of Conciliation and Court of Industrial Arbitration.—Where an industrial dispute arises, the Provincial Government may, by notification in the official gazette, constitute a board of conciliation for promoting a settlement of a dispute. This Board is to consist of a chairman and equal number of persons selected by the Provincial Government from panels representing the interest of the employers and the employees respectively. The chairman of the Board shall be an independent person, *i.e.*, a person shall be deemed to be independent if he is unconnected with the dispute with reference to which the Board is constituted and the industry directly affected by the dispute.

The Provincial Government Court of Industrial Arbitration.—The Provincial Government is also empowered to constitute a Court of industrial arbitration for determining industrial disputes and for dealing with other matters under the provision of the Act. This industrial Court is to consist of two or more members, one of whom shall be its president. The members of the industrial Court are to be persons who are not connected with any industry, and the President shall be a person who is, or has been, a judge of a High Court, or is eligible for being appointed a judge for such Court.

Conciliation Proceedings.—The conciliation proceedings provided by the Act begin when any change in the working

arrangement or wages, in respect of which notice given as required by this Act by any employer or employee under secs. 28 or 29 of the Act, is objected to by either party. The party giving notice and desiring the change has to forward to the Registrar, the Chief Conciliator and the conciliator of the local area a full statement of the case, in a prescribed form, within 21 days from the date of service of such notice to the other party. The conciliator, on receipt of this statement of the case, must enter the industrial dispute in the prescribed register and then hold the conciliation proceedings as laid down in the Act. His duty shall be to endeavour to bring about a settlement of the industrial dispute and for this purpose he must enquire into the dispute and all matters affecting the merits of same, and do all such things as he then thinks fit for the purpose of inducing the parties to come to a fair and amicable settlement of the dispute, and may adjourn the conciliation proceedings for any period sufficient, in his opinion, to allow the parties to arrive at a settlement. If a settlement is arrived at, the officer should prepare a memorandum of such settlement in the prescribed form and get it signed by the employer and the representative of employees, and send a report of the proceedings, along with a copy of the memorandum of settlement, to the Registrar and Chief Conciliator, whereupon the Registrar must record such settlement in the register and shall then publish it in such manner as may be prescribed. The change, if any, agreed to by such settlement, shall come into operation from the date agreed upon in such settlement: and where no such date is agreed upon, from the date from which it is recorded in the register.

If no settlement is arrived at, the conciliator must, as soon as possible after the close of the proceedings, send a full report to the Chief Conciliator and he shall send same to the Provincial Government and the Government shall publish the report of the conciliator submitted to it, except where the dispute is referred to the Board of Conciliation.

During the pendency of these proceedings before the conciliator the Government may, and, if both the parties agree, either prior to the commencement of such proceedings or after the failure of conciliation to bring about a settlement, shall, refer the dispute to a Board of Conciliation.

On such reference the Board is to give notice in the prescribed manner to the parties to the dispute to appear before it, and endeavour to bring about a settlement of the industrial dispute as far as it can. On conclusion of the Board's proceedings, whether a settlement is arrived at or not, the Board should send a report of the proceedings to the Provincial Government which the said Government shall publish. The Board of Conciliation is vested with the ordinary powers of the Court under the Code of Civil Procedure, 1908, in respect of summoning and enforcing attendance, examining on oath, compelling production of documents, issuing commissions for the examination of witnesses and proving of facts by affidavits. The proceedings before the Board may be in public, whereas proceedings before a conciliator are to be in a panel. However the Board may at any stage direct any particular witness to be examined or its proceedings to be held in panel.

Court of Industrial Arbitration.—The Act claims to break entirely fresh ground by making a provision for the setting up of an industrial Court presided over by a High Court judge, or a lawyer qualified to be a High Court judge. This Court is to act as a tribunal for voluntary arbitration on matters submitted to it by the parties to the dispute, and will also function as a court of final appeal in numerous cases arising out of the working of the Act by the way of appeal from the decisions of the Registrar or Commissioner of Labour as regards standing orders, which all employers must have, regulating the disciplinary rules and conditions of service applicable to every industrial establishment. The Court is the tribunal that will decide whether or not a strike or lock-out is illegal, and all questions of interpretation of agreements and awards coming

before it. The Court should have the same powers under the Civil Procedure Code as the Board of Conciliation with regard to witnesses, documents, etc. Every proceeding before this Industrial Court has to be deemed to be a judicial proceeding under the meaning of secs. 192, 193 and 228 of the Indian Penal Code, and it shall have power to direct those by whom the whole, or any part of the cost of any proceedings before it, shall be paid, in connection with the services of any legal adviser engaged by the party. The order of the Court shall be binding on :—

(a) all parties to the industrial dispute who appeared or were represented before such Court;

(b) all parties who were summoned to appear as parties to the dispute whether they appeared or not, unless the Industrial Court is of opinion that they were improperly made parties;

(c) in the case of an employer who is a party to the proceedings before such Court in respect of the undertaking to which the dispute relates, his successors, heirs or assigns in respect of the undertaking to which the dispute relates; and

(d) in the case of a union which is a party to the proceedings before such Court, all persons who were members of such union on the date of the dispute or who become members of the union thereafter.

No order passed by the Industrial Court shall be called in question by any Civil or Criminal Court.

Illegal Strikes and Lock-outs.—Illegal strikes and lock-outs are defined under this Act in secs. 62 and 63 as follows :—

62. (1) A strike shall be illegal if it is commenced or continued :—

(a) in cases where it relates to any industrial matter mentioned in Schedule I, before the standing orders relating to such matter and submitted to the Commissioner of Labour under section 26 are settled by him or by the Industrial Court, as the case may be, before the expiry of six months from the date on which such standing orders come into operation under section 26;

(b) without giving notice in accordance with the provisions of section 28;

(c) only for the reason that the employer has not carried out the provisions of any standing order or has made an illegal change;

(d) in cases where notice of the change is given in accordance with the provisions of section 28 and where no agreement in regard to such change is arrived at, before the statement of the case referred to in section 34 is received by the Registrar;

(e) in cases where conciliation proceedings in regard to the industrial dispute to which the strike relates have commenced before the completion of such proceedings;

(f) in cases where a submission relating to such dispute or such kinds of dispute is registered under section 43, until such submission is lawfully revoked; or

(g) in contravention of the terms of a registered agreement, settlement or award.

(2) In cases where conciliation proceedings in regard to any industrial dispute have been completed, a strike relating to such dispute shall be illegal if it is commenced at any time after the expiry of two months after completion of such proceedings.

63. (1) A lock-out shall be illegal if it is declared, commenced or continued :—

(a) in cases where it relates to any industrial matter mentioned in Schedule I, before the standing orders relating to such matter and submitted to the Commissioner of Labour under section 26 are settled by him or by the Industrial Court, as the case may be, or before the expiry of one year from the date on which such standing orders come into operation under section 26;

(b) without giving notice in accordance with the provisions of section 28;

(c) in cases where notice of the change is given in accordance with the provisions of section 28 and where no agreement in regard to such change is arrived at, before the statement of the case referred to in section 34 is received by the Registrar;

(d) in cases where conciliation proceedings in regard to the industrial dispute to which the lock-out relates have commenced, before the completion of such proceedings;

(e) in cases where a submission relating to such dispute or such kinds of dispute is registered under sec. 43, until such submission is lawfully revoked; or

(f) in contravention of the terms of a registered agreement, settlement, or award.

(2) In cases where conciliation proceedings in regard to any industrial dispute have been completed, a lock-out relating to such

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dispute shall be illegal if it is commenced at any time after the expiry of two months after the completion of such proceedings.

The penalties provided are as follows :—

Sec. 64. (1) No employer shall dismiss or reduce any employee or punish him in any other manner by reason of the circumstance that the employee :—

(a) is an officer or member of a registered union or of a qualified union or of a union which has applied for being registered or declared as a qualified union under this Act; or

(b) is entitled to the benefit of a registered agreement, submission or award; or

(c) has appeared or intends to appear as a witness or has given any evidence or intends to give evidence in a proceeding under this Act; or

(d) is an officer or member of an organization the object of which is to secure better industrial conditions; or

(e) is an officer or member of an organization which is not declared unlawful; or

(f) is a representative of employees; or

(g) has gone on or joined a strike which is not illegal under the provisions of this Act.

(2) Whoever contravenes the provisions of sub-section (1) shall, on conviction, be punishable with fine which may extend to Rs. 1,000.

(3) The Court trying any offence under this section may direct that out of the fine recovered, such amount as it deems fit shall be paid to the employee concerned as compensation.

Sec. 65. Any employer who has declared a lock-out which has been held by the Industrial Court to be illegal shall, on conviction, be punishable with fine which may extend to Rs. 2,500 and, in the case of the lock-out being continued after such conviction, with an additional fine which may extend to Rs. 200 for every day during which such lock-out continues after such conviction.

Sec. 66. Any employee who has gone on strike or who joins a strike which has been held by the Industrial Court to be illegal shall, on conviction, be punishable with fine which may extend to Rs. 25 and in the case of a continuing offence with an additional fine which

may extend to Re. 1 per day for every day during which the offence continues after his last conviction for such offence, subject to a maximum of Rs. 50.

Sec. 67. If any person instigates or incites others to take part in, or otherwise acts in furtherance of, a strike or lock-out which has been held to be illegal by the Industrial Court, whether such strike or lock-out has commenced or not, he shall, on conviction, be punishable with imprisonment of either description for a term which may extend to three months or with fine or with both.

Explanation :—For the purposes of this section, a person who contributes, collects or solicits funds for the purposes of any such strike or lock-out shall be deemed to act in furtherance thereon.

68. If a conciliator or a member of the board or any person present at, or concerned in, any conciliation proceeding, wilfully discloses any information or the contents of any document in contravention of this Act, he shall, on a complaint made by the party who gave the information or produced the document in such proceeding and on conviction, be punishable with fine which may extend to Rs. 1,000.

69. (1) Any employer who makes any illegal change shall, on conviction, be punishable with fine which may extend to Rs. 5,000 and in the case of a continuing offence with an additional fine which may extend to Rs. 200 per day for every day during which the offence continues after his last conviction for such offence.

(2) An employer who acts in contravention of a standing order settled under section 26 shall, on conviction, be punishable with fine which may extend to Rs. 100 and in the case of a continuing contravention of such standing order, with an additional fine which may extend to Rs. 25 per day for every day during which such contravention continues after his last conviction for such contravention.

70. Any person who wilfully refuses entry to a Labour Officer to any place which he is entitled to enter under section 25 or who fails to produce any documents which he is required to produce, or who fails to comply with any requisition or order issued to him by or under the provisions of this Act shall, on conviction, be punishable with fine which may extend to Rs. 500.

Whoever, contravenes any of the provisions of this Act or of any rule made thereunder shall, on conviction, if no other penalty is elsewhere provided by or under this Act for such contravention, be

punishable with fine which may extend to Rs. 100 and, in the event of such person having been previously convicted of an offence under this Act or any rule made thereunder with fine which may extend to Rs. 200.

WORKMEN'S COMPENSATION ACT, 1923.

This Act creates a liability to pay compensation for an accident under certain circumstances and not to pay damages. The idea here is that if a workman employed in service or employment, meets with an accident or injury, the employer would become liable under certain circumstances to pay compensation to the workman or to those dependent upon him. The Act lays down that if personal injury is caused to a workman by accident in course of his employment, or arising out of it, the employer shall be liable to pay compensation as provided by the Act.

Cases Where Employer is Not Liable.—The cases where the employer is not liable are :—

- (1) when the injury does not result in total or partial disablement for a period exceeding 10 days.
- (2) when the injury is caused at the time when the workman was under the influence of drink or drugs or was wilfully disobeying an order expressly given or breaking a rule expressly framed for his safety, or by his wilful removal or disregard of any safety guard or other device which to his knowledge was provided for the purpose of securing his safety (sec. 3).

The word accident is here used in its popular sense. A disease contracted as a result of continued occupation in a particular employment, is not a personal injury by accident within the Act. The workman concerned has also to establish that the incapacity was the natural and probable consequence of the injury. The employment of the workman does not necessarily commence from the moment when he reaches the place where he has to begin his work and to the moment when he

ceases that work. A reasonable interval of time and space has to be included :

When a workman is employed to do a particular work and he goes outside his own sphere, and interferes with a machine which has nothing to do with his work, and which is assigned to some other workman, he cannot claim compensation. If, however, though in course of employment, the accident which has occurred is an ordinary accident of life, there can be no claim for compensation. For example, in one case where a workman sprained his finger while removing his socks preparatory to his work, or, again, where a man was seized with giddiness causing him to fall downstairs, it was held that a claim did not arise out of an accident specially connected with the employment. Also if the injury has occurred when the workman was under the influence of drink or drugs or was wilfully disobedient to the order expressly given in connection with securing safety of workmen or there was wilful removal or disregard by the workman of any safety guard or other device which he knew ought to have been provided for the purpose of securing safety of workmen, the employer shall not be liable for any injury caused to him under such circumstances. Not only this but even where a workman employed in any employment which involves the handling of wool, hair, bristles or animal carcasses, or in loading, unloading or transfer of any merchandise contracts the disease of anthrax, or if a workman while in service of an employer in whose service he has been employed for a continuous period of not less than six months in one of the employments specified in Schedule III of the Act, contracts any disease specified therein as an occupational disease peculiar to that employment, the contracting of the disease shall be deemed to be an injury by accident within the meaning of this Act, and unless the employer proves to the contrary, the accident should be deemed to have arisen out of and in course of the employment. The period of service is to be deemed to be continuous which has not included a period of service under any other employer

during that time. Schedule III referred to above is as follows:—

SCHEDULE III.

List of occupational diseases.

OCCUPATIONAL DISEASE.	EMPLOYMENT.
Lead poisoning or its sequelæ.	Any process involving the use of lead or its preparations or compounds.
Phosphorus poisoning or its sequelæ.	Any process involving the use of phosphorus or its preparations or compounds.
Mercury poisoning or its sequelæ.	Any process involving the use of mercury or its preparations or compounds.
Poisoning by benzene and its homologues, or the sequelæ of such poisoning.	Handling benzene or any of its homologues; and any process in the manufacture or involving the use of benzene or any of its homologues.
Chrome ulceration or its sequelæ.	Any process involving the use of chromic acid or bichromate of ammonium, potassium or sodium or other preparations.
Compressed air illness or its sequelæ.	Any process carried on in compressed air.

Of course, the workman himself, or all those who claim on his behalf, must prove that the accident arose out of and in course of employment: in other words, the onus of proof is on him.

Who is a Workman?—"Workman" is defined by section 2(1) (n) of the Workmen's Compensation Act of 1923, as amended up to 1933, as:—

Any person (other than a person whose employment is of a casual nature and who is employed otherwise than for the purposes of the employer's trade or business) who is:—

(f) a railway servant as defined in section 3 of the Indian Railways Act, 1890, not permanently employed in any administrative, district

or sub-divisional office of a railway and not employed in any such capacity as is specified in Schedule II, or

(ii) employed on monthly wages not exceeding three hundred rupees, in any such capacity as is specified in Schedule II, whether the contract of employment was made before or after the passing of this Act and whether such contract is expressed or implied, oral, or in writing; but does not include any person working in the capacity of a member of His Majesty's naval, military or air forces and any reference to a workman who has been injured shall, where the workman is dead, include a reference to his dependents or any of them.

The Schedule II referred to above further elaborates the definition by stating that the following persons would fall under the heading of workman within the meaning of section 2 (x) (n) :—

(1) employed, otherwise than in a clerical capacity or on a railway, in connection with the operation or maintenance of mechanically propelled vehicles; or

(2) employed, otherwise than in a clerical capacity, in any premises wherein, or within the precincts whereof, on any one day of the preceding twelve months, ten or more persons have been employed in any manufacturing process, as defined in clause (4) of section 2 of the Indian Factories Act, 1911, or in any kind of work whatsoever incidental to or connected with any such manufacturing process or with the article made, and steam, water or other mechanical power or electrical power is used; or

(3) employed for the purpose of making, altering, repairing, ornamenting, finishing or otherwise adapting for use, transport or sale any article or part of an article in any premises wherein or within the precincts whereof on any one day of the preceding twelve months, fifty or more persons have been so employed; or

(4) employed in the manufacture or handling of explosives in any premises wherein, or within the precincts whereof, on any one day of the preceding twelve months, ten or more persons have been so employed; or

(5) employed, in any mine as defined in clause (f) of section 3 of the Indian Mines Act, 1923, in any mining operation, or in any kind of work, other than clerical work, incidental to or connected with any mining operation or with the mineral obtained, or in any kind of work whatsoever below ground:

Provided that any excavation in which on no day of the preceding twelve months more than fifty persons have been employed or

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explosives have been used, and whose depth from its highest to its lowest point does not exceed twenty feet shall be deemed not to be a mine for the purpose of this clause; or

(6) employed as the master or as a seaman of:—

(a) any ship which is propelled wholly or in part by steam or other mechanical power or by electricity or which is towed or intended to be towed by a ship so propelled, or

(b) any ship not included in sub-clause (a) of fifty tons net tonnage or over; or

(7) employed for the purpose of loading, unloading, fuelling, constructing, repairing, demolishing, cleaning or painting any ship of which he is not the master or a member of the crew, or in the handling or transport within the limits of any port subject to the Indian Ports Act, 1908, of goods which have been discharged from or are to be loaded into any vessel; or

(8) employed in the construction, repair or demolition of:—

(a) any building which is designed to be or is or has been more than one storey in height above the ground or twenty feet or more from the ground level to the apex of the roof, or

(b) any dam or embankment which is twenty feet or more in height from its lowest to its highest point, or

(c) any road, bridge, or tunnel, or

(d) any wharf, quay, sea-wall or other marine work including any moorings of ships; or

(9) employed in setting up, repairing, maintaining, or taking down any telegraph or telephone line or post or any overhead electric line or cable or post or standard for the same; or

(10) employed, otherwise than in a clerical capacity, in the construction, working, repair or demolition of any aerial ropeway, canal, pipe-line, or sewer; or

(11) employed in the service of any fire brigade; or

(12) employed upon a railway as defined in clause (4) of section 3, and sub-section (1) of section 148 of the Indian Railways Act, 1890, either directly or through a sub-contractor, by a person fulfilling a contract with the railway administration; or

(13) employed as an inspector, mail guard, sorter or van-peon in the Railway Mail Service, or employed in any occupation ordinarily

involving out-door work in the Indian Posts and Telegraphs Department; or

(14) employed, otherwise than in a clerical capacity, in connection with operations for winning natural petroleum or natural gas; or

(15) employed in any occupation involving blasting operations; or

(16) employed in the making of any excavation in which on any one day of the preceding twelve months more than fifty persons have been employed or explosives have been used, or whose depth from its highest to its lowest point exceeds twenty feet; or

(17) employed in the operation of any ferry boat capable of carrying more than ten persons; or

(18) employed, otherwise than in a clerical capacity, on any estate which is maintained for the purpose of growing cinchona, coffee, rubber or tea, and on which on any one day in the preceding twelve months twenty-five or more persons have been so employed; or

(19) employed, otherwise than in a clerical capacity, in the generating, transforming or supplying of electrical energy or in the generating or supplying of gas; or

(20) employed in a light-house as defined in clause (d) of section 2 of the Indian Light-house Act, 1927; or

(21) employed in producing cinematograph pictures intended for public exhibition or in exhibiting such pictures; or

(22) employed in the training, keeping or working of elephants or wild animals; or

(23) employed as a diver.

Explanation :—In this Schedule, "the preceding twelve months" relates in any particular case to the twelve months ending with the day on which the accident in such case occurred.

Amount of Compensation.—When death occurs the compensation in the case of an adult, is a sum equal to thirty months wages or rupees two thousand five hundred, whichever is less. In case of minor it is rupees two hundred.

Where permanent total disablement results, a sum of forty-two months wages, or rupees three thousand five hundred, whichever is less, is payable to an adult; whereas a sum equal to eighty-four months wages, or rupees three thousand five hundred, whichever is less, is payable to a minor.

If the permanent disablement is not total but partial the following table is laid down in Schedule I of the Act:—

List of injuries deemed to result in permanent partial disablement.

Injury.	Percentage of loss of earning capacity.
Loss of right arm above or at the elbow	70
Loss of left arm above or at the elbow	60
Loss of right arm below the elbow	60
Loss of leg at or above the knee	60
Loss of left arm below the elbow	50
Loss of leg below the knee	50
Loss of one eye	30
Permanent total loss of hearing	50
Loss of thumb	25
Loss of all the toes of one foot	20
Loss of one phalanx of thumb	10
Loss of index finger	10
Loss of great toe	10
Loss of any finger other than index finger	5

Note :—Complete and permanent loss of the use of any limb or member referred to in this Schedule shall be deemed to be the equivalent of the loss of that limb or member.

In case of temporary disablement, total or partial, half monthly payment is made on the sixteenth day after the expiry of a waiting period of ten days from the date of disablement ; and thereafter, half monthly during the disablement or during a period of five years, whichever period is shorter. This payment is, to an adult, at the rate of rupees fifteen or a sum equal to one-fourth of his monthly wages, whichever is less ; and in the case of a minor it is a sum equal to one-third, or after he has attained the age of fifteen years, half, of his monthly wages, but not exceeding in any case rupees fifteen (sec. 4).

Monthly Wages.—Monthly wages are calculated as follows :—

(1) where the workman has, during a continuous period of not less than twelve months immediately preceding the accident, been in the

service of the employer who is liable to pay compensation, the monthly wages of the workman shall be one-twelfth of the total wages which have fallen due for payment to him by the employer in the last twelve months of that period.

(2) in other cases, the monthly wages shall be thirty times the total wages earned in respect of the last continuous period of service immediately preceding the accident from the employer who is liable to pay compensation, divided by the number of days comprising such period.

Distribution of Compensation.—The Act provides that the compensation in the case of injury resulting in death has to be deposited with the Commissioner, and that no payment should be made directly by the employer except for funeral expenses advanced by the employer to any dependant or other person not exceeding rupees one hundred in case of any one dependant. This advance may, of course, be deducted from the compensation amount ultimately deposited with the Commissioner. The Commissioner is given full power to apportion among the dependants of the deceased workman this deposit after deducting any amount which he may have paid as advance. If, however, the amount is to be payable to a woman by a person under a legal disability, the same may be invested or otherwise dealt with for the benefit of such woman or person under disability (sec. 8).

The Commissioner must be given notice of the accident as soon as practicable after the happening of the event, and the proceedings should then be commenced within six months of the occurrence of such an accident. In case the accident has resulted in contracting a disease, the same shall have been taken to have occurred on the first of the days within which the workman was continuously absent (sec. 10). It has been held that incapacity for work means loss or diminution of wage-earning capacity and includes inability to get work as a result of the injury which the workman has sustained.

Commissioners.—We have seen that the Commissioners play an important part in connection with the working of this

Act. These Commissioners are appointed by the Local Government by notification in the local official gazette, and are deemed to be public servants. These are the officers before whom, in default of an agreement, all proceedings under this Act on the question of liability for compensation, including the question as to whether the person injured was a workman, have to be referred. No Civil Court has jurisdiction to settle these questions, which are thus brought under the jurisdiction of the Commissioner. Of course the Commissioner to be referred to is the Commissioner for the local area in which the accident takes place (secs. 19, 20 and 21). The Act aims at an amicable settlement if possible between the employer and the workman, and the application therefore has not to be made to the Commissioner unless and until the question at issue is one which they have been unable to settle by agreement. The Commissioner is given all the powers of a Civil Court under the Code of Civil Procedure, 1908, for the purpose of taking evidence on oath and of enforcing the attendance of witnesses and compelling production of documents. A brief memorandum of the substance of the evidence of other witnesses has to be taken down by the Commissioner. He may, if he thinks fit, submit any question of law for decision to the High Court (secs. 23, 25 and 27). If, however, the parties have to come to a settlement the memorandum thereof is to be sent by the employer to the Commissioner, who on being satisfied as to its genuineness records same in a register kept for the purpose.

Appeals.—There is an appeal to the High Court from the following orders of the Commissioner:—

- (1) an order awarding as compensation a lump sum whether by way of redemption of a half-monthly payment or otherwise or disallowing a claim in full or in part for a lump sum,
- (2) an order refusing to allow redemption of a half-monthly payment,
- (3) an order providing for the distribution of compensation among the dependants of a deceased workman, or disallowing any claim of a person alleging himself to be such dependant,

(4) an order allowing or disallowing any claim for the amount of an indemnity under the provisions of sub-section (2) of section 12, or

(5) an order refusing to register a memorandum of agreement or registering the same or providing for the registration of the same subject to conditions.

Provided, further, that no appeal shall lie in any case in which the parties have agreed to abide by the decision of the Commissioner, or in which the order of the Commissioner gives effect to an agreement come to by the parties.

(a) The period of limitation for an appeal under this section shall be sixty days.

(b) The provisions of sec. 5 of the Indian Limitation Act, 1908, shall be applicable to appeals under this section.

Disputes Committee and Trade Unions.—According to the Bombay Industrial Disputes Committee there are no doubt a large number of trade unions in India, including those connected with railways, tramways, post, telegraph, etc. Ahmedabad unions according to them seem to have got the better of Bombay as they are “well supported by the men and have attained complete recognition from the employers. They have besides over-stepped the bounds of the individual factory and united the men on the basis of their employment, a form of organization which Bombay so far shows no sign of reaching.” Many of these unions, however, according to the committee, more or less form so many strike committees “consisting of a few officers and perhaps a few paying members around whom the rest rally in times of trouble. After work is resumed the union dwindles, and in most cases disappears.” However it is acknowledged that these unions though in their infancy while compared to those in Europe and America, must be encouraged. The greatest difficulty is no doubt the illiteracy of labour. The committee recommends therefore that in the early stage of their career these institutions would naturally attract intellectual sympathisers from outside. These sympathisers should be encouraged notwithstanding the fact that they have no knowledge of the special difficulties, either of employers or the employees, and though frequently they;

are not able to get the bargains they make as leaders on behalf of labour carried out by their illiterate followers. These according to the committee are "the growing pains of Trade Unionism". Gradually, it is hoped, fairly literate workmen would assume control as leaders and officials of these unions, and being paid by them would work independently of employers in the interests of labour. Thus the leaders being so many ex-working men, as in the West, would not only understand the special difficulties on both sides, but would also be able to influence their fellow men more effectively.

It will thus be noticed that with the advent of the factory system of the West, the East has been forced to accept its necessary appendage of unions or guilds under which the two great factors, *viz.*, capital and labour, stand united with their respective compatriots in two separate camps, with a view to protect the interests of each, trying their best to harmonise these interests by co-operation, instead of being perpetually engaged in a destructive warfare in vain attempt to benefit their own set at the expense of the other.

EDUCATION AND TRAINING OF LABOURERS.

We have already remarked on the influence of primary education on the efficiency of labour. Education enables a workman, through improved intelligence, to do his work intelligently, using his brain as well as his hands, and at the same time it makes it very easy for his superiors who have to guide him as to his daily work. Drunkenness and other vices gradually disappear with the spread of education among this class, and the workman becomes self-respecting and honest. The standard of living is also likely to rise with the spread of education and an educated workman is more likely to appreciate the advantages of earning a higher wage through improved production, thus affording a wider scope to the activities of the scientific manager. Education enables him to read and understand manuals and booklets dealing with the technicalities of the work he is engaged in, and if he happens to be a

genius, his chances of bringing his natural faculties into full play are vastly increased, thus paving the way to some important invention which may radically affect the fortunes of the industry concerned.

Many old industrial establishments in Europe recruit young labour from boys and girls who have completed their education up to a certain standard at schools, and then arrange for their special training in the technicalities of the work they are to be engaged in through the medium of instructions imparted to them, between working hours, in special classes conducted by specially engaged experts. This theoretical and practical training enables the institution to maintain an adequate supply of efficient employees, who by a scientifically arranged system of remuneration, pensions and provident fund schemes, are induced to take a lifelong interest in the enterprise as a whole.

CHAPTER XI.

SCIENTIFIC ADVERTISING.

The Force of Advertising.—According to modern ideas, advertising is universally admitted to be an art which helps the manufacturer and the merchant to create demand for articles and services which they produce and sell. There are many businesses and trades where it has been acknowledged that it is impossible, even by the star salesman of great experience, to sell goods unless, and until, they are largely assisted through a well organized and planned advertising campaign. It is thus the modern universal habit first to boom a new article, and make it famous, before the salesman is sent out on the road to sell the article concerned. This is more so in these days, when the production exceeds the demand as all the countries of the world which in old days used to be consuming nations, and not producers, have become industrialised in some form or other. Goods produced have now to be sold by creating a demand among those who did not use them before, thereby expanding the market with a view to getting rid of the increased supply of manufactured articles. An advertisement may or may not bring a sale immediately ; but the object of advertising is either to bring the customer to the door, or to prepare him, by familiarising him with the name of the brand and the special qualities and advantages offered by the goods or services, so that if the salesman calls on him, or when he may need such an article, he will think of preferring the manufacturer or the maker with whom he has become familiar through advertisements, and either send for that maker's salesman or canvasser, or go to the nearest retailer and get it. In short, the advertisements largely help to *create* the interest of the buyer in the article produced by the advertising manufacturer : and succeeds, if properly and scientifically put

before him, in inducing him to make up his mind to purchase same whenever he may require it ; or even to create a desire to acquire it, where this desire did not exist before he read the advertisement. Scientific advertisements by manufacturers have now expanded to such a large extent, that it is rightly said that the dealer or the retail shop-keeper is no longer the person on whose judgment and advice the average consumer relies, but in most cases the buyer comes into the shop having already made up his mind as to what maker or packer he should favour, and demands that the same should be supplied to him ; with the result that an average shop-keeper has found that it is more advantageous to stock the goods of well-known makers and well-known brands, rather than those of unknown brands by manufacturers who have never advertised. Thus the salesman of a manufacturer who never advertises will have a more difficult task in front of him than that of one who continuously goes in for an advertising campaign, and whose goods and brands have become famous, or at least sufficiently known, among the consuming public. The great and potential effect created by an advertising campaign of modern times may be gauged by the fact that in old days, when children went to sweet shops to purchase sweets, they only called for "sweets", and were not at all acquainted with, or interested in, the names of the makers. To-day they go to ask for *Fry's* chocolate, or *Blue Bird* toffee ; and will not accept toffee or chocolate of a brand with which they are not acquainted.

It will thus be seen, that through the methods of scientific advertising the manufacturer is now in a position to bring himself into full prominence under his own name and trade mark, so that he is not only independent of the wholesaler, but on account of the demand thus created, the retailer is forced to stock the goods. Advertising is thus an investment and not an expense. The good-will which is thus built up by a well-directed advertising campaign is frequently of inestimable value. From the consumer's point of view also,

advertising is beneficial. At first it was thought that advertising meant increased cost, which the consumer had to bear in the long run. It is now being increasingly realised that that was an erroneous conception. A manufacturer, by a course of scientifically regulated advertising, generally increases the demand for his production, which he is thus able to manufacture on wholesale lines at a relatively reduced cost by the use of labour saving machinery, motive power, etc., factors which he could not take advantage of when his sales were limited: and thus he is naturally in a position to offer his goods at a lower price. He also brings himself into direct touch with the retailers and consumers, through advertising and, in many cases, is thus able to get rid of wholesale agents. A demand is thus created which did not exist before, for advertising brings the advantages and uses of the articles concerned to the notice of an ever-increasing number of readers of daily papers, weekly or monthly magazines, etc.

On the other hand, the increased profit which a manufacturer makes through increased sales of his product with the help of advertisements, is frequently passed on to the buyer in the form of reduced prices and improved quality, which is the meaning of the saying that advertisements ultimately work out in benefits both to the manufacturer and the consumer. Even in cases where the prices are not reduced through increased sales, a higher standard of quality results in the case of advertised goods as compared to those which are not advertised. Once the goods secure a name and prestige or good-will, it is quite natural that the manufacturer is most zealous that this good-will which he has created at great expense and industry should be maintained at the same high standard. This can only be done if he maintains, and even raises, the standard quality of his production. There is one other great advantage which the public now secures through advertisements of what are known as "proprietary", or "branded" goods, *viz.*, that the buyer knows exactly the price he should pay, because the prices have been advertised,

and hence the retail shop-keeper cannot deceive him either as to the quality, or as to the price charged.

The other advantage to the retail shop-keeper in case of goods advertised happens to be that the shop-keepers' or wholesale agents' selling costs are reduced, because the goods have acquired a prestige and a demand. The shop-keepers' time and labour in advertising, and arguing with buyers in connection with selection of the correct type of goods is saved, because the buyer has already made his choice through the study of advertisements of different makers, and therefore not much is left to be done in that direction as far as salesmanship behind the counter is concerned.

As far as the selling costs of the manufacturer are concerned, they are also reduced in case of his branded and proprietary goods which have already secured a name in the market, because the trade discount allowed by him will be much lower in the case of well-advertised and well-known goods than in the case of those which are unknown and unadvertised.

We have already seen above how advertising, through creating a large demand, helps the factory to reduce the relative cost of production. Besides that, the attitude of a retail shop-keeper is always more favourable towards well-advertised goods, because his time is saved and he can sell a very large quantity ; and thus, though he may be receiving a smaller trade discount than he would receive on unadvertised goods, the well-advertised article shows a larger profit in the long run.

In case of high priced goods, scientific advertising, well directed, teaches the public the most important fact, *viz.*, that price is not the only factor on question of selection of goods, even if one can afford to pay more ; but that quality and price must have a fairly equitable bearing.

The other point to be remembered in connection with first class advertising is that the article advertised must be

good, in order to achieve success in the long run ; and the old doctrine of *caveat emptor, viz.*, "let the buyer beware", does not apply in modern commerce. An advertiser must see that such promises he gives as to quality and service are strictly fulfilled ; and if he does that, he not only secures permanent customers, but the satisfied buyers are continuous advertisers and recommenders of his wares to others.

THE SUCCESSFUL ADVERTISER.

The successful advertiser is one who has carefully studied the working of the human mind. He ought to possess the imagination of a practical man of the world. He should be gifted with exceptional powers of observation which enable him to note current events, with a view to taking full advantage of them. He should believe in the good qualities of the articles advertised, and should be by temperament an active optimist. If put in competition with equally efficient advertisers, he ought to be able to hold his ground in making his advertisements attractive as well as effective. When he has to compete with men who have not given more than a passing thought to the subject, his work is undoubtedly easy, though not actually negligible. Thus he should not only study the general technicalities regarding the printing processes, for types, pictures and colours, get in touch with the circulation of, and influence exercised by, various newspapers, magazines, etc., but should also grasp the principles of psychology and make use of that knowledge while preparing the draft copy of his advertisement. This is because the modern advertisements have not only to bring to the notice of the public the article which is the subject matter for publicity, but they should be so framed as to influence the *mind* of those for whom they are meant, to the extent of creating an overpowering desire to acquire the same. These results have to be attained by the scientific advertiser in the space available, *i.e.*, taking the financial provision made by the firm concerned, into due consideration.

THE ADVERTISING MANAGER.

The first qualification of an advertising manager is not only that he knows the scientific principles of advertising itself ; but that he is also a first class salesman, and looks at every advertising proposition from the selling stand-point. He must be able, not only to plan advertisements, but also to see that he gets the largest possible benefit from the quota allotted to him by way of advertising expenditure by the directors. On the basis of this quota he has to prepare his advertising budget, and then prepare a plan on which he has to proceed, with a view to securing the maximum result from a minimum possible expenditure. It is thus that he will be in a position to get the best out of the amount allotted to him. The staff of his advertising department, naturally, will have to be selected with care, and with due regard to the expenditure which the organization for whom he works is prepared to meet. In small concerns, the advertising manager will have to perform numerous functions himself, *viz.*, those of the controller, organizer, copy-writer, the lay-out man, space buyer, etc., but in larger concerns he can afford to have assistants under him, among whom all these duties may be properly divided according to their capacity and experience. He cannot, of course, succeed in getting framed or framing copies and advertising literature, unless and until he carefully studies the goods he is asked to advertise ; and for that purpose he collaborates with the salesmanager of the establishment or his immediate assistant, who is capable of giving him all the points he desires. The market on which the sale is to be made should also form his special subject of study. Here, frequently the buyers, who are generally retail shop-keepers who call at the head offices, may be constantly interviewed and talked to with a view to learning about their sales, and their customers' points of view, and to study their requirements, tastes, habits and opinions. This study will naturally put him on the right road, and constantly give him hints as to whether he should

alter his advertising methods, and whether the methods hitherto applied can be continued with advantage. The class of people to whom the advertisement is to appeal must also be carefully studied, and a proper medium selected for advertisements, appealing to the right type of buyers.

He should also carefully study the sales policy of the organization which has employed him and fit his advertisements with that policy. The advertisements may be planned with a view to directing the consumer to the retail shop-keepers who are stocking goods of his company, or the consumers may be invited to correspond with the central organization for catalogues, price-lists, literature, etc. It is claimed that this latter method may at least give an index as to the effect of advertising on the mind of the prospective consumers. Of course, when enquiries as to prospectus and literature are received, these are supplied, and the enquirers are referred to the stockists or retailers in the locality from whence he has applied. This last method is more suitable to high priced goods ; but in case of others, it has been found more advantageous that the advertisement and literature should confine themselves to stating the names of the stockists, etc., of the goods, or to directing the consumer to the retail shop-keepers. Of course, in case of manufacturers running chain shop organizations, this reference is given as to their own shops in the localities concerned.

In case of large concerns, the advertising manager has to co-operate with his own staff and properly direct them in connection with various operations.

So much of the success of the advertising campaign, and of the profits of the whole organization, will depend on the advertising manager's ability, industry and care, that he may be looked upon as a very important and responsible officer in the selling organization of every concern. In the selection of the media or paper, as well as in the choosing of posters and their design, he has to be particularly careful ; because any

error in judgment will naturally mean loss of so much money laid out by his organization in connection with its advertising budget.

PREPARING FOR AN ADVERTISING CAMPAIGN.

When preparing for an advertising campaign, the manufacturer or the wholesaler has to make up his own budget, and decide upon the amount which he is prepared to lay out in a well-directed campaign. He should then proceed to see that this amount is so utilised in his advertising campaign, as to produce the maximum result with the greatest possible economy of expenditure. The advertising may be required with regard to the products which the manufacturer is already producing, or with regard to an entirely new product. In either case the most representative and distinct lines of his manufacture should be selected for this purpose ; and the less important trading lines may be either kept in the background, or abandoned for the purpose of advertising.

The next step will be to lay down the selling points which he wants to push forward to the notice of the advertisement readers, such as cheapness or quality or special design, etc. A brand has to be selected, or, as is the case with many manufacturers, specially invented as a sort of a patent name, and then this name is familiarised as far as possible through the medium of a well-organized advertising campaign. Packing of goods, the labelling of the bottles and boxes has also to be decided upon, and perfect designs have to be prepared for each through the help of experts, with a view to attract attention, create an impression and increase custom. It is usual with some advertisers to proclaim the advent of their advertising campaign through trade journals and their salesmen weeks in advance of their being placed on the market ; so that retailers in various localities may stock the goods anticipating demand from customers who may be attracted by this campaign and may be induced to buy same. Frequently efforts are made through salesmen to induce the retailers in the districts which

are to be covered by an advertising campaign, to stock the goods. Unless the goods are stocked, the advertising effort may be wasted.

Frequently, warranties are included in advertisements as to the use or particular advantages of the goods; and these serve as the best selling points in many cases. The selling points thus advertised in various media are also repeated and reproduced on the packets and labels of the articles offered. There are other cases where the best advertisement for an article is a simple, honest statement of its uses and advantages. There have been cases where, in the case of new advertisers and manufacturers, dealers have refused to stock the goods: and in such cases large sums have to be expended in order to persuade them to do so, even on a sale or return plan: which expenditure is looked upon as a part of advertising expenditure. There are cases where dealers refuse to stock the goods on the excuse of their having no space in their shops. In these cases, special arrangements have to be made with the dealers, by which they are enabled to order by telegram, as soon as, in their opinion, the advertising campaign has made a favourable impression: and for this purpose stock should be kept at convenient locations in temporary depots. In case the first burst of advertisement is unsuccessful, the advertiser must stop advertising, and find out why the article offered was unattractive: because the failure of an advertisement must be due to that principal or primary cause if the advertisement, otherwise, was scientifically prepared and well directed. If, on the other hand, the first trial or boom of advertisement is successful, the advertiser should follow it up by arranging a continuous and systematic series, in a well ordered and well thought out programme. Once the market is firmly established, of course the advertising expenditure must gradually be lowered, and articles moderately advertised; because otherwise the excess amount spent is decidedly wasted. Well ordered advertisement, moderately effected and repeated, of a substantial article, has every chance

of success ; but where something is over-advertised as a "stunt", it loses its attraction altogether, because the public doubts the advertiser as a mere advertising adventurer and becomes suspicious as to his seriousness, or the quality of the article being offered. This is the reason why advertisements conducting competitions, offering prizes, etc., are looked upon by the public with suspicion as mere advertising stunts ; and the article behind such an advertising campaign loses all importance in the public eye. Besides, it is said that competitions of this kind take up an enormous amount of the executive's time, and thus indirectly impede the progress of business. The competitors themselves purchase articles, not because they require them, but because of the prize which they expect to get. As very few of these competitors succeed in securing the prizes, naturally the stunt loses its selling effect in course of time.

ASSESSMENT OF ADVERTISING APPROPRIATION.

Generally speaking, an average manufacturer does not go into details, but assesses the amount he should lay out on the basis of sales or any other figures, for the simple reason that frequently this factor has to be arbitrarily decided upon on the margin of money which he is able to spend or set aside on advertising, and cannot possibly take into consideration the relation of this amount to his saving cost. No doubt that is not the scientific way of approaching the problem, because the advertisement is intended to secure sales and increase profits ; and if that objective is not achieved, the money spent is wasted. However, in modern times it is being realised and admitted that the advertising expenditure must be on definite information, which can be acquired, and that the advertising cost should be decided on the footing of that information. In any case, it should not be forgotten that it is not possible to lay down a hard and fast rule as to the percentage of cost based on the value of turnover, or on any other basis in all cases, for the simple reason that circumstances differ, and a percentage which might be very

satisfactorily based on the sale of an established article may be found entirely inadequate for the purpose of pushing the sale of an entirely new article. For instance, in the case of a motor-car company, one per cent on the selling price may be found adequate ; whereas in the case of a soap manufacturer even ten per cent on the turnover might be found inadequate. Thus in connection with every advertising proposition, the appropriation must be calculated on the merit of the case itself. The method of arriving at as accurate a basis as possible may be dealt with, of course, on general terms. One method is of basing the percentage of advertising appropriation on the total past sales ; whereas in other cases it is found advisable to make a careful estimate of anticipated sales of the year or years to come during which the advertising campaign has to be carried on, and then arrive at an appropriation. There may, of course, be differences of opinion as to whether the past or the anticipated future sales should be taken as the basis for calculating the appropriation percentages : but the general opinion is that it is safer to take the past sales, as a more reliable basis. However, in case of an entirely new article, one has to anticipate sales in the future, as there is no basis of past sales to go upon : but in such cases, care should be taken that an optimistic estimate is not made, and a wide margin of more or less elasticity should be maintained in the estimate.

No doubt experience in the business concerned will be the best guide and teacher in connection with arriving at these figures of advertising appropriation, but the basis can be arrived at by taking into account the following factors, *viz.*, (1) the object with which the advertising campaign is undertaken, (2) the markets in which the same has to be launched, (3) the type and class of goods which are to be pushed, (4) whether the goods are known on the market or an entirely new brand has to be pushed, (5) to what extent the competitors in the same line advertise, and the retailers stock, the goods, (6) any particular difficulty in connection with competition or

selling of the goods, (7) the capacity of the factory for production in relation to quantity, as well as the cost of production.

Frequently the object of advertising is simply to maintain the good-will of a well-known article or brand by keeping its name prominent in the public eye. In such cases the percentage will be naturally very low if based on the past or estimated future sales; particularly in markets where it is easy for the manufacturer to maintain his position and reputation. If, on the other hand, an effort is to be made either to push the goods on a market where they are unknown, or to increase sales on the market where they are already known by capturing the custom of other competitors, or creating a new demand in new direction, the percentage of advertising appropriation has necessarily to be much higher. This percentage can only be arrived at after careful research of the market concerned.

The second point to be decided on is the type of the market in which advertising is to be done. It may be that the type of goods are such that well-to-do people are to be attracted, or the goods are saleable more among the middle and the lower middle classes. The extent of possibilities of such a market should be, in those cases, the deciding factor as to the extent of the advertising appropriation necessary. If the market is large and the possibilities of sales more attractive or favourable, naturally an appropriation can be made on a more liberal scale.

We have already seen that in a case where the goods are unknown on the market, the advertising appropriation has, naturally, to be made on a much larger scale, and will have to be calculated on the footing of anticipated future sales, as well as the period for which the advertising campaign has to be continued, and *vice versa*.

The next point will be the extent as well as the quality of the advertising campaign which is already being carried on by the rivals and the manufacturers concerned. If there is not much advertising on a scientific footing done in a market in connection with the goods which the manufacturer has come

out to sell, his task will be easier and his advertising appropriation much smaller ; but in a case where it is otherwise, the advertising appropriation will have to be carefully calculated on a more liberal basis. This is more so where the manufacturer finds that there are powerful competitors, whose goods are sold in large quantities on the market concerned, and are very popular. In such cases the prices at which they are sold in comparison with that of the advertiser, as well as the methods of sale adopted by them, the rules of distribution and delivery, trade discounts allowed and various other services offered must all be taken into account, in comparison with similar items of services, etc., which the advertiser himself is prepared to offer. Where the advertiser has to meet the competition of an inferior and cheaper article placed on the market by a rival manufacturer, the advertising appropriation must be made on a more liberal scale, with a view to establish in the public mind the fact that the higher price at which the advertiser offers his goods for sale are justified on their merits. In case of a superior article as well, if the public are convinced as to its merit, the competition with the inferior articles and the lower price will also require a good advertising appropriation. The other item to be taken into calculation is the extent to which the dealers stock the goods of the rival manufacturers ; which information should be obtained on a careful research or investigation with the dealers.

The next point to be taken into calculation and balance is the difficulty, if any, which is peculiar to the selling of the goods which the advertising manufacturer is trying to push on the market. It may be that his goods may not be of the same merit as those of his rivals, compared to the price charged : in which case he will have to adjust first the difference and bring them on the level of the question of merit. It may be, on the other hand, that they are more popular with a certain section of the population, even though equal in merit ; in which case, of course, people have to get over that

difficulty by a sufficient advertising appropriation and well planned advertising campaign. If, on the other hand, the retailers are troublesome, and will not stock his goods, he will have to deal with them liberally by actually paying them, with a view to inducing them to stock, or following other methods that are convenient and handy. If there is a defect in his own selling organization, the same must be discovered and put right; or it may be that the buyers are not yet capable of appreciating the usefulness of the goods, and are not using them; in which case an educative advertising campaign has to be undertaken, for which an adequate appropriation on a regular basis will have to be made.

It should not be forgotten that in the case of manufacturing industry, the law of economics which applies is, the larger the production, the lower the relative cost. Thus if the rival's goods are sold in large quantities, he is at an advantage as a manufacturer, because his relative cost is decidedly lower than that of the advertising manufacturer. Here he has to consider whether he cannot himself bring the productive capacity of his work on the level of his rivals, or reduce his costs by other methods. The other defect that should be guarded against is that the advertising campaign on large lines on a liberal appropriation may produce a demand with which the factory may not be able to cope, and thus the money laid out may be wasted.

The above are all the factors which a scientific advertising manager takes into calculation and weighs in the balance, in consultation with the salesmanager, before he arrives at the percentage of his advertising appropriation.

THE COPY.

In the preparation of what is called the "copy" of the advertisement, great ingenuity has to be displayed, and various elements taken into account and provided for. The principal

elements which a good copy should embrace to the highest attainable degree, are:—(1) Attention value ; (2) Suggestive value ; (3) Memorising value ; (4) Conviction value ; (5) Value from the point of view of an appeal to sentiment ; (6) Value from the stand-point of answering the demands of and creating habits ; (7) Value from the stand-point of an appeal to human instincts. We shall proceed to examine each of these elements separately.

Attention Value.—It is quite easy to understand that a copy, though it may possess all other merits, would be useless if it does not possess the power to attract attention, or what is technically called "display value". The first care, therefore, of a scientific advertiser is to make his copy as attractive, from the stand-point of attention value, as possible. A large amount of money is simply thrown away by careless advertisers through the neglect of this most elementary factor. In these active times people are too busy voluntarily to read advertisements, and the practical advertiser has to see that he so manages to bring out his copy as involuntarily to force attention, and persuade his audience to read what he has to state. Moving figures and switch-lights are being recently used in case of street advertisements, with irresistible effects. Colour plays a very important part in adding to the attention value of advertisements, as here, sight has to be appealed to. Red, yellow and blue are the most emphatic of colours, which, when used with white and black in an artistic manner, considerably add to the attractive value of advertisements. These prints should be in large types, or blended in an artistic manner with pictures. Yellow signifies light, which, when blended with the most emphatic of all colours, red, expresses fire and has a great attractive value when appropriately used.

Display value is improved by (1) pictures, (2) use of display types, (3) use of colours, (4) borders, (5) use of reply coupons, (6) attractive head lines and slogans in display types, (7) leaving space either at the head and foot of an

advertisement or all round it, (8) giving a distinctive and novel appearance to your advertisement, as compared with others on the same page, (9) in the case of street advertisements, by use of switch-lights and neon signs or flood lights.

According to Professor Harlow Gale, red carries the greatest attractive value, green is the next best and black the third.

The other element, which, while it plays a very important part in adding to, or deducting from, the attractive value of an advertisement, is the quality of the other competing advertisements surrounding it, whether it is a street, magazine or newspaper advertisement. If the other advertisements are more attractive than our own, ours is the least likely to be noticed. The scientific advertiser has, therefore, to make a careful study of the competing advertisements appearing in the medium which he selects for his advertisement. A careless draft, made out in a hurry, with eyes practically closed towards this factor, would result in waste of money and time. This is the main reason why full page advertisements in magazines and newspapers carry the greatest attention value. There is no competing advertisement to lead the reader's attention away, and the chances are that they will be noticed. The expense involved, however, makes it impossible for the majority of advertisers to utilize full pages for advertisements.

Next in importance to space is the design or get-up of the advertisement itself. Pictures, when appropriately used in connection with advertisements, carry with them a peculiar attention value. The words "appropriately used" mean that the picture should have some decided bearing on the matter advertised, and tell its own tale: because if there is nothing in the picture itself to indicate the value or usefulness of the article advertised, the person whose attention the picture has succeeded in attracting will most probably pass the same over without reading the advertisement printed under it, thus frustrating the main object sought to be attained by the advertiser. A scienti-

fically designed picture advertisement should not only attract attention but should also indicate, as far as possible, the article advertised. The suggestion must be so emphatic and attractive that the person noticing it should be involuntarily tempted to read it. It is thus that repeated reading of the advertisements in newspapers, magazines, placards in street, tramways, railways, etc., creates a favourable impression on the mind of the public, familiarises the brand advertised, pushes its sale and helps to build up good-will of no mean value. To make the matter more clear, it would be better to take up two illustrations, one in which a picture is used which has no bearing on the article advertised, and the other in which it is appropriate. Supposing a dealer in silk were to use the image of an artistically painted lion in connection with the advertisement of his shop. The picture no doubt will attract a certain amount of attention, but will fail either to create an interest which would induce people who notice the same to read the printed matter appearing along with it, or to give them an idea as to the nature of the articles dealt in by the shop. To the common run of people who handle daily newspapers or magazines, the advertiser and his wares will remain obscure, with the exception of the very few who have time and leisure to make it a point to read advertisements. If, on the other hand, a scientific advertiser were to be asked to handle this copy, the picture most probably would be that of a charming young woman dressed in fashionable silk in the act of stepping out of a motor car, outside the shop of our advertiser, whose windows exhibit fine silk garments together with the sign board indicating the name of its proprietors. A complete description of goods, etc., will also appear at the foot of the picture in appropriate types, artistically arranged. Here the nature of the business advertised is suggested, side by side with the class of people who patronise the shop. The sign board unconsciously forces its name to the notice of the reader. Feminine curiosity is appealed to in a forcible manner, with the result that many a

fair patron of silk and satin will find recreation in paying a flying visit to this abode of pleasure. Our friend of the silk trade, thanks to an excellent equipment of capable salesmen, coupled with an attractive stock, will experience little difficulty in inflating the figure of his daily sales.

The other most effective method is to show the article in its use. Where this can be done the picture carries both the attention as well as suggestive value.

The picture selected must not only be appropriate, but should be such as would create sympathy and attract those for whom it is meant. It should not offend the feeling of the class appealed to, nor create amusement of a type which is likely to lose the respect of the reader. Frequently attempts are made to make pictures amusing. Unless one is possessed of rare gifts in the direction of presenting comic pictures in an appropriate fashion, it is rather a risky experiment to be attempted in the course of an advertising campaign.

Frequently portraits of dealers are used in advertisements, particularly in case of mail order business. It is suggested that an honest and sincere look carries conviction and inspires confidence. Pictures giving sectional views of the inside mechanism are also effective where some special points are to be made in connection with the article advertised. To economise space a part of the picture is sometimes shown.

In connection with illustrations, it may be noted that the scientific advertiser has a very large selection of processes, from which he selects according to his requirement. All these processes are founded on either the half-tone or the line engraving method. The half-tone is based on the photograph of the illustration and has naturally a very realistic effect. It has, however, to be printed on a superior paper. In other cases the line engraving or the zinc etchings are the most appropriate. For these, actual drawings or prints have to be prepared. These outline blocks can be shaded to any extent in order to get a proper effect. It is always best to get blocks specially made,

rather than buy stock, ready-made blocks from dealers who make them. Frequently the manufacturers supply their agents and dealers who stock their goods with appropriate blocks which may be used with advantage. The advertiser while ordering the same to be published, should prepare the copy, indicating the exact position of the block, preferably pasting on the copy the actual print wherever possible.

The practice of using colour pictures in case of magazine advertisements has also come on the scene, though not universal yet. Here generally two colour and three colour pictures are used. This naturally requires more than one printing in order to bring out the different colours.

Great importance is also attached to the attractive value of the head line used in connection with an advertisement. The general opinion is in favour of a head line made up of three to four words printed in emphatic black display types. The wording itself has to be very carefully thought out with a view to creating an effective impression on the mind of the right party, *i.e.*, the class appealed to. Catch-phrases, current political maxims let loose by some public leader of eminence, as well as some living incident of the world's current history towards which the public mind happens to be directed at the moment, are frequently made use of with excellent results. These are known as "slogans". The one used by Kodak the famous camera manufacturers is "you press the button, we do the rest" which is most appropriate to the article advertised.

The other method employed for attracting attention is to leave a space at the head and foot of the advertisement. Others leave space all round the copy which helps to bring the same into prominence. Artistic borders are also resorted to with the same object, but here care should be taken to see that the border is not made more attractive than the advertisement itself, as that might have the tendency to distract the reader's attention from the advertisement, which attention may be monopolised by the border. If a border is selected at all, it is best

to have it in as plain a form as possible. Too much ornamentation and decoration in an advertisement should be avoided for the same reason. In case of borders, careful study should be made of the class of borders, if any, that may be already used by competing advertisements in the same medium. If square borders are in general use, make use of a border with round corners, and *vice versa*, in case of your copy, with a view to creating a novelty and thus to drawing the reader's attention. A large number of advertisements do not carry ornamentation or pictures either through the force of circumstances, or as of choice, and here the proper selection and arrangement of types is a factor of considerable importance. Very few advertisers in India pay any regard to this important factor and are more or less at the mercy of the newspaper compositors, thereby frequently spoiling the effect of an otherwise good copy. The types should be so arranged as not only to attract attention from a general stand-point, but also with a view to giving the reader's eye a halt at some important point you wish to emphasize. It is preferable to underline a sentence of importance rather than to use italics, as underlining attracts greater attention and seems more natural.

As to price quotation as an attraction, the same should only be quoted if the price is particularly low and is thus a strong point. Of course, in the case of retailers who deal in superior goods, and whose customers are more particular about quality than cheapness, price should not be quoted. When quoted the prices should be placed at the foot in right hand corner of the advertisement.

Reply coupons are also used in connection with advertisements with a view to attracting attention, as well as for their suggestive value. These coupons when made out in the form of triangles are the most attractive from the point of view of attention value, as they cut through the advertisements in an uncommon manner and arrest the eye of the reader.

The careful and scientific use of types goes a long way towards increasing the display value of an advertisement. For this purpose the scientific advertiser should master typography. Over-display should be studiously avoided. The object of display is to just catch and guide the eye to a point made in the advertisement, and this has to be made with care and moderation. There should not be a lavish use of all capital letters. They may be appropriately used in connection with the advertiser's name or that of the product. In case of display types, also, it is the opinion of the experts that in most cases it is hardly necessary to use more than two styles of display type. Of course the heading should always be set in bold types except in the case of very small advertisements. It should, as far as possible, be set in one line ; and in case it has to be set in more than one line the division should be so made as to present the best appearance. The upper portion of the advertisement should be set in a stronger display than the lower portion. This is done with a view to bringing a balance. This remark applies both to the types as well as to the illustration that may be used. In case of advertisements which are closely set, larger and heavier display types should be used. In the body matter as few display types as possible should be used, and those, too, of light face unless there is abundant loose space available.

Suggestive Value.—The wording as well as the picture should possess suggestive value, *i.e.*, they should be represented in a manner as would suggest to the reader the advantages of buying your articles and, so to say, impel him to do so. When a hypnotist wishes to put his subject into hypnotic sleep he repeatedly suggests that he is sleepy, which act gradually captures the subject's will, thereby sending him to sleep and making him act in the manner suggested. The scientific advertiser should also try his best to make his copy carry this valuable element, so that a person who frequently sees the advertisement, is gradually induced to buy and try the merits of the goods advertised. Frequently words such as "have you tried Lipton's Tea? Try it to-day. It is the best in flavour",

etc., are found in advertisements with appropriate accompaniments. These phrases are meant to act as so many emphatic suggestions, which are calculated through a course of repeated reading in placards, magazines, streets, cars, etc., to produce an effect on the mind of the reader similar to that produced by the hypnotist on his subject. People read advertisements in newspapers, magazines, placards, etc., half consciously and get the information as to the maker and the advantages offered by certain articles. They then forget the source of this information, and begin to think that these names, so familiar to them, have been recommended by some friends either in business or at their clubs. In order to bring about this most desirable result, the advertiser should not only bear in mind the value of suggestions made in a correct form, but should also attempt to make the best impression on the mind of the reader as to the merits of the articles offered. Frequently, the suggestion is inserted in the form of a command, such as, "Join Davar's Collège of Commerce for a practical course of commercial education"; "Be your own carpenter by buying Ellen's Tool Box"; etc., in connection with advertisements, which catch-words are meant to act as suggestions in the form of a direct command. These commands, are most effective with the class used to obey commands, but they should not be used in case of customers who are used to commanding others. With the latter, a mild suggestion in an indirect form expressed through the medium of an illustration, picture, or words may be tried with the best result.

Memorising Value.—The copy should be so presented as to create a lasting impression on the minds of its readers. In our early school days, in order to memorise poetry or any other lessons we resorted to the good old device of repeating the lesson. The advertiser can secure a similar result, as far as the memory of his readers is concerned, by repeating his advertisements. An advertisement which appeals to the emotions and sympathy of the readers is most likely to be

remembered. Dr. Dill Scott gives as an illustration a picture of an advertisement of the Pelman's School for memory-training, in which a young man is shown in the act of giving up in despair the lesson, which he has been trying to master. He is shown with one hand resting on the forehead, with eyes closed and a sort of hazy cloud is drawn across his forehead to represent the mental fog. This picture according to the learned doctor is not only likely to attract attention of young men similarly situated, but is also likely to impress itself on their memory through the sympathy it is likely to create.

Conviction Value.—The next point to be seen is that the composition is presented in a manner which is likely to be believed and taken seriously by its readers. A bombastic or exaggerated style is likely to have a contrary effect, and should therefore be avoided. Try to convince your readers as to the assertion carried by your advertisement by logical arguments wherever possible. A copy which is not accompanied by a picture, should make up all that the picture would have suggested through the medium of arguments advanced. Irrelevant talk should be avoided and the language should be brief, convincing, simple and to the point. It is no use saying that your goods are the best in the market, without adding some argument in their favour of a more or less convincing nature. Show why they are likely to be the best, describe the special advantages commanded by you either in their manufacture or purchase, or some other equally practical reason which is likely to convince the class of readers appealed to. One method most successfully used in this connection is when the advertiser offers to take back the goods if returned as unsatisfactory within a certain time. This undoubtedly creates a good impression on the mind of the prospective buyer, by helping to convince him or her as to the confidence of the dealer in the quality of the goods offered. Experience

has shown that very little risk is involved in making this offer in the case of goods of really good value.

Value from Point of View of Sentiment.—Sentiment plays a very important part in all walks of life, and a large number of our actions are influenced by the same factor. In the preparation of the copy, therefore, this important factor should not be lost sight of, and whenever possible, full advantage should be taken of the potential value carried by the same. In no case should the draft be made to include anything which is likely to injure the feelings of the readers, or to create an adverse effect in this connection. This is particularly to be noted in connection with foodstuff advertisements, for a taste for food is more or less a question of sentiment. Articles like biscuits or sweets offered in a tastefully designed packing, are more likely to appeal to and attract the consumer, than those which are clumsily sold in old fashioned paper bags. With the advance of civilization, people have learnt to appreciate neat habits as well as the laws of hygiene and cleanliness. The result is, that food served in a clean and artistic surrounding, appeals to them with a greater force. Perhaps a workman used to manual labour and blessed with a keen appetite may not appreciate this factor, but those who by force of circumstances have to follow sedentary occupations are less fortunate in this regard, and care has to be taken to see that nothing which has an unpleasant savour is introduced in connection with food or articles of diet which are meant for their consumption. Through picture-advertisements artistically drawn, full advantage may be taken of this factor, particularly in connection with foodstuffs offered for sale. Let us take the instance of sweets sold in a clumsy manner in some of our old fashioned Indian sweetmeat shops, and compare them with those of manufacturers with modern ideas, offered for sale in neat artistic boxes with neat paper and silver packing. The latter appeals to people of cultured taste who are prepared to pay a much higher price for them.

Answering Demands and Creating Habits.—We have already noted and emphasized that the object of advertising is not only to answer existing demands, but also to create fresh ones by breaking new ground. With this purpose in view, the copy must carry with it what is known as an educative value, *i.e.*, one which not only informs people as to the nature of the articles offered for sale and the places whence they can be procured, but also embraces elements which will make the reader, who is not in the habit of using them, do so, and thus create a demand. The task of creating new habits is the most difficult from the stand-point of the scientific advertiser, as habits once formed are difficult to eradicate, and in order to induce people to act in a contrary direction, *i.e.*, in the direction which the advertiser wishes them to follow, a regular and sustained advertising campaign becomes necessary. Of course the advertiser should study the habits of the people he deals with and then try to meet them in the most acceptable form. That is no doubt an easy method, and the least expensive. But where the sale of a new invention is to be pushed, it might necessitate a campaign with a view to inducing people to form certain habits which, it is calculated, will lead to a demand for the article concerned. Here an advertising propaganda has to be planned on an educative basis, in order to attain the object in view. For this purpose all the resources of logic and argument are made use of and the copy vividly and repeatedly presented to the public through the various media already dealt with. Wherever possible, full advantage should be taken of such current events as are likely to fit in with the arguments presented. As we have already observed, habits of people once formed are very difficult to alter; but at the same time it is equally true that if the advertiser succeeds in creating a new habit in his favour he will have secured a more or less permanent custom. For example, people who are in the habit of buying and using Pears' Soap will require a lot of argument before they could be induced to give up using that soap

for some other, but there is no doubt that if the object is achieved, the convert is sure to stick to the new brand as tenaciously as he did to the old. A scientific advertiser therefore studies habits as they already exist, takes full advantage of them, at the same time leading his reader unconsciously towards new habits which result in a demand for the articles whose sale he is deputed to boom.

Appeal to the Human Instincts or Inclinations.—According to both Dr. Dill Scott and Professor Hess, mankind are more or less guided by instincts or inclinations which are common to humanity of which the advertiser must carefully take note while preparing his copy. According to both these authorities the following are the principal instincts:—

- (1) Self-Preservation Instinct.
- (2) Food Instinct.
- (3) Hunting Instinct.
- (4) Clothing Instinct.
- (5) Hoarding Instinct.
- (6) Something-for-Nothing Instinct.
- (7) Parental Instinct.
- (8) Curiosity Instinct.

(1) *Self-Preservation Instinct.*—It is quite natural with us all to be particularly careful to preserve and protect our person, our health, our lives, our family and our belongings. There is hardly any person who does not instinctively hold out his hand in self-defence if an attempt is made on his life or person. This may be termed the self-preservation instinct, ever present in many, which may be made full use of by the advertiser. The increasing sale of patent medicines is mainly due to mankind's fear of death and sickness. Various other items such as woollen clothes, overcoats, health resorts, health foods, physical culture courses are advertised successfully by

introducing in the copy an appeal to this most active of all instincts.

(2) *Food Instinct.*—We have already dealt with this instinct while discussing the preparation of copies mostly in connection with the question of an appeal to sentiment. Food is a question of sentiment. When advertising foodstuffs it is always best to avoid everything which is likely to offend the reader's ideas on the question of taste or the nature or quality of food.

(3) *Hunting Instinct.*—This is one of the oldest instincts handed down to us from immemorial times when our ancestors had to hunt for their food. Many dealers in sporting rifles, ammunition, sporting kits, etc., make use of this instinct both in pictures and arguments.

(4) *Clothing Instinct.*—Since the time of Mother Eve, mankind has displayed a particular partiality for dress and clothing. In fact the love for artistic clothing in variegated colours was even stronger in days gone by than now. All over the civilised world dress and apparel are looked upon as the principal designators of a man's station in life, habits and tastes. Of course the idea as to the right kind of clothes and the proper blending of colour, etc., keep on continually altering with the passage of time, and with constant change of thoughts as well as with the closer contact of various nationalities of the world their habits, tastes and manufactures, but the main factor, *viz.*, the instinct which attracts men and women to what they consider to be the smartest form of dress, is strong with us as ever and promises to improve day by day. A modern man or woman's ward-robe would have sufficed for half-a-dozen of the same class in ancient times. The advertiser therefore, who wishes to place on the market any article which has a bearing on the clothing and dress of either sex, gets a telling effect by introducing elements in his copy in which full advantage of this natural aptitude is taken. Of course full regard should be had for what is considered to be the most

up-to-date and correct form of dressing among the class to whom his appeal is addressed.

(5) *Hoarding Instinct*.—This is said to be an inborn human instinct though more or less dormant. It may be that in some this instinct is rather too highly developed and may be regarded as a drawback, as in the case of a miser, whereas in others, the same is woefully weak, as in the case of the spendthrift and the prodigal. We like to collect articles in the form of money, postage-stamps, match-box labels, old pictures and curios, etc., etc. We work and labour to get them. Those among us who are happily overburdened with worldly riches are in a position to gratify our inclinations to a greater degree compared to our less fortunate brethren, but that is only a question of ability. An appeal to this instinct can be easily and advantageously made in the case of advertisements by life assurance companies, who offer various schemes for the effecting of policies which enable persons to collect, lay aside or provide for either an emergency, or the much dreaded old age. Bankers, financing institutions, as well as associations and Governments offering bonds and other securities for investment can also advantageously incorporate this appeal in their advertisements.

(6) *Something-for-Nothing Instinct*.—This instinct is being appealed to in advertisements for cinema shows and theatres, lottery bonds and other articles, through the offer of valuable watches, furniture, or round sums of money as prizes to the fortunate possessors of the ticket whose number is drawn.

(7) *Parental Instinct*.—The parental instinct is no doubt familiar to us all, who gratefully remember and appreciate the all-sacrificing love of a mother, and the more balanced, though none the less powerful affection of a good father. The scientific advertiser who has any of the children's requisites to sell, always appeals to the parental instinct through his copy. The author came across an excellent example of this appeal in

connection with one of the recent Mellin's Food advertisements where the picture of a middle class English family was shown, assembled in its drawing-room, the father in a remote corner, smoking his cigarette, the mother on the most prominent side of the picture throwing out her arms in the act of receiving a baby which is being made to walk in her direction by a grown-up daughter. The head-line of the advertisement "Baby's first steps" and later the merits of Mellin's Food in connection with nourishing and supporting the strength of babies and children are stated in a brief but impressive language. This picture is bound to attract the attention of parents—particularly mothers with babies to bring up—to whom the appeal seems particularly to have been directed.

(8) *Curiosity Instinct*.—Human beings are curiously inquisitive and as long as they do not go to unreasonable lengths in this regard, this factor need not be regarded in an unfavourable light. A person who keeps his eyes and ears open and thirsts for legitimate knowledge of human affairs, with a view to keeping himself up-to-date with regard to modern developments and progress, is making the best use of this instinct. Some advertisers try to make their advertisements attractive by inserting an element of curiosity which forces those of their readers who are so inclined to read and answer the advertisements. Puzzle advertisements frequently appearing in various magazines and newspapers may be taken as illustrations of this attempt.

PREPARATION FOR THE PRESS AND PRINTING PROCESSES:

A scientific advertiser must have a working knowledge of the types, their arrangement and lay-out, as well as some of the important printing processes, in order to be able to prepare his copy for printing purposes, and to give accurate instructions to the compositor as to the manner in which the copy for advertisement has to be got up. While instructing the printer as to the size of the type which should be used for the heading or for display matter, i.e., the matter which is to be prominently

displayed in deep or bold types, the advertiser must remember that type is measured on what is called the "point system". One inch is divided into 72 points, and the word "point" below is shown in the exact 72 point, *i.e.*, 1 inch type.

Point

It may be mentioned that in reckoning the points, the height of the body of the type is measured. When the type is said to be of 10 points, it is the body of the *type*, and not the face of the *letter*, which is approximately stated to be of that size in height. Thus the face of a 10 point capital M is about 8 points high, and the rest is taken up by what is called the "*em*" of the type: that is, the square on which the type is engraved. On the other hand, an "*en*" is one half of the area of an "*em*" in breadth. A *lead* is a thin strip of metal introduced between lines of types in order to make space and give the printed matter an open appearance. When two leads are inserted between the lines, the type is said to be *double leaded* and where no lead is used the type is said to be *solid*. The leads vary in thickness such as 1, 1½, 2 and 3 point leads, and it is best always to instruct the compositor as to what point of leads is desired.

The types are also divided into two main divisions, *viz.*—(1) display type and (2) body type. The display type is heavier in face than body type, and is generally used in connection with sentences, headings and body words, where an emphasis is desired to be given on that which the advertiser has written. The following are the two examples of display and body types:—

THIS IS 10 pt. DISPLAY TYPE.

This is 10 pt. body type.

The display types are again divided into condensed 10 pt. type, bold medium type and bold extended type.

This is 10 pt. Bold Condensed type.

This is 10 pt. Bold Medium type.

This is 10 pt. Bold Extended type.

The most commonly used body types are the old style Roman and modern style Roman, the former being most popular as they happen to be less tiresome to the eyes. They are as follows:—

This is Old style 10 pt. Roman type.

This is Modern 10 pt. Roman Type.

The actual design of the type is called the "face", and each is known by its name. These faces are again divided in series and the series is known by the technical name "family". Thus the types of the same family mean those of associated faces. The types are supplied in what is called "founts" and a fount of type contains the proportion of various letters of the alphabet in accordance with its frequency in use in the English language, together with numerals, punctuation marks, etc. Each face has its fount of complete types. Type is set either by hand or by machines according to the convenience and circumstances. There are two kinds of machines for setting, one is called "monotype" and the other is "linotype". The former produces individual characters and combinations of characters; whereas the latter casts type in lines of pre-determined width. Machines are also used for introducing mechanical setting of display matter. There is another machine known as "Inter-type", which produces a compound material. Both the

monotype and linotype machines cast their own types by a certain process laid down, and automatically places the type so cast into correct positions in which they are being composed. Line by line the machine fixes up the type, and as soon as the line is finished automatically it makes the necessary movement for beginning a new line. In the case of linotype, the material is cast in lines or "slugs"; the advantage of the linotype setting is that the material is very rapidly produced, cast and assembled, and being in a solid line is less likely to get mixed up by accident, which advantage the monotype set does not carry. The disadvantage is that if there is an error, in the case of linotype it is more difficult to correct; though frequently these corrections are made by a skilful operator by dropping a hand set character after cutting out a letter or word from the line made by the linotype.

How to Make a Lay-out.—Let us suppose that the advertisement writer has prepared his copy, in which he has stated the heading and body matter, and the block of a picture, or trade-mark which he wants to be printed along with it has been indicated in the copy, which is fully written out, and has also given indications in the margin to the printer as to the size and the face of the type he wants him to use in the space which he is prepared to pay for; his next step will be to prepare what is called a "lay-out". The object of the lay-out is to give the compositor a rough picture of what the advertiser wants his advertisement to be, in the form in which he would like it to be set up in types and block. Thus the lay-out is prepared separately, and instructions are given on the margin as to the size and class of type to be used, and also to indicate the place or position in which the block or the picture, if any, has to appear. This not only saves the printer and compositor the trouble of imagining what his client wants and making a lay-out himself, but also saves the client from disappointment by ensuring that his advertisement appears in a good form when

it is published. In preparing the lay-out, the first point that should be stated is the width and depth of the advertisement itself, and if an illustration or picture is to be published in the advertisement, it is always best to cut out an impression of same, received with the block from the block-maker and paste it on the lay-out in the position in which the advertiser wishes it to be printed. If that is not possible, the block may be indicated by drawing a square at the place where it should appear. In a case, where there are several blocks in one advertisement, they may be numbered and indications may be given according to the number. In case borders are to be placed, the best thing is to indicate by drawing same in the correct position on the lay-out. This may be done by pencil and ruler. The size of type, and wherever it is to be bold faced in any shape or form may be indicated : but generally the facing is not indicated unless the advertiser knows the class of types which the printer uses. The space to be occupied by the body type is also to be indicated, and the lines to be indicated by filling in the space with pencil lines according to the measure and width of the body matter desired. In case of headings, frequently these are written out if a slogan has to be used at the top or a name particularly displayed in bold facing ; and in the margin instructions may be given as to the class and size of the type which is to be used in connection therewith. In short, all that the lay-out claims to do is to prepare and place before the printer a typographical diagram guiding him as to the form in which the advertiser wants the matter to be composed and built up, and indicating the place where display as well as picture has to be shown. All instructions to the printers should be given on the margin with a ring round them. In case of borders, too, correct indications should be given as to whether they are to be plain or in any other form. The types of course will be indicated as bold faced, deep black, Roman, ordinary, etc. The following is an illustration in rough to give an idea of what a lay-out is like :—

LAY-OUT

↑
3" Space
↓

Bold face
deep Black
18 Point

Body Matter
10 Point

Red in 10
Point Roman

WHAT ABOUT YOUR CHILDREN'S EDUCATION

Black showing
College Building
and a boy
in academic
robes.

**OUR EDUCATIONAL POLICIES
ENSURE THAT**

.....

.....

.....

.....

.....

.....

12 Point
deep Black

4" Space

Proof Correcting.—When the printer's proof comes in, the next business will be to correct the errors and return the proof. In connection with proof-correcting, various marks are used by the printers which are known by special names and signs and indicate what they exactly mean. The following are the most important marks which a student must study :—

caps. Change to capitals.

S. C. Change to small capitals.

.l. c. Change to lower case.

rom. Change to Roman.

ital. Change to Italic.

b. f. Change to bold face.

———— Under word, means "Put this in Italics".

===== Under word, means "Put this in small caps".

=====
===== Under word, means "Put this in caps".









~~~~~ Under word, means "Put this in bold-faced caps and lower case".

=====  
~~~~~ Under word, means "Put this in bold-faced caps".














~~stet~~ Retain crossed-out word or letter.

----- Under a cancellation, means "Let it stand"; used in conjunction with "stet" in the margin.

out - see copy Here is an omission ; see the copy.

- run on.* Make no break in the reading.
- run over.* Run this word or syllable over to the next line.
- run back.* Run word or syllable back to the preceding line.
-  Start a paragraph here.
- no ¶* No paragraph ; sometimes written "run on".
- spell out.* Spell out the enclosed word or words.
- tr. or trs.* Transpose words or letters as indicated.
- w. f.* Wrong fount ; change to proper fount.
- Qy. or ?.* Is this right?
-  This mark, the dele, means "Take out the crossed out type, word, or sentence".
-  Take out the character indicated and close up.
-  Insert apostrophe.
-  Insert quotation marks.
-  Make correction indicated in margin.
-  Join these letters in a logotype, as œ, æ, etc.
- Eq. #* Equalize spacing.
-  Line up ; that is, make the lines even with other matter.

| | |
|-------------------------|---|
| =====
=====
===== | Straighten lines, or type out of line. |
| ⊙ | Insert period. |
| ⊙ | Insert colon. |
| / | Insert comma. |
| ;/ | Insert semicolon. |
| -/ | Insert hyphen. |
| \|/ | Insert one-em dash. |
| \|2/ | Insert two-em dash. |
| \|en/ | Insert en dash. |
| ?!/ | Insert interrogation mark. |
| ⊖ | Upside down ; reverse. |
| # | Insert space here. |
| ⊖ | Close up—no space. |
| [| Move this to the left. |
|] | Move this to the right. |
| L | Between words means, amend, equalize and improve the spacing. |
| L or] | On either side of a word. Centre this word or group of words on the measure. |
| ⊃ | After a word or syllable at the end of a line. This looks bad, move to the preceding or following line. |

-  Between two paragraphs. Run on, or make these two paragraphs into one paragraph.
-  Round the beginning of the first word of a line
Begin this line where the perpendicular lines are.
-  Raise to proper position.
-  Lower to proper position.
-  Between letters or words. Transpose these letters or words.
- new Par*
or N.P. Begin a new paragraph where indicated by ¶.
-  Between lines near the bottom of a page. Take these lines over to the next page.
-  Between lines near the top of a page. Take these lines back to the previous page.
-  Under fl, fi, ffi, ffi, ct. or st. Change for a ligature, fl, fi, ff, etc.
-  Indent line one em of size of type used.
-  Indent 2-ems.
-  Indent 3-ems.
-  Push down this lead or space.
-  Battered type ; change.

GLOSSARY OF PRINTING TERMS.

- Advance sheets* :—Sheets of a book or magazine sent in advance of their formal publication.
- All in Hand* :—means all the copy has been furnished to the compositors.
- Antique* :—A German term for Roman types.
- All Out* :—This indicates that the copy of type is exhausted and the compositors have nothing to go upon.
- All Up* :—This means that the copy is completely ready in proper order.
- A.P.* :—This means author's proof, *i.e.*, printer's proof sent to the author with the manuscript after the corrections have been noted by the proof reader for his final orders.
- Author's corrections* :—This means that the author alters his original manuscript after it is composed for which usually an extra charge is made by the printers.
- Backs* :—The inside margin of a book, *i.e.*, on the side of binding.
- Bleed* :—This is where the book has been cut down or trimmed so closely that the actual print has been cut.
- Body Matter* :—The portion of the advertisement or print set up in body types as opposed to display types.
- Bold face* :—Abbreviation for this is *b.f.* which means a type with a heavy face.
- Caps or Small Caps* :—meaning capital or small capital letters.
- Casting off* :—Estimating what space can be taken up when set in type.
- Chase* :—This is an iron frame in which all the composed type is locked and got ready for press.
- Clean Proof* :—Proofs with very few corrections.
- Cloth Boards* :—Books bound in cloth cases.
- Collate* :—Examination of the printed off sheets of a book to see whether all are there in regular order.
- Colour Forme* :—A forme which is to be printed in colour to register with a black forme.

- Crash Finish* :—Papers having a somewhat rough surface resembling that of the dress fabric known as crash.
- Cut off Rules* :—This term is used in connection with newspaper printing where a full measure rule is inserted between reading matter and advertisements with a view to showing that the matter below the rule is advertising matter.
- Cut Out* :—Half-tone print from which the background is removed so that the figure is left clearly outlined.
- Cut Off* :—Estimating the amount or space which the copy will take up when set up in type.
- Colour Type* :—Other name for outline type.
- D/c.* :—Double column.
- Dead Matter* :—Matter in type which is no longer to be used or which is to be distributed because the matter has been printed off.
- Deckle edge* :—The rough feathery edge of hand-made paper or machine-made paper imitating hand-made paper of the same type of edge.
- Delete* :—Proof-readers' mark signifying that the matter is to be removed or taken out.
- Dirty proofs* :—Proof with many errors.
- Display* :—The art of arranging types in a manner which would attract attention.
- Distributing* :—Replacing types in their various boxes after the printing is over.
- Double-leader* :—Matter with two leads or strips of metal which are usually inserted between types.
- Dummy Copy* :—A copy of the book or pamphlet prepared of blank pages of the number likely to be covered by the book with a view to showing the probable size of the book.
- Duplicate or Dup* :—An extra facsimile proof sent with the official proof when two proofs are required.
- Edition de luxe* :—A French term denoting large paper editions of nice books.

- Electrotype**:—A copper covered duplicate of block matter or type. This is made of the height of the type with a base on wood or metal. It is also briefly called "electro".
- End papers**:—Blank fly leaves at the two ends of a book which are sometimes printed with decorative diapers, *i.e.*, pattern in delicate colours.
- Etching**:—A process by which zinco surface for printing or half-tone is produced.
- En Dash**:—A dash en long.
- E. O. D.**:—Every other day.
- Errata**:—A printed list of errors with pages in a publication for drawing attention of the reader.
- Even Page**:—Even numbered page such as 2nd, 4th, 6th, etc.
- Face**:—Printing upper surface of a type or a zinco or half-tone or any other printing plate or block.
- Folioing**:—The page numbering of manuscript or proof.
- Follow copy**:—This indicates that the exact wording and punctuations must be followed or copied as on the copy. Thus here no discretion is allowed to the printer in such details.
- Foot-note**:—That which is to be printed at the foot of the page to which it relates as a note.
- Fore-edge**:—Outer margin of a book as distinguished from head or tail.
- Format**:—A bibliographical term indicating the shape and size of a book.
- Forme**:—Types, blocks, etc., locked up in a printer's chase with a view to being placed in the press for printing or in the foundry for duplicating.
- Foundry Formes**:—Formes to be stereotyped or electrotyped.
- Fraktur**:—A German term for German peculiar text or black letter characters.
- Full Point**:—The printer's term for a period.
- Full Bound**:—A book completely bound in leather.
- Furniture**:—Printer's term for slips of wood or metal which are used for whitening out large open spaces in a page

or for winding composed page of type locked in a chase ; narrower slips of such wood are called 'Reglets'.

Galley :—A three sided tray on which the compositor puts the types that he has set up.

Galley proof :—means proofs in slip form which are to be made up in pages ; or the first proofs of the composition before they are paged. This is also called *In Slip*.

Gilt tops :—This indicates the tops of the book which are bound and gilt with a view to preventing them from being soiled by dust accumulating on them.

Half bound :—means partly in leather with cloth or paper side.

Hair line :—The thin line of the type face which connects or prolongs its part or it may mean a very fine rule, known as *hair line rule*.

Hair spaces :—Thinnest metal type space in use.

Half-tone :—Photo-engraving in which the relief lines are produced through the etching of a plate which has received the photographic picture through a fine rule glass screen having from 50 to 200 lines in the inch.

Hanging par. :—means a paragraph which is the first line projecting on the left. This is also known as hanging indentation.

Heads :—Top margin of books, *i.e.*, margin at the top of the page.

Imposition :—The art by which pages are so arranged that when the forme is locked up and printed, they come in regular consecutive order in the printed sheet when folded showing the correct margin.

Imperfections :—The sheets to be given to book-binders to complete imperfect books due to bad covering, collating or spoiled sheets.

Imprint :—The name of the publisher or printer at the end of the printed matter.

Indent :—Means to insert one, two or three em quad at the beginning of a line which is usually the first line of a paragraph.

- Initial letters*:—Large capital or ornamental letters used to focus readers' attention in the beginning of a chapter or an important paragraph.
- Insertion*:—means additional copy which is to be inserted in the original copy or proof which was left off by accident or otherwise.
- Inset*:—A sheet or section of one or more leaves inserted or set in between regularly folded pages of a book; also called *insert*.
- Jobbing Room*:—The composing room of a printing office where jobs are set as distinct from book department or newspaper department.
- Journeyman*:—A printer who has completed his service of apprenticeship.
- Justify*:—means to space out lines or pages according to a given length so that they may not be too long or too short.
- Keep Standing*:—An order to the printer not to distribute the types as they are likely to be wanted for reprint.
- Key forme*:—In case where a page or a forme is to be printed in two or more colours, the colour which determines the position and margins on the printed sheet is called the Key forme. Similarly there is Key plate.
- Kill*:—When applied to type, it means that the same is not to be used.
- Kern*:—The back of a type which overhands the body as in case of "P" in italics.
- l.c.*:—lower case.
- Leaders*:—Dots or hyphens placed at intervals to guide the eye across a blank line to price figures, folios in table of contents, etc.
- Letter Spacing*:—Extending words by inserting space between each letter.
- Ligature*:—Two or more types indicating two or more letters which are cast of one body in order to prevent the

- breaking off of kerns or other overhanding parts of the letter ; also called *Logotype*.
- Line Block or Line Zinco* :—A block which has been reproduced in solid black and white.
- Line Drawing* :—A drawing consisting of solid black and white elements made by a brush or pen.
- Linotype* :—A type setting machine which casts complete lines.
- Lithography* :—The art of reproducing printing matter from a flat lithographic stone, or a metal plate on which a transfer or drawn design has been made.
- Live Copy* :—A manuscript to be put into type.
- Long Page* :—A page having one or two more lines than its fellow pages.
- Make-up* :—To arrange typed matter into pages.
- Make-Ready* :—The operation of making a forme ready for printing.
- Mat* :—Abbreviation of Matrix which means a mould made for the casting of a stereo.
- Matter* :—Type that has been set.
- Measure* :—The width to which the typed matter has been set.
- Middle leads* :—Leads of 2 points in thickness. They are so called because they come between thin leads and thick leads.
- Monotype* :—A type setting machine that casts individual letters and characters.
- Mortise* :—A space cut out to allow for the insertion of other matter such as the engraving or block.
- Mortised type* :—Is the type in which some part that does not print is cut away so that other letters or rules may be inserted.
- M.S.* :—Manuscript ; plural MSS.
- N.R.M.* :—Next reading matter.
- Nickel faced* :—Stereo with the facing of nickel which is given to it in order to prolong its life.
- Nickel type* :—A type which is moulded electro by placing the mould in a bath containing nickel solution. This gives

it the shell of nickel, thereafter it is placed in a copper bath so that the second shell is formed of copper. Thus the type gets harder wearing quality.

Nonpareil:—Six point types usually used by newspapers for reading matter.

Odd page:—Opposite of even.

Offcut:—The part of the sheet of paper which is to be cut and wasted when a size which exactly fits in the page or number of pages for printing purposes cannot be obtained.

Off Its feet:—A type which does not stand in perfect perpendicular and thus the print comes out incomplete.

Offset:—When the offset of ink from one sheet gets on the other because of insufficient drying or bad ink.

Offset Lithography:—Litho printing in which the complete first prints of a rubber cylinder from which cylinder the impression is transferred on paper.

O.P.:—Out of print.

Open Spacing:—Wide spacing between words and lines.

Out:—An omission mark in the copy or proof.

Overrunning:—Re-arranging lines of types with a view to improving spacing arrangement or allowing words to be inserted.

P.:—Abbreviation for page; plural pp.

Pica:—12 point type. Six lines of pica set solid make an inch. 3½ point type is known as Brilliant; 4 pt. Gem; 4½ pt. Diamond; 5 pt. Pearl; 5½ pt. Ruby or Agate; 6 pt. Nonpariel; 6½ pt. Emerald; 7 pt. Minion; 8 pt. Brevier; 9 pt. Bourgeois; 10 pt. Long Primer; 11 pt. Small Pica; 14 pt. English; 18 pt. Great Primer; 24 pt. 2 line Pica; 36 pt. 3 line Pica.

Most of the above names have fallen into disuse but the term pica is still in use.

Quarter Bound:—Books bound whose back only is of leather.

Quoted paper:—Paper used for half-tone work which has a very fine, hard and smooth finish.

Recto :—Right-hand page of any book.

Reglets :—Narrow strips of wood used in 12 or 6 points thickness for economy in place of leads and slumps.

Rotate :—As applied to advertisements. It means the order in which the series has to be folded or has to rotate.

Routing :—Cutting of the unessential matter from a place because the same is not wanted to be printed.

Rule work :—The composition in which rules are largely used.

Run on :—No paragraph is desired.

Running title :—The title of the book placed at the top of each page.

R.P. :—Reprint.

Run Round Block :—Types set to surround a block.

S.c. :—Small capitals.

Script :—Types made in imitation handwriting.

Serifs :—Cross lines at the top and bottom of a letter such as H.

Set Flush :—means the matter set without indenting.

Short page :—A page having lesser number of lines than its fellows.

Side Head :—Words in heavier type than body matter.

Slur :—Blurred impression in a printed sheet.

Solid matter :—Types based without lead.

Stet :—When an erroneous correction is made in a printed matter, stet is placed in the margin in front of the line to indicate that the printer has to ignore the correction.

Take :—A portion of matter given to compositor.

T. a. w. :—Twice a week.

T. C. :—Till countermanded.

Text :—The body of a book as distinguished from notes, index, illustrations, etc.

Thick leads :—Leads three points in thickness.

Thin leads :—Leads 1½ points in thickness.

T/Col. :—Top of a column.

Transpose :—To change or alter the order of words or types.

Type high :—Exactly the height of a type.

Ungathered :—Books delivered to binders in sheets.

Verse :—The obverse, or back, of a lead.

Waste :—Surplus of sheets of a book.

White :—Space between any lines or groups of types.

Wrong Fount :—Type of a different character from others—
being used in composition by mistake which is to be
substituted.

Zinco :—Another name for line block.

THE MEDIA.

The various media made use of by modern advertisers may be taken in hand and dealt with in some detail. It should however be noted that the medium selected should be one which is likely to reach the largest possible number of prospective customers, and should bring results commensurate with cost of advertising in it. The principal media are: (1) Letters and Circulars; (2) Newspapers and Magazines; (3) Placards and other media of street advertising; (4) Prospectuses and Catalogues; (5) Cinema and Theatrical programmes; (6) Shop windows; (7) Exhibitions; (8) Radio; and (9) Films.

Letters and Circulars.—There are cases where small traders cannot afford the luxury of newspaper or magazine advertisements, and as a substitute, resort to circular advertising. There are other cases where circulars are used in addition to newspaper and magazine publicity. These circulars are sent either by messengers or by post. In the case of dealers situated in small towns without proper newspaper media, these circulars are particularly appropriate to bring to the notice of the population in the town area the various articles sold, and innovations introduced in the shop. Some traders in Europe issue a sort of small Trade Paper on the plan of a miniature newspaper, and advertise their goods in it, with a leader for each day of the week offering some particular article at a special price and discussing the merits of same. Generally the circulars are used by large dealers and manufacturers as an

adjunct to an advertisement campaign carried on through other media. The most important principle to bear in mind is that where circulars are to be sent on to those who have not inquired for the goods, they should be brief, *i.e.*, contain only main points concerned with the goods or business, but where they are to be sent in reply to inquiries they should be more detailed.

Mail Order Advertising.—This form of advertising has progressed considerably, as the manufacturer, as well as the dealer, has found out that in these days of postal facilities all over the civilised world an enormous amount of business can be done on the mail order plan. The Value Payable or Cash on Delivery system, is now universal, under which the postal authorities undertake to collect cash against delivery of goods. This has given an additional impetus to this form of doing business. In a country like ours, with its wide area over which the population is scattered, and with a larger number of superior class of population residing in the mofussil, where facility for obtaining superior goods through local tradesmen is limited, this form of business can be largely developed by tradesmen located in towns through the medium of advertisements. In the case of manufacturers, the idea kept in mind is to help the local tradesman by ordering him to supply the goods ordered if they are stocked by him, if not to supply them themselves. This helps them to keep the trader co-operating with them, and at the same time to push their goods by seeing that none of his custom is lost where their manufactures are not stocked. As to the trader and departmental stores doing business on the mail order plan, it is best for them to be located in principal towns from whence the customer can expect to receive the most up-to-date articles. Here the customer being located at a distance, the salesmanship on paper has to be carried on with great care as to details. The catalogues, literature, follow-up letters, etc., have to be prepared with a view to making up for the disadvantage due to lack of touch. Illustrations displaying the actual article offered may here be made

use of with great effect. This literature should give detailed instructions to the prospective customer as to the method of ordering and remitting money. Printed order forms with full instructions should be furnished. Some dealers offer to sell on the instalment plan, particularly publishers of valuable books, etc. How far this plan could be employed is a question to be answered after considering the circumstances of each type of business and the class of customers dealt with. Of course the instalment plan has the greatest selling effect, but the possible loss through bad debts has to be taken in calculation. In this class of business the help of a satisfied customer to introduce new customers can be sought with great advantage.

The usual literature used in connection with mail order publicity is made up of post cards, circular letters, leaflets, folders, price-lists, pamphlets, pattern books, diaries, gift books, blotters, etc. This literature is sent, either with the idea of securing new customers, or with a view to maintaining the old ones by increasing their good-will, as well as their interest towards the selling concern. For this purpose a mailing list has to be carefully prepared, and if possible arranged in such a way as will facilitate quick reference. In the case of more or less permanent customers, to whom a continuous posting of mailing literature is sent, addressing machines are used, with plates of their names and addresses duly prepared and kept ready for use. Many large concerns maintain their mailing list on card index form. The mailing lists are prepared from various sources. To start with, a complete list of customers or buyers who regularly deal with the concern has to be secured. To that will be added the names and addresses of those who have responded to advertisements or have otherwise made enquiries. A satisfactory list of likely customers is generally obtained by large sellers through local dealers on whom their salesmen frequently call. Of course, directories and other reference media are also utilised for the purpose, but here there is much of the speculative element. However, in case of new concerns reference books have to be made use of in the absence of any

other reliable data as to those who are going to be the likely customers. The building up of the mailing list forms a scientific process which should be handled by one of the most experienced members of the selling staff.

Having settled the mailing list, care should be taken to see that the literature and its design is attractive, and contains in a proper form an offer of service which must be presented in an interesting, as well as simple and convincing manner, to the party addressed in order to encourage a reply. This sales literature should generally be accompanied by letters, or covering letters, as they are called, which should be carefully written, explaining the literature and drawing the attention of the reader to the most salient points in it. It is a mistake to send literature without such letters as it is likely to be wasted.

The sales literature should also be sent in envelopes of good quality so that the interest of the receiver of the letter may be aroused, and he will be anxious to peruse the contents. The same rule applies to the note paper on which letters accompanying these sales literature are written ; and the heading of the note paper or letter paper should be sufficiently impressive to create an excellent opinion of the house from which it comes. The present method followed by leading firms is to use simple letter headings, without pictures or illustrations, and with as little wording as possible. The literature sent should not be unduly lengthy, but should be such as would tell its story within a short compass. The majority of the firms sending out literature enclose business reply cards or envelopes, and also, if possible, a blank order form for the customers' use.

Department-Store Advertising.—We have already dealt with this type of business in all its details as far as the organizing and sales records are concerned. As to the advertising side the great advantage is that, as this form of business commands large capital outlay and a large variety of goods, an advertising campaign on large lines can be carried on with great advantage. Here also it is possible to maintain a separate advertisement department, with one or more advertising experts

as heads. Large stores are largely dependent on the publicity department for the continued maintenance of their sales figures. Not only the new stock has to be sold ; but goods lying on hand unsold, when brought to the notice of the management, have to be got rid of before they get out of season or shop soiled. The store may be a high class store, or one dealing in cheap articles, or interested in both the branches. The Advertising Manager has to act according to the considerations peculiar to each. Frequently what is known as "bargain advertising" has to be indulged in, where the object sought to be achieved is to offer some articles at the cost or, as near cost as possible, with a view to attracting customers to the store ; and then if possible, try to induce them to purchase some other articles also. This form of publicity has to be indulged in with moderation, and the same remarks apply to the clearance sales or stock-taking sales. A store which has a clearance sale every month loses public confidence in the sincerity of the management. The idea of a clearance sale is to get rid of stock suited to a particular season before that season expires, so that it may not lay heavily on hand, involving the proprietors in a great loss. Here articles are offered at a small margin of profit or even at cost. These sales are known departmentally by various names such as "white sale", when linen is principally disposed off, furniture and furnishing sale, etc. The idea of a stock-taking sale, on the other hand, is to reduce the stock on hand at the annual closing of books to as small a figure as possible.

The advertising manager has to keep himself in touch with not only the chief, but also with the departmental heads and buyers so that none of the departments is neglected.

Novelty Advertising.—This form of advertising is a familiar feature with companies like insurance companies, banks, manufacturers where novelties in form of useful articles such as calendars, paper weights, penknives, etc., bearing the name and advertisement of the business concerned are sent out to suitable parties.

Letters and Circulars.—The modern business manager also makes use of letters known as circular letters, both as original advertising media, and in the form of adjuncts or helps, to an advertising campaign. Manufacturers and wholesalers write letters to their constituents with a view to bringing to the notice of the latter new brands and qualities which they offer for sale. In these letters they make full use of the art which the scientific advertiser calls to his aid in the preparation of his copy. The only difference being that here the effect is sought to be created by the force of expression, logic and arguments which are likely to be appreciated by the practical man of business to whom they are addressed. An effective circular letter commands a special advantage. It is a personal letter which, if written or typed in the usual way, without any indication as to its advertising character, is bound to be read by the party addressed, particularly where it embraces information in which the reader is interested. There are many modern inventions on the market for duplication of letters, but in all progressive countries they get so familiar within a short time, that it is almost impossible to send out a duplicated letter without the nature of its production being detected by a practical man of the world, particularly by a business man of some experience. Blindfold typewriting has made rapid strides everywhere, through the help of which a small number of first class typists can be trusted to work out a large number of original copies of a circular letter at a comparatively small cost. The original letter when it falls into the hands of the addressee is more likely to be treated as a personal communication specially addressed; which should be the result always aimed at in this connection. The circular letter has the other advantage of being able to embrace more detailed information as to the goods offered than is likely to be covered by a newspaper or magazine advertisement, and thus a greater scope is offered to the writer for including arguments, facts and figures. Of course much depends on the force of the language used and the arguments advanced, which ought to be of a practical

character, embracing all the important points sought to be made in favour of the writer, without making the letter unduly lengthy or wearisome.

Various methods and devices are being tried in order to get hold of names of dealers and individuals who are likely to be interested in the articles offered. A selection from directories is no doubt the most usual method, but the up-to-date advertising manager obtains names of dealers and individuals from his local agents in each of the provinces that he has marked out for his campaign. These individuals are first approached by these agents, whose work is subsequently given a sort of push or finishing touch by the manufacturer, or wholesaler, through the medium of a series of letters, frequently accompanied by suitable literature—which are given all possible appearance of being original communications, *i.e.*, specially written for the party addressed, though a few selected forms once drafted are generally made use of with appropriate alterations and touches necessary to fit in the case sought to be tackled.

The other use of letters, *viz.*, as adjuncts or helps to an advertising campaign carried on through newspapers, magazines, etc., of course, is to get custom from the party who has enquired through the post in reply to an advertisement. Here the sales or advertising manager is on surer ground, as the very fact of the enquirer having taken the trouble to write, marks him out as a party who decidedly promises to be more valuable as a prospective customer compared to the names and addresses selected from directories or recommended by agents. Careful explanation of the details asked for ought to be given, and the reply couched in a persuasive style, free from exaggeration, and full of all evidence of the sincerity and enthusiasm of the writer as to his belief in the strong points urged. If these elements are carefully attended to, the chances are that a substantial proportion out of the total number of enquiries thus received can be converted into profitable bargains, which may prove to be the precursors of continued patronage. With regard to those who do not seem to have been influenced by the first letter and

the first set of literature, a persistent effort should be made to attract them through the medium of a series of well regulated follow-up letters (with or without literature) sent at fixed intervals. The letters help to keep alive the interest of the enquirer and the chances are that he may eventually be converted in favour of the article offered by the suggestive effect of convincing arguments thus advanced. There are, however, limits beyond which a follow-up series should not be allowed to work. Not more than four to five letters should be written in any case. If the last of the series fails to bring in a response, the party should be dropped and the name removed from the list of prospective customers.

Newspapers and Magazines.—These afford the best known media for advertisements of all description. Reading of newspapers and magazines, like many other habits, has grown and developed into huge proportions in all civilised countries of the world and through the cheapening of their cost, as well as through facilities offered by libraries, clubs and similar institutions, the number of readers of these popular media of information and public education in the various departments of life has increased far beyond the limits of their circulation and sale. The manufacturer or dealer who makes use of them as publicity media in a scientific manner is bound to reap a rich harvest. To-day, the newspaper and magazine proprietors depend largely for their income on the advertising branch of their trade. They are ready and willing to offer facilities by way of printing of pictures and arrangement of types, as the volume of business done by them through this branch largely depends on the advantages accruing to their customers through advertising in their issues. In all first class magazines the picture advertising is reduced to a fine art, and the up-to-date processes of colour blending in connection with these pictures, help to make advertising an attractive feature from the point of view of all the parties concerned. Magazines are published at fixed intervals either weekly, fortnightly, or

monthly and thus, advertisements in them are bound to be noticed more than once by regular subscribers. As they are frequently kept on tables during the period they are current, a large number of people notice them. Newspapers are published daily, and thus the life of one particular insertion in them is shorter compared to that in a magazine, but the advantage is that the advertiser gets the opportunity, through the form and style of copy, judiciously used in sequence, to present his case daily in a new light through the medium of repeat advertising. Newspapers also enable traders to make timely announcements of new departures as they appear daily. Certain readers gradually get so fond of their favourite daily that they attach the greatest value to advertisements appearing in them. Besides, the daily papers generally command a large circulation of a more or less local character, but in case of magazines its readers may be scattered all over the world. We know of first class English magazines which are largely read in India, for example, and which are equally popular in all parts of the British Dominions. Many of these magazines are preserved and filed and the advertisement may have effect for a very great length of time. Any student of the subject, who has taken the trouble to study these magazines, must have seen what an impressive array of successful advertisements regularly appear in them, which must be attracting customers from all parts of the world. Newspapers are as a rule hurriedly read and got rid of within twenty-four hours, or even a shorter duration, specially in these days of evening editions, and the advertiser has therefore to try his best to make his copy suit the case of the reader who is in hot haste. In the case of magazines, on the contrary, the reader approaches the favourite recreative media during leisure hours, and thus he is more likely to read an interesting advertisement with greater attention and thus the copy can be made to embrace much greater detail than is advisable in the case of newspapers. The one point to be noted is to avoid duplication in advertising, *i.e.*, do not advertise in two newspapers or other media likely to be read by the same readers, it is a waste generally.

These are of course general remarks applying to the two favourite media dealt with here, but approaching closer we find, particularly in the case of magazines, that besides those of a general character, there are a large number of them devoted to specific branches of human activities, commonly known as class publication, such as magazines devoted to religious, financial, agricultural, textile, medical, legal, and educational purposes. There are also women's weekly and monthly magazines. Here the advertiser who wishes to interest any particular class, for one reason or other, has his choice through which he can make a direct appeal to that class. The other advantage offered arises from the fact that each magazine commands a status peculiar to itself, and an advertisement appearing in it, is bound more or less to be assisted by that status. An advertisement of law books for example may no doubt result in stray orders if inserted in a daily paper, or in a magazine devoted to a subject other than law ; but there is no doubt that an equally attractive copy appearing in a first class law journal is likely to prove more remunerative. There are special issues frequently of magazines where attempts are made to secure advertisement space at specially higher cost. It is doubtful whether this is justified, and the advertiser should make his own calculation. Generally speaking it should have no higher value than the ordinary issue. In the case of a daily newspaper also, the advertising manager should carefully study the class of readers among whom it circulates and then decide as to using the same as a publicity medium. The other feature of daily newspaper happens to be that of including sporting, literary and technical subjects on specific days, which are sometimes contributed to by recognised authorities, which earn for them a popularity among a particular class. In such cases the publicity manager, if he wishes to interest the class concerned, may, by special arrangement, get for his copy a prominent position somewhere near the columns in which his readers are interested.

In newspapers what are known as "classified advertisements" are now a normal feature. These are particularly handy

for many advertisers. These may relate to houses to be let, situations vacant, education, etc.

Classification of Newspapers.—With reference to the newspapers, there are what are known as the popular papers, *i.e.*, those which are largely used and are sold cheap, or high class newspapers whose price may be a little higher and whose advertisement charges are also much higher. In England the popular papers are said to be Daily Mail, Star, Sunday Express, Manchester Daily Despatch and high class papers are the Times and the Manchester Guardian. There is a third class known as the Financial newspaper, *viz.*, the Financial Times and the Evening News. In India also we have our similar popular papers, both in English and in Indian languages, all over the country; and high class papers as well as financial journals or magazines, though we have no financial newspapers which are published daily. The newspapers are also classified as national, *i.e.*, having a circulation all over the country; or semi-national, which, besides its circulation in the city or town in which it is published, has a certain circulation outside; and local, *i.e.*, those whose circulation is restricted to the centre where it is published. The national papers are generally those having a very large circulation, but the expense of advertising is naturally very high; and hence an advertising manager has to consider whether he wants a national or a purely local paper, to get the best result for his money, considering the nature of his business. Thus a restaurant keeper would naturally use the local paper, whereas a large hotel keeper, who receives travellers from all parts of the country, may use a national paper. The high class papers are those which circulate among the upper strata of society within a certain area, and naturally they circulate among the minority made up of the most cultured people. There are, of course, the morning and the evening papers, also sub-divided in these classes. There are Sunday papers which command a peculiar interest, inasmuch as they are published on a day of leisure when the reader can devote more time and attention to advertisements. However, on

Sunday too, the modern society indulges for most of the time in recreation, exercise or amusement, and thus a substantial part of the morning will be taken up by these items. In England the Observer and the Sunday Times are most prominent among Sunday papers. In India we have the Sunday Standard, The Times Illustrated Weekly, Sunday Statesman, etc.

Placards and Other Media of Outdoor Publicity.—Outdoor publicity has considerably progressed in all civilised countries. It has features peculiar to itself. The switch light, moving figures, placards, sandwich boards men, cards in railway compartments and street cars being the most prominent media. All these forms of publicity lend themselves easily to colour combinations and artistic picture displays, of which a competent advertising manager can take the best advantage. These media however, can be used to serve as adjuncts to a regular campaign through newspapers and magazines. They serve to keep alive the interest of the public in the article advertised which is systematically aroused in detail through a determined exposition in the newspapers and magazines. People who pass by a street, either on foot or in a vehicle, can at the most be expected to glance casually at these displays, and therefore, a catch heading and a suggestive picture prominently displayed should be the principal features aimed at. The dominant idea should be to complete the work which newspaper and magazine advertisements have accomplished, by way of educating the public as to the virtues of the article advertised, by making a persistent attempt to drive in the nail through the help of this additional weapon. Generally the article advertised is one which appeals to the masses. This form makes a special impression on the local retailer, whose sales are considerably augmented by a placard campaign in his neighbourhood. Care should be taken to see that nothing improper, or revolting to public opinion or morals, is allowed to appear in this form of display. In fact, in many countries a special censorship is exercised on this branch of publicity. In England and America Bill Posters' Unions have been established, which look after this branch of

work and make it possible for any undesirable display to be placarded. These bodies voluntarily reject all displays which are, in their opinion, calculated to offend decency, or are guilty of being unduly sensational, or likely to injure religious feelings. A scientific advertiser is not likely to fall into this error, as he knows better than any other individual how detrimental such a display is likely to prove to his own case. His object is to create a favourable impression on the public mind, and not to offend it. Great skill and ingenuity has to be exercised in the get-up and design of these placards, for which experts are employed to create ideas and to prepare copies. These placards should be made to embrace some element of character of an appealing nature, and should possess a certain amount of artistic merit, not sacrificing simplicity at the same time. Through these placards, trade marks as well as trade names can be displayed in large sizes, which has the effect of impressing them on the public memory and at the same time bring out some selling point. Frequently more than one selling point is brought out in a series of placards. Imagine what an all powerful effect an advertisement which is effectively published in newspapers and magazines and then displayed in streets, railways, tramcars, etc., by various devices, would have on the public mind! A person notices an advertisement in his favourite daily or monthly and is half converted to come to a decision to buy the article which has excited his interest, but in the rush of a busy life temporarily forgets about it; on his way to or from business his attention is again drawn by placards and signs which remind him of his decision, and the chances are that he will take advantage of this reminder to carry out his decision. Thousands pass by a prominent street, an equally large number make use of the popular convenience of transit by tramcars, railways, etc., and thus, a most cosmopolitan crowd of people can be appealed to through these media. Of course a placard does not carry with it the dignity and influence of a first class newspaper or magazine, and an old prejudice still exists in the orthodox mind as to this outdoor method of publicity, as only suited to

theatrical companies, cinemas and foodstuff or patent medicine advertisements. America, however, seems to have been the first country to have got over the old prejudice, as in that country, banks, insurance companies and other similar businesses made use of placards and posters as advertising media years ago. The War Loan publicity campaign during the last great war, both through the press and outdoor publicity, clearly demonstrated the wonderful result that can be secured through the combination of these two methods: with the result that placards and posters, are now used by all businesses. The advantage is that this outdoor advertising can be carried on throughout the country, so that visitors from a country-side, or suburb, or *vice versa*, find the familiar names and brands about which they have read and heard so much through their favourite papers and magazines in their own home, and feel as if they were meeting so many old friends. When a placard campaign is carried on all over the country it is known as a national campaign. While writing thus in praise of outdoor advertising, the main objection urged against the same, *viz.*, that it spoils the effect of rural scenery, is not sought to be ignored. What is urged is that the scientific advertiser should take good care to see that the display is presented in a manner calculated to give the least cause for complaint in this direction. Attempts are also made to see that the placards displayed in the country-side does match with the scenery and surrounding conditions as far as possible. Thus we find the advertisement of the famous beef extract, Oxo, represented in the form of a bull; and frequently the poster itself is cut out to represent that animal in outline, size and shape. Similar devices such as horses, giant bottles, barrels, etc., are represented by the poster to be found in suburbs, particularly on the edge of a road which overlooks open pasture land and fields, and are made, as far as possible, to fit in with the nature of the article advertised.

The next point is the selection of appropriate locations, for example it will not do to fix up a placard, or poster, advertising a fashionable restaurant in the factory area full of work-

men's *chawls*. The location on the main roads where larger number pass is preferable to a quiet street, even though the chances of placards being read in detail are greater here. Frequently walls are painted with placard advertisements, or fixed enamelled plates, and frequently brackets with arrangements for changing advertisements are employed.

Hoarding Owners and Poster Advertising Contractors.

—The hoarding owner is the "old bill poster who has leased places built up, or hired hoardings at pasting stations, and is prepared to render you service by pasting these bills or posters supplied to him. Generally he deals with poster advertising-contractors, and gets instructions from them as to how the posters are to be displayed and for what time. A good many of these hoardings are structures built on temporarily vacant land and thus the hoarding owner is generally on the move, and on the look out for suitable new locations for the purpose of his trade. The advertising contractors, however, help the advertiser in securing suitable locations and in some cases, the superior types of these contractors also help by giving scientific service. Thus, as in the case of advertising agencies, there are two classes of these contractors, *viz.*, (1) one who only puts through your contract and (2) one who renders service by helping you to prepare the poster advertisements and offers schemes as well as designs that will suit your case. He also undertakes to contract for getting the poster printed and prepared for service, and gives his expert knowledge as to how that can be done most suitably and attractively, as well as economically. He also gives disinterested advice between one location and the other as to its suitability for the purpose of advertising the article the advertiser has in view. He has also trained men under him who help the advertiser in the work of inspection of the hoardings and bill posting at frequent intervals. This last part of the work, *viz.*, hoarding inspection, is of great importance. The rates fixed for the exhibition of posters in connection with each owner and different sites are more or less the same. These rates are frequently subject to period

discounts, and the rates are charged on the basis of 13 weeks and upwards, a higher rate being charged for periods less than 13 weeks. The posters have to be renewed if a longer period contract is made; and as to the quantity of extra posters necessary for renewal, the advertising contractor is the best person to give a correct indication.

Electric Switch Lights.—The other feature of outdoor advertising, is the use of electric switch lights. This form of publicity is no doubt costly, and should be tried only in localities where a large number of people are likely to congregate at night,—*e.g.*, near pleasure-resorts, restaurants, etc., and as the people so congregating are generally in a light mood having come out to enjoy themselves, items such as tobacco, cigars, theatres, restaurants, sweetmeats, etc., are the appropriate articles for this form of publicity. Neon lights and flood lights are also now used with great success.

Cards in Buses and Railway Compartments.—With regard to cards displayed in railway compartments, tramcars, and buses, the special point to be noted is that people travelling by these media are compelled to sit in a certain position for a comparatively long period. Even in case of local trains, cars and buses, a person usually occupies it, while travelling to and from business, for at least a quarter of an hour and frequently even longer. In case of trains and buses passing through crowded locality even the exterior is available for poster advertising. Owing to the introduction of electric trams and motor buses the distance travelled being longer, their value as advertising media has considerably increased. Whereas, in case of railway trains meant for long journeys, the passengers have to pass a number of days in the same compartment. A scientific advertiser has an excellent opportunity presented to him here, which he can utilise with a view to forcing the merits of the article he offers for sale on the notice of thousands of these cosmopolitan travellers. If the card is fixed at a correct angle in a prominent place, with all due regard to the effect of

sun-light during day-time, and artificial illumination at night, and the copy as well as the design made strong enough to attract attention and create interest, the contents of the card are bound to be noticed and repeatedly read. Those who notice these advertisements are most likely to remember the name of the brands advertised, as well as their contents, and in course of time they forget where they noticed same, with the result that an impression gradually grows on them to the effect that the article was recommended to them by some friend; a most valuable psychological condition from the point of view of the advertiser. In the case of placards fixed alongside railway lines, their publicity value is enhanced by adding the number of miles covered, or to be covered from and to certain stations. The same remarks no doubt apply to tramcar and similar media of daily travel, though the advantage peculiar to tramcars and local trains is that the same crowd travels backward and forward daily, except a few casual visitors from outside, and thus, through the use of a series of cards thoughtfully displayed in succession, the best result may be obtained. This is facilitated through the use of regular glass frames which can be fixed to the spaces hired.

It is asserted by some authors that a hoarding or a placard fixed opposite shops have a better chance of being noticed and that, too, by the largest number of people in buying mood, than those posted in front of private dwelling houses. Care should be taken to see that the streets where these posters are affixed are well lighted. Frequently while competing with each other, advisers in posters reserve a complete site for themselves, and thus these sites are known as "solus sites".

Size of Posters.—The posters are standardised in size so that they can be easily interchanged. They are usually based on a "double crown" sheet of paper, and are usually 20" (width) × 30" (height). The most popular poster, in largest use, is the "16 sheet", which means 16 double crown sheets placed in four rows of four making a poster of 80" wide × 20" high. The poster of the largest size in use is known as the

"48 sheet" poster. This is made up of three, "16 sheet" posters placed side by side, and comes to 20 feet in width and 10 feet in height. The posters have to be printed with great care by specialist printers ; and where colour combinations are to be used, sufficient time has to be given, otherwise the best production cannot be obtained.

It is stated by specialists in all sorts of poster advertising and hoardings, that one great advantage of this form of display is, that a poster advertising campaign can be located anywhere, whether that location happens to be a market zone or a town or a county, or in the neighbourhood of a town or county, or only in certain selected streets. It is said that a poster campaign in a street where the shop-keepers were not stocking the goods or the brand has succeeded simply in changing the mentality of these distributors in favour of storing the goods. Thus poster advertising has an advantage over newspaper advertising, inasmuch as one can localise the advertisements through posters, whereas in the case of newspapers that is not possible without considerable research in connection with territorial circulation and the class of readers of a particular newspaper. The modern advertising agencies are no doubt rendering great service in this connection, as information they have secured through specialising in this line is now most reliable for one who wants to localise an advertising campaign. In India, also, in cities like Bombay, certain advertising agencies under capable men can give a valuable assistance in this direction.

It has been emphasised that the posters afford an excellent form of advertisement for such goods the needs of which an average buyer feels while on the street or out of doors. As we have already stated they serve as reminders to a newspaper or magazine advertisement campaign for customers who have helped the men to buy a particular article or to give it a trial but happen to have forgotten while they are on the road. As we have also seen, posters are used by many manufacturers who do not use press advertisement at all: and thus it may

be asserted that the poster advertisement has an independent value of its own, besides acting as an adjunct to a press advertising campaign. It is said that advertising of Shell petrol was, in many cases, exclusively carried on through posters; and that, too, with great success. Particularly in the case of railway platforms and other places where the people have to wait for their trains, poster advertisement, not only in connection with brands and names, but with a certain amount of educative details about the goods, have proved very successful.

Metal Signs.—Besides posters, metal signs are frequently used by those who wish to advertise a brand and believe that the same type of poster will answer the purpose for a lengthened period. The metal sign production in modern times has scientifically advanced a good deal. The objective is to produce a sign which has a striking personality and is yet most economical in use. The obvious advantage of these metal signs is that, not being subject to being spoiled by the effects of weather, they are long lived: and the usual practice is to use them on railway platforms and sidings, as well as on prominent street corners, etc.

Sandwich-board men are particularly useful for drawing would-be customers to local shops by bringing to their notice some recent innovation, particularly announcing seasonal alterations.

Prospectuses and Catalogues for Consumers.—Prospectuses and catalogues issued by traders, manufacturers, and others, for consumers are generally sent on in reply to enquiries, either in reply to advertisements, or through recommendations of existing customers. In order to be able to present your case in a forcible and attractive manner, to the most likely customer, great care should be devoted to the get-up and contents of these publications.

The first point to be determined here is the design and get-up of the cover. The cover helps to form the first impression, and a scientific manager, knowing full well the

value of this impression, does not spare expense or trouble in this department. Full advantage of colour effects should be taken, and presumably an expert should be consulted. The design should not be too complicated from the point of view of an average man, as otherwise, the effect will be lost on the majority who are not gifted with artistic minds. A simple design in emphatic colours should form the object in view. The proper quality of paper, *i.e.*, one which is likely to stand wear and tear, should be used for covers, and wherever possible, these booklets should be provided with hangers to serve as suggestions to the effect that they may be preserved for future reference. These catalogues and booklets should be made out in convenient sizes for facility both of postage and filing. The octavo in case of smaller booklets, and quarto in case of bulky ones, are considered the proper sizes. The special feature of these booklets lies in their ability to lend themselves so readily, particularly where art paper is used, to picture display, both within their pages as well as on the cover, which should be taken full advantage of, and the language describing and discussing the merits of the wares offered, should be forceful without being difficult or high flown. It should never be lost sight of that the object of a booklet is generally to explain the points raised to the reader, whose education may not necessarily be of a high standard. Besides, those who read this type of literature do not spend much time over it, and are not likely to go to the length of getting their contents paraphrased. For these reasons, technical words and expressions must, as far as possible, be avoided. An adequately designed and properly composed booklet on rich art paper stands the best chance of being read with sympathy, and what is more, is least likely to be destroyed or consigned to the traditional basket: whereas, a clumsy production, printed on cheap paper and in small type, is bound to be treated with scant courtesy. It need hardly be stated that if this poor design, get-up and paper is likely to achieve the object sought, it should at least be in the form of a booklet.

The full address of the issuing firm, as well as its telephone number, together with its telegraphic code word should also be printed in a prominent position. The arrangement of the subject-matter discussed and illustrated within the booklet should be such as would succeed in maintaining the sustained interest of the reader throughout all its pages. It is thus that the complete exposition of the case presented may be prominently brought to the full notice of its readers. The mode of address should be, as far as possible, direct and of a personal nature, the language earnest, simple and imperative. Testimonials of an appropriate character from prominent persons may be included to advantage. The selection and arrangement of these testimonials should be made with care and ingenuity, and particularly those which speak of favourable experiences should be given all prominence. Humanity likes to be guided by other people's experiences, and therefore, if these testimonials are properly used, they go a long way in helping the writer to convince his customer and thus they form a fitting complement to the literature embraced by a booklet.

Catalogues for Dealers.—We have dealt above with details of what a catalogue should be, particularly for use of a consumer or a buyer who is attracted to buy and use the article. Most of the remarks applicable to the above type of catalogues apply also to catalogues issued by manufacturers and wholesalers to be sent to dealers or shop-keepers: but there are of course special points peculiar to catalogues to dealers which must be carefully studied. A catalogue meant for a dealer should give not only the complete description of the line of work, but should also give minute particulars as to quality, country of origin, dimensions, weights, packing, the label and the methods by which they could be sold and used. The prices of these articles may be stated in the catalogue or in a separate price-list. Where the prices are likely constantly to vary or fluctuate, the safest plan is to publish a price-list separate from the usual catalogue. Where a number of lines

are being offered for sale of more or less similar type or title, a distinction can be made by giving each quality a number, which number the dealer may be asked to quote while sending his order. Frequently for the convenience of customers ordering by telegram, a code word is assigned to each quality of goods dealt with by the catalogue. These code words are conveniently used also, on the telephone. Many firms issue what are known as loose leaf catalogues, for the facility of leaves being taken off and new leaves, with altered prices and quality, being substituted. However, it is doubted whether this is efficacious, as frequently the dealers are so careless that they neglect the substitution of such revised pages. It should not be forgotten that most of the manufacturers and wholesalers send catalogues and advertising literature to dealers with a view to simplifying the work of the travelling salesmen that call on the dealers from time to time for securing orders; and thus in the preparation of these most important and valuable documents, considerable care has to be taken, and the sales manager himself or his immediate expert assistant should be asked to co-operate with the advertising manager in connection with this very important work of preparing a catalogue. It is usual, also, to enclose order forms with catalogues when the dealers are requested to send out orders through the post. The order form should be so prepared as to draw the attention of the dealer to the various items of specification, etc., which are to be stated in order to save unnecessary trouble and expense and annoyance through a wrong quantity or quality being supplied through some omission in the order form itself. In other words, care should be taken that the order form leaves no possible chance of omission by the buyer of the essential details.

House Organs.—Many manufacturers in Europe and America issue or publish their own house organs or journals, monthly or at other convenient periods, which are circulated among their dealer customers. The principal objective sought to be achieved through these house organs is to keep

the interest of the retail shop-keeper alive in the goods of the manufacturer. These organs continuously advise and guide the retailers as to what steps they should take to augment their sales, give valuable hints as to window and counter display organization, and intimate or give indication as to new lines that are to be introduced, or are being introduced, with valuable suggestions and deals from the selling stand-point of the retail shop-keeper. If any special publicity campaign is under contemplation, the house organs prominently give indication of same, so that the retailers may be encouraged to keep sufficient stock in anticipation of improved sales. Besides these organs are made interesting by giving considerable quantity of trade and business news in general, and also include special articles contributed by leading men in the line, which are of general interest. The main objective sought to be achieved is to interest, not only the dealer, but even his assistants and salesmen behind the counter, by giving valuable instructions in connection with salesmanship of the various brands and qualities of goods manufactured by the publisher. Free copies are sent not only to the dealers or the proprietors, but in case a number of salesmen are employed by each shop, each member of the staff is furnished with a free copy; and it is stated that this practice has proved very successful as far as results are concerned. The manufacturer also distributes his organ among the members of his own staff, particularly the selling staff, free of charge so that each member of the staff, however junior, may keep himself posted up-to-date with regard to progress, alterations, variations in the goods selling policies. These organs are also sent to prospects or prospective dealers who are not on the list, but whom the manufacturer wants to be placed on his list by inducing them to open an account. A salesman's visit following the posting of a few copies in succession of the house organ has frequently produced fruitful result.

Theatrical Programmes.—Theatrical programmes are also common media for advertising. These are used by the

audience, not only during the period occupied by the performance concerned, but many carry them home. A smaller number collect these copies like old postal stamps. During the intervals, and while waiting for the curtain to rise, people glance through these advertisements to while away the time, and this opportunity should be made use of by a competent advertiser to the best advantage. People out to enjoy themselves are in the happiest of moods, which fact should form an index as to the nature of the articles that are best suited to this form of publicity. Advertisements regarding restaurants, cigars and tobacco, sweets and chocolates, women's dress-materials and similar articles are a few of the most appropriate. Even in the wording and design used in this class of advertisement an appeal in a happy and pleasant, or amusing tone, should form the text.

It may be added that advertisements on other programmes such as those for church or charity bazaars, or in almanacs, directories, etc., are, in the opinion of experts, not of much value in spite of high cost.

Film Publicity.—Film advertising is said to promise immense possibilities, and though we have made considerable progress in these days of cinemas and talkies, there are certain difficulties in the way which have to be got over before this form of advertisement can be largely used with profit. It is said that eighteen million and a half people attend cinemas every week in England; hence the presentation of the message to such a large number of people by the scientific advertiser is in itself a great inducement for indulging in experimentation and practice in this branch of publicity. The one objection which was raised in connection with cinema advertisement was to the effect that the class of people attending cinemas is so varying and diverse that when it is desired to reach a particular class, it is not easy to select the right type of cinema. However, according to many authors this objection is met by the advertising specialist, who has divided cinemas into classes such as A, B, C, etc., in accord-

ance with the upper, lower or middle classes for whom they work ; considering the locality in which they are situated and the type of people who in the largest proportion patronise them. The modern cinema talkies appeal, not only to the "eye", but through the ears, and hence the selling campaign can be carried on with the greatest possible advantage through films with selling talks appropriately arranged. The other point is that the largest proportion of people who frequent cinemas are young people, and thus articles best suited to the use of young customers will have the largest possible audience. The usual length of a film used is said to be 50 feet, which is to be worked within five minutes. In England the cost of producing a talkie film comes to about £1 per foot ; and specialist firms who undertake to manufacture these films give expert advice in this connection to the advertiser. The cost of exhibition, also, is rather heavy in some cases, though it differs according to the type of cinema concerned. It should not be forgotten that people attending cinemas have come there to be entertained and not to listen to advertising talks and advertising pictures, and therefore, in the production of such talking films, care is to be taken that they provide a large proportion of entertaining element in same. In other words, in order to succeed, the talking publicity film must entertain the audience or fail in its objective.

Radio Broadcasting.—Radio broadcasting has undoubtedly very great possibilities from the publicity stand-point, though it is unfortunate that the British Broadcasting Company, as well as our Indian Broadcasting stations do not encourage this form of advertisement. The one merit of a broadcasting advertisement, from the listeners' stand-point, is that if the listener does not wish to hear the advertiser he is quite at liberty to switch off the radio, whereas in the case of cinema talking advertisements, the audience cannot freely do so. The radio advertising has another merit, *viz.*, that the message is brought home to the customer when he is in a most receptive mood of ease, and a good announcer can describe or communicate

the message of the advertiser in a most illustrative way. In America, broadcast advertising is most common and familiar. There is what they call the "chain" broadcast which means that the advertisers' programme as presented by the special artist in person at the key broadcasting studio is simultaneously transmitted to numerous stations which form a sort of chain or network of the said key studio. These broadcast messages can, in the United States of America, be sent at different times which have been fixed for different centres, so that different types of listeners may be reached. There are also what are called "recorded broadcasts", where the broadcast talk is recorded or imprinted on wax, and then the imprints are distributed and played at different stations. The imprints are said to be so perfect that an average listener can hardly distinguish between a recorded message and a direct talk. This no doubt economises the expense a good deal. There are also what they call "individual station broadcast" where a programme is broadcast over one station only.

Shop Windows.—One of the most attractive and useful methods of advertising is the use of shop windows. In old-fashioned shops, windows are practically neglected, and where they exist at all, articles are thoughtlessly huddled together in a clumsy heap full of dust, with the result that instead of attracting business they create a feeling of disgust in the mind of the casual passer-by. To-day, in the case of all progressive retail shops, all wall space is reduced to a minimum and large glass windows are made to occupy the available space overlooking public streets. We have noted the importance of the situation of a shop in a prominent locality in the first part of this chapter. Full advantage of this factor can be secured through a scientific use of the windows which are under public observation. Window-dressing has now been reduced to a fine art, and experts are engaged by important firms to look after this branch of publicity and thereby the window display is made a never ending display for attracting custom. The object aimed at is twofold, *viz.*, to attract attention to the class of articles

offered for sale, at the same time to infuse into them the magnetic power of drawing customers, particularly those who are not already on the daily list. In other words, an appeal is particularly made to those who do not fall under the heading of regular customers, while at the same time the interest of old patrons is sought to be maintained. If successful, casual passers-by notice in the window articles which interest them, and finding the prices marked favourable, step in with a view to buying the same. The window has thus achieved the first object, the rest lies with the salesman or saleswoman in the shop. If the latter play their part well, the chances are not only the coveted article is purchased, but perhaps a great many more than what was originally intended would form part of the bargain. If the articles bought prove satisfactory, the shop-keeper will have the additional satisfaction of seeing so many additional customers on his daily list. It is thus that small businesses gradually grow into large and flourishing establishments. Let us consider for a moment the possibilities lying dormant behind this outwardly simple form of publicity. If for example, a shop which starts with three hundred customers were to succeed in interesting about ten casual passers-by every day, of whom even if five were eventually added daily to the regular list, in the course of about three hundred working days in the year, the regular list will swell to a total of eighteen hundred customers inclusive of the original three hundred. This is an approximate estimate but one which is calculated to give the reader a rough idea as to the potential value of a scientific window display. Besides all this, any new type or consignment of goods, or any offer of an attractive bargain may take advantage of by these media. A show card making a few selling points is also frequently displayed here with advantage. They also are a great help in reinforcing advertisements through other channels.

The next question to be considered is the mode of display. Windows are generally trimmed, and this process should be regulated on artistic lines ; but at the same time care should

be taken to see that the trimming is not too attractive for the articles displayed lest it may distract attention from them. Trimming is meant to serve as a sort of frame-work to the window which presents the display, and a too attractive frame on a comparatively plain picture spoils the effect meant to be carried by the latter. Besides, what is aimed at in case of a window is to hold the attention of the observer within its compass. The next point requiring attention is the display of the articles offered for sale. Many shops go in for what is known as "a single article display" with a view to concentrating the full attention of the passer-by on it. This form of display is no doubt very effective, owing to the fact that there is no other competing article in the window. Of course the windows should preferably be cleared daily, in order to be able to display as large a variety as possible. Where a large number of articles are exhibited in a window, great care should be taken to see that the display draws attention to as large a number as possible. To bring about this result it is best to group together appropriate articles. Large furniture shops of Europe when they display, for example, a complete drawing-room in one window, an equally attractive dining-room in another, a furnished bed-room in a third, and so on, do so with this object in view. Here the combination appears so natural that the effect of the display as a whole, influences the mind of the prospective customer. Many of us who have occasionally succumbed to the charms of a shop-window, have often wondered why a particular article which appealed to us so strongly in the window looks so plain and common within the familiar atmosphere of the drawing-room. The attractive effect of a complete show makes all the difference. Besides, appropriate articles should be displayed here during each season. It is unbusinesslike, not to say contrary to common sense, if winter garments are displayed in summer and *vice versa*. The display of a large number of articles in demand among military men during the war by some of our shops, was based on the same principle. The idea is to keep, as far as possible, in close touch with the time and

circumstances, with a view to being able to secure the greatest advantage therefrom.

Articles in a shop window are frequently marked with prices. The marking should be clear and free from ambiguity, and a form which frequently misleads the public should be studiously avoided. It is not uncommon, for example, to find, in the case of an article marked Re. 1-15½ annas, the anna portion to have been purposely written in comparatively small letters. If the object here is to influence the mind of the purchaser with the idea that the price is one rupee, whereas he is actually made to pay very nearly two, it is a tactic of doubtful utility. How far this succeeds in achieving its object is a question on which it is hardly necessary to waste time, but it seems certain that even though this undesirable form were to attract some business, the after effect left on the mind of the customer is anything but favourable. A business man who aims at securing a more or less permanent patronage from every customer he happens to deal with—and it is the permanent patronage which adds to the stability of a business—should avoid this objectionable practice, for it is bound to create a most unfavourable impression. The writing of these price tickets is an art in itself. Do not place a price ticket on all articles, but on a selection of articles displayed in a window. In a popular store with cheap articles, these cards display prices in large letters. In superior stores show cards generally take the place of price tickets, advertising goods displayed in the form of so many head lines.

We have already seen that windows should be cleared and articles shifted daily. This frequent shifting of articles helps to keep alive the interest of a large number of people who daily pass by a shop on their way to and from business: at the same time they give the public an idea as to the different types and classes of articles sold at the shop. By a well-regulated series of displays the complete contents of a shop are thus gradually displayed with excellent results. If electric lights are used during nights, they should be suitably hidden from view, as

otherwise, they might distract attention. The modern method is to hide the lights in the frame-work of the windows and in the flooring, and to produce a day-light appearance. It is doubtful how far attractions, such as moving figures, music, etc., go to help this class of display. A large crowd outside a window is bound to be objected to by the authorities, and is also likely to keep away the right type of prospective customers. Again, if the attraction does not represent the article offered for sale, it may perhaps help to divert public attention from the articles advertised.

Besides retail shops, a large number of manufacturers wishing to bring out their brands and wares, make use of shop-windows for the purpose of exhibiting their products. The modern manufacturer, as we have already noticed, does not rest content with the efforts of his wholesale and retail agents, but adds his own quota to the selling and publicity campaign. He no doubt advertises through all the other media dealt with by us, but over and above these, he frequently plans exhibitions in shops situated in prominent localities, where articles of his manufacture and their uses and advantages are advertised. The windows of these shops, as well as the interior, is made use of for exhibiting the products concerned, where people are cordially invited, all enquiries are carefully attended to, and if necessary, the proper retail or wholesale dealers referred to. In the case of manufacturers' and wholesalers' shops, show rooms are maintained for dealers and trade visitors where merchandise is displayed from the stand-point of the dealer. It is said that where a manufacturer fixes up a show room offering goods to dealers, the show room should be on more or less the pattern of a well equipped shop, and practical demonstration should be given by experienced salesmen to the dealers showing how they should in their turn display the said goods in their shops to the consumers; and also instruct them as to how they should store them so that they may not get spoiled or shop-soiled rapidly. In case of machinery manufacturers,

the show room displays machines in the same form as they are expected to be fitted and work in the factory, which machines are worked and demonstrated by competent operators. Generally the standard trading lines are thus displayed.

Advertising Agencies.—Advertising Agencies have come into great prominence, both in England and America, and practically speaking, the largest proportion of advertisements of all classes in these countries are now-a-days controlled and put through by these agencies. These agencies undertake to look after every class of advertisement and also arrange the direction of advertising campaigns. They have long passed the stage when all they did was to secure suitable spaces in newspapers and magazines, or to select and arrange for convenient sites for outdoor publicity. The most prominent of these firms now undertake the work of the scientific advertiser and render considerable assistance in this direction, both to clients who are unable to maintain a special advertising department with an expert as their advertising manager, as well as to those who can afford to pay for this luxury.

To the former class of clients they act as special advertising departments, advise them as to the design and get-up of advertisements ; prepare copies both for outdoor as well as newspaper and magazine campaigns, draw up circulars, booklets and other literature, design wrappers and packages for their wares, suggest appropriate media for publicity and finally arrange for insertions at favourable contracts. In other words, the advertising manager when employed studies the special needs of the business which employs him, and the agency assists him with its large outside experience and general knowledge. To the advertising manager they act as consultants, besides rendering the usual service in placing through the advertisements or other literature. These agencies undertake the distribution of literature, fixing of placards and posters in proper positions and looking after their safety, addressing the literature to the appropriate parties, and so on. They maintain large departments of specialists and experts to look after the various branches of their

profession. They possess experts who by long practice and experience, as well as through the force of inherent ability, are able to create new ideas, ideas which mean an amount of business to their clients. They maintain a large staff of artists to design copies and pictures according to the ideas suggested by these experts. The newspaper and magazine spaces, sites and positions on prominent public streets, as well as railway stations and sidings, and suitable spaces in tramways and railway waggons, are purchased by them by contract, and are in turn offered to their clients at rates more favourable than those at which the latter could have secured the same direct. They thus render a service both to their clients as well as to proprietors of newspapers, companies, corporations and other public bodies concerned. The clients secure spaces at reasonable rates, whereas, the proprietors of the publicity media are saved the trouble and expense of having to deal with a large clientele of an assorted type, not to speak of the loss involved in the collection and checking of small accounts. It is thus that a small trader or manufacturer is able to secure the services of experts whose employment as full time managers would be well nigh impossible even for much larger concerns. Some advertisement writers and managers draw as much as £1000 a year, and even more, in England, from firms who employ them, whereas there are others who practise on their own account and who would not care to accept service on this basis of remuneration. In America the wages earned by first class men in this branch of work are much higher. One has to take these factors in calculation in order to appreciate the great services rendered by these firms of experts at their proper value. Schools and colleges, as well as universities are now including advertising as a special branch of study in their curriculum, thus recognizing the claims of this branch of human activity to a place worthy of the high technical skill and scientific effort involved in its study.

Another advantage offered to the client by these agencies is, that no charge is made by them for their services in con-

nection with the placing of advertisements. They are generally satisfied with the commission allowed to them (usually about 10 to 15 per cent) by the proprietors of the media concerned. In some cases even advice and guidance are offered free of charge.

Newspapers and other publishers have these agencies on their list as "recognised agencies" and they would deal on commission basis with these only. They are naturally selected with care, as in many cases they look to these agencies to pay their advertisement bills and not the advertiser.

To take an illustration, supposing a client consults an agency as to a particular article, or set of articles, which he wishes to push on certain markets. The agency recommends the design and get-up suitable to the taste of the buyer in that province, supplies detailed information as to the magazines and newspapers in circulation in that area and the class of readers that can be influenced through these media, draws up a sort of a chart showing the number of insertions and the cost on the basis of a particular copy which it has prepared after careful consideration of the instructions of its client. If the client finds the estimate too costly the plan may be narrowed down from the stand-point of economy, or expanded if a larger outlay is available. The same attention is given to the various features of outdoor publicity, if that branch of advertising is suitable to that class of trade, and estimates, figures, as well as designs, are submitted for approval.

Advertising Research.—Many advertising agencies undertake research work in connection with the selling organizations of their customers. Thus, if a manufacturer wishes to discover as to how the sales of his goods could be improved, by finding out the merits of the brands of other competing manufacturer which give them a higher sale, he either gets a research made through his own selling department by his own sales-manager or entrust the said work to an advertising agency. Many advertising agencies in Europe and America undertake this research at a certain charge. The research may be made among the customers or the consumers and is then known as

"consumer research", whereas it may be among the retailer when it is known as "dealer research". A certain number of men and women trained in the art are sent out with a given number of questions to visit personally a certain number of selected consumers or dealers technically called "samples", who tactfully in course of conversation, get information from these samples as to their views in connection with brands sold on the market, particularly those they actually use, and also, their reasons for not using other brands. Thus the manufacturer frequently discovers that the particular peculiarity of his goods which he thought was their principal merit was not appreciated by the bulk of the consumers, but that on the contrary it retarded sales. This valuable information may help him to improve the article in a way which would make it acceptable to the largest number of buyers or consumers. Also the mode of use and the best time of use of an article can be discovered through a research, to the great advantage of the manufacturer. Thus Horlicks Malted Milk was at one time advertised largely as suitable for breakfast use; but when a research was made it was discovered to the surprise of the manufacturers that the largest number of "samples" visited declared that they used it as a hot drink during winter, which sent them to sleep most pleasantly. This new discovery in use was immediately broadcast and advertised, with the result that the sale of the product considerably increased. The research work, though a little expensive when made through personal callers is most perfect as against postal questionnaires frequently sent out with a view to save expense. We have already seen that this branch of research work is also undertaken now-a-days by advertising agencies in the most advanced countries.

Co-operative or Group Advertisements.—This form of publicity is now most common in connection with a trade association or combine of different firms, dealers or companies, by which they all combine and co-operate in advertising the merits of the article in which they trade. Thus the insurance com-

panies may advertise the merits of insurance either in life or fire, marine or accident branches generally. The master printers may advertise the merits of printing more and selling more, and even the medical association in England is now advertising the merits of nursing homes under qualified supervision. Thus this form of advertising in co-operation is directly opposed to the competitive advertising carried on by each trader or manufacturer separately on his own. The most comprehensive form of this advertising is said to be a campaign for buying British goods only. The electric refrigerator companies have also combined in Europe and America and made popular the use of this very useful invention. The sugar industry has advertised sugar as an energy food with great success in the U. S. A.

CHAPTER XII.

THE STOCK EXCHANGES, THEIR HISTORY, ORGANIZATION AND PRACTICE.

The Stock Exchanges or the Share Bazaars are institutions of comparatively modern origin all the world over. Neither Athens nor Rome boasted of similar institutions where, as at present, securities in form of Government loans, shares and stocks of joint stock companies, etc., find a ready market. The foundation of these institutions was laid from the time that the currency of the civilised countries became stable and well regulated, banking enterprises came to rest on the solid foundation of public confidence, and the borrowing of States was crystallized and efficiently organized. The advent of the joint stock enterprise on the scene, as we know it at the present date, accelerated the progress of these institutions as central markets for raising money for industrial and other enterprises where the public savings found ready media for investment. In old days when these exchanges were unknown, a person who managed to lay by a small capital found investment a difficult problem, because unless his saving represented a substantial amount, a purchase of immoveable property or an investment by way of mortgage on a similar security was not possible. Even deposits with banking institutions in old days had to be made in figures far beyond the limits of an average citizen's savings. To-day, with the spread of what is known as the banking habit, with the facility for easy investment, a person with a modest income is encouraged to practise thrift in the hope of making his savings earn an income, and when his bank balance assumes a decent proportion, he finds ample opportunity for investment through the help of his broker on the Exchange, or through his banker, in some marketable security wherefrom he can hope, not only to receive a satisfactory

income by way of interest or dividend, but also to increase his capital through a rise in the market value of his investments. At the same time he is secure in the knowledge that in case circumstances should necessitate the conversion of his capital into cash, a ready market on the exchange leaves him an ample choice in that direction. The rapid progress of large scale industrialism in modern times is due largely to the facilities afforded by these excellent institutions ; for in the absence of such ready markets for investments and finance, joint stock enterprise could never have developed to the gigantic proportions it has assumed to-day. The rapid rise in the national income of various countries may also be traced largely to this source, even after making all due allowance for modern inventions like steam-power, electricity, telegraph, labour saving machinery, etc. No doubt the Stock Exchanges, like all other useful institutions, are not free from drawbacks. In other words, they do not claim to be immune from elements which bring about disaster and suffering to the human race. Speculation has repeatedly spread to a dangerous extent on these Exchanges, bringing in its train inevitable ruin and hardship involving both the innocent and guilty ; but these incidents are due more to the abuse of the facilities afforded by these excellent institutions, than to the nature of the transactions they normally put through. Some Exchanges, like the London Stock Exchange, form the medium for raising capital both for home and foreign requirements, and the business placed there assumes an international character, whereas others, like the Wall Street of America or the Bombay Stock Exchange deal largely in local securities. In both cases the services rendered to civilisation are of no mean order. We have already seen to what extent the Exchanges have helped the world's material progress. Looked at from the moral stand-point as well, the modern Exchanges are capable of holding their ground. In the early stage of their career they found humanity—or at least that branch of it which had taken to commercial pursuits—on a low level, devoid of those traits of character which go to make the straightforward business man of the present day.

It is but natural that this element should have hindered the progress of these institutions in countries like England and America where they originated, for we are told by the early chroniclers of both these countries that dishonesty and swindle ruled supreme on these Exchanges in the early days of their career. In England in the reign of William III, an Act (8 and 9 William III C. 32) was passed, entitled "An Act to restrain the numbers and ill-practices of Brokers and Jobbers," by which it was sought to limit the number of stock brokers to one hundred, each of whom had to register his name and address on the Royal Exchange and had to carry about a silver medal of the King's arms with his name inscribed on the same to prove his *bona fides*. They, however, soon emerged from this stage; and to-day the average Stock Exchange man all over the civilised world is looked upon with due respect. The qualities of self-restraint, which the nature of the business calls forth, the sporting spirit which the peculiarity of the transaction helps to develop, and the mutual trust and confidence which are so essential to the very existence of the profession, have all combined to exercise an educative influence of a very high order to which the building up of character among Stock Exchange men is largely due. The march of modern civilisation has helped to spread these institutions all over the world, and it is our purpose in the course of this chapter to deal with the organization and practice of some of the most important of these institutions, particularly those in which an Indian student of commerce is likely to be most interested.

THE LONDON STOCK EXCHANGE.

Early History.—The birth of what afterwards developed into the London Stock Exchange dates back to the period of the speculative mania between 1726 and 1800, when at 'Change Alley, and also in the coffee-houses in Cornhill, Lombard Street and Sweetings Alley, the jobbers and the speculators in Government securities, as well as in stocks and shares, met together and did business. The most popular coffee-houses where these

jobbers and brokers congregated, were Jonathan's and Garraway's coffee-houses, the former being the more favoured of the two. Gradually Jonathan's coffee-house came to be known as the Stock Exchange. In about 1748 Jonathan's coffee-house was burnt down and the New Jonathan's was started in its place. It is interesting to note here that the foundation of England's marine insurance market, now so famous all over the world under the popular designation of "Lloyd's", was also laid at a coffee-house, known as Lloyd's coffee-house, then situated in the vicinity of the Bank of England, where originally the underwriters used to meet and transact marine insurance business with the outside public. Eventually, the underwriters formed themselves into an association called the Corporation of Lloyd's. The Stock Exchange at Jonathan's coffee-house also developed on similar lines. In course of time it was found necessary to erect a special building, the foundation of which was laid in 1801, and it started work in 1802. The capital required was raised by the issue of shares.

At first the London Stock Exchange principally dealt in home securities, but gradually, and specially after the close of the Napoleonic wars, dealings in foreign securities began to be introduced. The advent of joint stock companies on the scene no doubt accelerated the pace of progress, and the London Exchange had varied experiences of reckless speculation, during the nineteenth century. The time between 1822-26 marked a period of joint stock company speculation, which in many details resembles our experience of the Backbay mania in Bombay during the years 1864-65 with which we shall deal later.

The next period of speculation on the London Exchange was that of railway company flotation, when numerous projects for starting railway lines all over England, and even in foreign countries, were offered for public investment, with the result that a great many of these projects failed during 1846. The year 1900 was eventful in the South African Mine shares speculation with the usual sequel; whereas the Rubber

Boom of 1910 helped a large number of speculators to amass fortunes. As an aftermath of the Great War an amount of speculations in company shares was also noticed during the years succeeding 1920. These were periods of exceptional activities, and as is usual in case of all excesses, they brought about their unavoidable reaction.

The rest of the history of this excellent institution records a steady progress in the country's savings and income, and an exceptional development of trade and industries, both home and colonial, as well as foreign. Excellent services were also rendered by this institution during the last war, when enormous amounts were continuously raised for war purposes. The peculiarity of the present day Stock Exchange of London is that it, unlike many others, deals largely in foreign, besides British securities. It is so to say the world's market for investment and finance. Not only foreign companies, but also almost every foreign government, find a ready market in London for their securities. This is no doubt largely due to the exceptional prosperity of England. Every year the English capitalist has on hand a large surplus income in the form of capital for which he is constantly looking out for channels of investment.

Membership.—The Stock Exchange membership as in 1934 was somewhat less than 4,000 though there were as many as 5,500 members in the year 1905. Of these members about 3,000 members are shareholders also of the Stock Exchange building. It may be added here that the Stock Exchange is subject to control by two separate bodies, *viz.*, (1) the Board of trustees and managers, which is concerned with the Stock Exchange building and (2) the Committee for General Purposes.

The Stock Exchange building is under the control of a Board of nine managers chosen by the shareholders or members of the Association, or proprietors. The managers have entire control over the finance of the Association. They fix entrance fees and subscriptions and look after the proper repairs and equipment of the House. They declare dividends out of the

surplus revenue to the shareholders. Three of the managers retire every five years, and the members of the Board of managers are known as "trustees and managers". The building of the Stock Exchange vests in these trustees.

On the other hand the Committee for General Purposes is made up of 30 members who are elected annually, on, or about, 20th March. The old members of the committee are of course eligible to be re-elected if they so desire. A person who is proposed for election to this committee must be a member of the Exchange for at least 5 years preceding his election. No fees are paid for serving on this committee.

It may be added that the shareholders or proprietors of the Stock Exchange are distinct from its members. When the Stock Exchange building was first built, the capital for same had to be obtained through the issue of shares, and a large number of shares originally were held by outside public. Gradually these shares are now being held by the members of the Stock Exchange itself. Thus a person being a shareholder does not necessarily mean that he is also a member of the Stock Exchange.

The membership of the Stock Exchange is very restricted and the regulations provide that no member is a life member, but that every one of the members has to be elected every year for one year only. As a matter of fact a person once a member is automatically elected from year to year. If a person wants to be a member of the Stock Exchange he has to obtain nomination from a retiring member or the representatives of a deceased member. This nomination has to be purchased on the Exchange at a price with varying supply and demand. If the applicant for membership happens to be an entirely inexperienced person as far as the House is concerned, he has to find three guarantors willing to contribute, for the benefit of his creditors, £500 each, in case he defaults within four years of his date of admission. If, however, the applicant is a person who has served as a clerk in the House or settling room for at least four years before the date of his application, with a minimum of three years in

House, only two recommenders are required of £300 each. These recommenders must also, in their turn, be members of the Stock Exchange of not less than four years standing. These members are not allowed to accept any indemnity in respect of these guarantees. There are also admissions made without such nominations from time to time in the Stock Exchange, though this is very rare. The candidate for admission must be not less than 21 years of age. No candidate is eligible who has been a bankrupt or against whom a receiving order in bankruptcy has been made, or who has been proved to be insolvent or who has compounded with his creditors, unless he shall have paid 20 shillings in the pound and obtained a full discharge.

Each recommender shall state in writing the following :—

- (1) That the candidate fulfils all the requirements of the rules.
- (2) That he has read the attached statement by the candidate, and confirms the accuracy of the same.
- (3) How long he has known the candidate.
- (4) That from his personal knowledge he is satisfied as to the candidate's fitness, both financially and in all other respects, to become a member of the Stock Exchange.
- (5) That the candidate is free to commence business on his own account forthwith if he so desires.
- (6) That he is not and will not be indemnified.

It is further laid down by the Rule 36 that a candidate may be recommended by a firm, but not by two members of the same firm.

A candidate may not be recommended by :—

- (i) A member who is employed as an authorised or unauthorised clerk.
- (ii) A member of firm who employs him as an authorised clerk.
- (iii) A member whose sureties are still liable.

"A member shall not be surety for more than two members at the same time, unless he takes up an unexpired suretyship, when the limit shall be three.

If a member enter into partnership with or become authorised clerk to one of his sureties, or if any one of his sureties cease to be a member during his liability, he shall find a new surety for such portion of the time as shall remain unexpired; and until such substitute is provided, the committee will prohibit his entrance to the Stock Exchange."

The election of new members is by ballot and must be carried by majority of three-fourths in a committee of not less than 12 members. A new member on being elected must purchase one share in the Stock Exchange building within six months of his election, otherwise the election will be cancelled.

Jobbers and Brokers.—The special feature which characterises the membership of the London Exchange, from the Exchanges all over the world, is that the members of the London Exchange are divided into two water-tight compartments under the designations of "brokers" and "jobbers", respectively. This division, as we have already noticed, is voluntary. Members with capital at their command generally prefer to act as "jobbers" or "dealers", whereas those less fortunate in this regard, but who command large influence among the investing members of the outside public, prefer to act as brokers. We have referred to this as a special feature of the London Stock Exchange because on the Exchanges and bourses all over the world the members act simultaneously as dealers and brokers. The broker's function is to secure orders for purchase or sale of securities and place the same on the Exchange with the jobbers for which a brokerage or commission is charged. The jobber on the other hand is the member who prefers to deal in stock and shares. He is generally on the Exchange to buy or sell those securities in which he specialises at prices quoted by him. The principle on which he is supposed to be working is that of buying cheap and selling dear, as we shall see later on, the difference being known as the "jobber's turn", or the "turn of the market". It is a moot question whether this system

does not throw an unnecessary burden on the investors, *i.e.*, the outside public, who have to pay the broker's commission as well as bear the burden of the "jobber's turn". Advantages claimed for it are that on a market with so many complicated dealings, and that too in international securities, much time and effort would be wasted if the system which prevailed on the other Exchanges, *viz.*, allowing every member to deal as jobber as well as to act as broker, were to be introduced. It is asserted that the conditions prevailing in London are peculiar to that great city, and that the jobber there is the most essential part of the Stock Exchange machinery in the interest of all. There is one additional advantage which suggests itself, *viz.*, that under a system which prevents brokers on the Exchange from acting as buyers or sellers against their own principals (clients), the latter can look to them with confidence for advice and guidance on the question of investment, as in such cases the advice is most likely to be disinterested. Of course, London being peculiarly placed as the banking and financial centre of the world, as well as the metropolis of an Empire whose capitalists are generally residing in that city or are represented there, and who are constantly in search of investment of the large surplus income which is constantly pouring in from abroad, its Stock Exchange naturally commands the largest business, and that, too, of a nature which affords ample scope for specialisation and division of the type we are discussing. In connection with the Bombay Stock Exchange, the Enquiry Committee appointed in the year 1924, with which we have dealt fully while dealing with that Exchange, expressed the opinion that there is not sufficient business for such a division in Bombay, but that they "strongly recommend this change should the Bombay market ever grow sufficiently to make this division feasible".

Committee for General Purposes.—The internal management of the London Stock Exchange is carried on by the committee for general purposes, which consists of thirty members, who are elected by ballot by the members on the

25th of March every year. No person who has not been a member for at least five years immediately preceding his candidature can be elected. The occasional vacancies are also filled in similarly by ballot, the person so elected to hold office until the 25th of March immediately following. The functions of the committee according to the rules are:—"The committee shall regulate the transaction of business on the Stock Exchange and may make rules and regulations not inconsistent with the provisions of these presents respecting the mode of conducting the ballot for the election of the committee and respecting the admission, expulsion or suspension of members and their clerks, and the mode and conditions in, and subject to which, the business on the Stock Exchange shall be transacted, and the conduct of the person transacting the same and generally for the good order and government of the members of the Stock Exchange, and may from time to time amend, alter or repeal such rules and regulations, or any of them, and may make any new, amended or additional rules and regulations for the purpose aforesaid." The committee elects its own chairman, deputy chairman and secretary. It will thus be seen that the committee exercises a disciplinary control over the members of the Stock Exchange and is given strong and salutary powers of control, suspension and expulsion of members. No member is allowed to enforce by law against another member, any claim arising out of Stock Exchange transactions without the consent of the committee. The committee also decides all questions referred to it by its members, and deals with complaints against members. It also decides which securities are of sufficient magnitude and importance to deserve a place on the official list, watches carefully the companies and institutions whose securities are so quoted with a view to seeing that they comply with those requirements of the Exchange which alone would entitle them to retain their place on this list. The committee acts on the principle of the "inviolability of bargains" and shall not entertain any application for annulling any deal on the Stock Exchange,

except on the ground of fraud or wilful misrepresentation, or upon "evidence of such material mistake in the bargain as in their judgment renders the case one which is fitting for their adjudication". The power of expulsion of members can be exercised by the committee when any member in its opinion has, (1) violated any of the rules or regulations, or (2) failed to comply with any of the committee's decisions, or (3) proved guilty of dishonourable or disgraceful conduct.

The committee has also the power to suspend a member "who in his conduct or business may act in a manner detrimental to the interests of the Stock Exchange, or unbecoming the character of a member, or who may obstruct the business of the House". The committee reserves to itself the power to publicly notify this expulsion or suspension.

A member when he is expelled is called a "lame duck" by his fellow members. The expulsion is announced on the Exchange by the clerk of the House, who strikes three times on the rostrum of the Exchange with wooden hammer at the time of the expulsion and thus the member is said to have been "hammered" from the Exchange.

CLERKS, AUTHORISED AND UNAUTHORISED.

A member is permitted to introduce three clerks to the House per month, one of whom may be authorised, and two settling room clerks. A firm of members may be permitted to introduce five clerks in the House, two of whom may be authorised and also six settling room clerks. Members of the Exchange may also act or be employed as either authorised or unauthorised clerks. In the case of an authorised clerk, the committee should be satisfied that he is of the requisite age of 21 years; whereas in the case of an unauthorised, or settling room clerk, that he is of at least 17 years of age. A clerk is not authorised to transact business until he has been admitted to the House or settling room for two years with a minimum service in the House of one year. The authorised clerk of a jobber member is not permitted to carry on business

in any market other than that in which his employer deals. The authorised clerk has to wear a distinctive badge in the lapel of his coat, and his employer is responsible for the badge being worn in accordance with the regulations.

THE MARKETS.

For the sake of convenience the London Stock Exchange, is divided into different markets, *viz.*, the American market, the Consols market, the Railway market, the Foreign market, etc., where separate groups of jobbers who specialise in the dealing of the particular class of securities are found standing during business hours.

THE COURSE OF BUSINESS.

Any one wishing to deal on the London Stock Exchange must open an account with a broker member of the Exchange, for which purpose the party should get himself properly introduced. Once an account is opened, the broker will take orders from his client and place them with the jobbers on the best possible terms. The outside public is not admitted to the Exchange, and no member of the Exchange will have dealings with a non-member except through the intervention of a broker member. Every day orders are received by brokers to buy and sell securities of various types and classes from their clients, public opinion favouring one type, or the other, according to circumstances. The bargains may be either for "money" or for "account". The transaction for money is paid for and settled on the same day. On the other hand, a transaction for account means that the securities agreed to be bought or sold are not to be delivered or paid for until the next settling day, *i.e.*, one immediately following the date of purchase or sale. If for example, a broker has orders to buy certain bonds or shares on account, he generally approaches those jobbers on the Exchange who make a speciality of dealing in same. He asks for a quotation in the security concerned without

disclosing whether he is a buyer or a seller. On this the jobber gives him two prices, say, 101-102, which means that he is ready to buy at 101 and sell at 102. The difference of one between these two prices being called the jobbers' turn, or the turn of the market, on which the jobber is supposed to look for his profit. In order to prevent the broker from binding the jobber to buy or sell an impossible quantity at the price quoted, it is laid down that "an offer to buy or sell stock, bonds, or shares when no amount is named, is binding to the amount of:—

£1,000 Stock or Bonds or their equivalent in foreign currency.

£1,000 Shares or units of Stock of the market value of less than £1.

50 Shares or units of Stock of the market value of £1 to £15.

10 Shares or units of Stock of the market value over £15.

100 American or Canadian Shares."

The jobbers' turn varies in amount with the type of security and the class of market as well as the size of the proposed bargain. Where securities are of a nature generally dealt with on the Exchange, and thus are easily available for purchase and sale to the jobber, the jobbers' turn is naturally very small, whereas in case of securities where the market is not so favourable or constant, or quotations are not available, a wider margin between the selling and the buying prices prevails. The larger the quantity of shares asked for the larger will be the jobbers' turn, for the simple reason that the jobber will have to obtain these securities in order to balance his account, and if he buys or sells more, the prices in the market are likely to move against him. Thus the jobbers' turn is not exactly his profit for the simple reason that if securities cannot be had at the proper balancing prices he may even lose on the bargain. Where the jobber has sold more than he bought, or *vice versa*, he is said to have sold "short" and must make up the difference between the purchase and sale by filling up the gap through a transaction either of purchase or sale as the case

may be. When the jobber wants to purchase in order to make up his "short", he will shout the name of the security in the market and the prices he is prepared to pay—adding the word "bid" to it, whereas in case he wishes to sell he will name the security plus the price with the word "offer". If nobody responds to his "bid" or "offer" he is said, in technical language, not to have been "taken up", with the result that he has to advance or reduce his bid or offer until a broker or some other jobber comes forward to deal with him at his price.

Now supposing that the broker's order was to buy and he was satisfied with the quotation, he will say, I buy five shares at 101. The transaction would then be noted by both the jobber and the broker in their respective note-books. Here it may be remarked that by a process called "marking" the members are kept in touch with the prices at which business is done in important securities by means of the marking-board which is kept in the Exchange in a prominent place. Members are requested to write out on forms supplied the prices at which they do business in various securities and drop the same in boxes kept for the purpose. These boxes are cleared from time to time and the official marking is done through the prices thus indicated. The official list of prices for the next morning is also made out from this source. It may be added here that a jobber when approached by a broker is not bound to make a price at all, though present on the market, but once he gives a quotation, he is bound to deal at that price up to the maximum laid down by the rules or for the quantity named at the time of asking for the quotation.

We have seen how a bargain is closed. We will suppose that it was for account. The next day it will be "checked". This is done by checking-clerks engaged by brokers and jobbers who meet for this purpose in a special room provided for them on the day following the date of purchase or sale. The broker immediately makes out a contract note for his client stating particulars as to the purchase or sale, together with the prices and the name of the jobber, which he (the broker) signs.

The Stock Exchange Committee fixes the settlement days. On the London Stock Exchange the ordinary settlements are fortnightly, whereas, those for consols are monthly. Each settlement is divided into three days, *viz.*, (1) The contango or the carrying over day, (2) name or the ticket day, (3) settling, or pay day.

On the first day the speculator who does not wish to close his account, either by paying his difference of loss or profit, or by paying for and taking delivery of the securities, gives a notice to that effect to his broker and requests him to carry over the transaction. This we shall fully deal with later.

On the second day, the brokers have to declare the names of those to whom the stock and shares have to be transferred on tickets, so that transfers may be prepared.

On the third day the securities are delivered and paid for.

THE TECHNICALITIES OF THE DEALINGS.

We have thus noted the various steps necessary in putting through a deal. It is now proposed to enter into a discussion of the various technical terms connected with these deals, together with details as to the various modes of dealing on the Exchange.

The regular investors generally enter into transactions for money, unless they find the account prices more advantageous, which is rather rare. By far the largest number of transactions are made up of account dealings which are generally of a speculative nature. These speculators try to take advantage of the fluctuation in the prices caused by the law of supply and demand, which operates on securities just the same as on the commodities. At one time the public seems to favour one type of stock or share, at another time it seems to be anxious to get rid of it. This state of the public mind is due to so many complex sets of causes that it is impossible to lay down any dictum or rule. The nature of the securities themselves plays an important role in this regard. Some are affected by political causes at home or abroad like Government Loans and Bonds,

a bad harvest may have a depressing effect on such shares as Railway shares, whereas an industrial unrest may affect the third class of shares like the mill shares and so on. The seasoned speculator watches these carefully and tries to make the most of his opportunities. We have thus two classes of operators on the market, *viz.*, the "Bull" and the "Bear". Let us deal with each separately.

The Bull.—The bull (known as *tejiwalla* on our share bazaar) is an operator on the Stock Exchange who buys securities on account in the expectation that by the next settling-day the prices will go up; and by taking delivery at the cheaper rate, at which he has agreed to buy, and delivering the same at the higher rate possibly on the settling-day will make a profit. Supposing that a speculator thinks that, for some reasons best known to himself, the price of Hindustan Railway shares quoted to-day at Rs. 100 per share will go higher by the next settling-day, he orders his broker to buy ten shares on account. Now if on the settling-day the shares do rise in price, say to Rs. 110, he will make a profit of Rs. 10 per share, *minus* brokerage, by taking delivery at Rs. 100, and selling them at Rs. 110. In fact he will find the jobber from whom he has bought ready to settle with him by paying him the difference.

The Bear.—The bear, on the other hand (known as *mundiwalla* on our bazaar) is a speculator, or dealer, who thinks that the market should record a fall in the security of his choice by the next settling-day and thus sells on account a quantity at the current price. If his expectations are realised, *i.e.*, the market falls, he buys up at the lower rate, and delivers the same to the jobber to whom he sold at a higher rate—of course through his broker. Generally he manages to secure the difference of profit from the jobber. Thus for example, if a speculator thinking that the Hindustan Railway shares which are quoted to-day at Rs. 110, will fall, and sells ten shares on account at that price, and thereafter if the market does fall,

e.g., to 95, he can close the bargain with the jobber, securing a profit of Rs. 15 per share, less brokerage.

We have thus seen how the bear and the bull speculators deal. The majority of *bull transactions* in any security have the effect of throwing up the market by *creating a demand*, whereas a larger number of *bear transactions* will result in securing a *depressing effect* on the market. If however, the expectations of the bull or the bear are not realised, they have either to close the bargain by paying the loss, or by taking or giving delivery of the securities dealt in, or they may request the broker to carry over the bargain to the next settlement.

Marking of the Bargain.—After the broker has bought or sold, and thus put through the bargain on behalf of his client, he enters on a printed slip provided for the purpose by the Stock Exchange, the name of the share or stock and the prices at which the same has been dealt with and hand the slip over to the clerk on the Exchange in charge of the "Marking Board". From these slips the current prices at which dealings are going on from hour to hour are first written on the "marking board", which is a black-board on which these prices are written in chalk. The other use of the slips is in connection with the compilation of the Stock Exchange daily "official list" of "officially quoted securities" and also of the supplementary list which gives dealings in securities and prices which are not officially quoted. It is optional for a member to get his bargain marked, but he is bound to give the amount and other details at which the transaction was entered into. However, brokers generally prefer to get their transactions marked, because by doing so they are protected against their clients suspecting that he had not obtained a proper price, because if he marks the transaction, the "final list" indicates the price among the prices at which the bargains were done during the day. Frequently clients request brokers to mark the transactions after they have put through his order. The "official list" indicates, (1) bargains made at special prices, *i.e.*, for unusual amounts, (2) those between the non-members, and

(3) those put through during unofficial hours or on the previous day by a special sign to the price.

Contract Note.—As soon as the bargain is complete the broker or his clerk makes a “bought” or “sold” contract note, with a view to despatching same to his client which contract note bears the date, name and address of the broker, particulars of the stock, amount and price; and also states the broker’s commission or brokerage, the contract stamp, the amount of transfer duty *plus* the registration fee payable in connection with transfer of the share to the company. The rule here is that if the client does not agree with the contract on the ground either that the broker has misunderstood his instructions or bought for a higher quantity or for higher price than that which he had indicated, the client must take up the matter immediately, otherwise the bargain will be taken to have been accepted.

Carrying Over.—In case of carrying over, the idea is to arrange to continue the transaction to one more settlement by postponing its final settlement. The parties to a contract on the Exchange are of course not bound to carry over, unless they originally agreed to do so. In practice, however, it is generally easy to arrive at such an arrangement, either with the original party to the bargain, or failing him, with some one else. If for example, the bull who bought ten shares at Rs. 100, wants to carry the same over, he approaches the jobber through his broker with a request to carry the same over. Now supposing the current price on the settling day is 98-99, the middle price, *i.e.*, 98½, will be the price fixed for such carrying over. This is generally done by the clerk of the House; a regular list of such prices, known as the “making up prices”, is published for each settlement. The original contract is thus cancelled at the price of 98½ and the difference, *i.e.*, ½ £ per share, is paid by the bull to the jobber, and a new contract for the purchase of ten shares at 98½ is entered into. If on the other hand the share has risen and the bull still wants to carry over, he can do so at the “making up price”

receiving the difference, instead of paying it, *i.e.*, if the making up price were 110 he would receive £10 per share. A similar course is followed in case of bear transactions. In addition to the payment or receipt of the difference between the contract price and the making up price, a further charge is sometimes made known as the "contango" in the case of a bull, or "backwardation" in the case of a bear transaction. This has to be paid in consideration of the accommodation allowed for the continuation by the jobber. This charge varies with the class of security dealt in, the state of the money market and the quantity of the securities dealt in.

Instead of carrying over with the same jobber, the broker often arranges to have these carried over with some firm of money-lending brokers on the Exchange at a more advantageous rate. Thus what actually occurs is, that the broker sells these securities to a firm of money-lending brokers, at the making up price of the day for cash, and buys from them the same securities at the same price for the next account. The extra consideration of the money-lending firm for arranging thus to carry over and accommodate the speculator, takes the form of interest at a fixed rate on the value of these securities for the fortnight during which they agree to hold them. The speculator here pays the difference of the market, *i.e.*, the difference between the contract and the making up price. He also pays for stamp as well as brokerage. Thus the lending firm virtually accommodates him with capital necessary for the carrying over.

PRICES.

The prices as quoted on the Stock Exchange of London are divided under three headings: namely (1) those which are current during the official working hours of the Exchange namely before 3 P.M., (2) those which are quoted between 3 and 4 P.M., and known as the "closing prices". (Here it may be added for explanation that though the Stock Exchange is officially closed at 3 P.M. the doors of the building are not closed

till 4 P.M.), (3) and those which are quoted after 4 P.M. on the steps of the House and in streets, known as the "street prices". There is one more heading under which Stock Exchange prices are quoted or mentioned, namely the "tape prices". These are prices quoted on the tape-machine which is a clever mechanical contrivance which any subscriber can get fitted in his office. These machines are connected with the Central Exchange to record all fluctuations in prices on the tape-machines as they get information of the same through their agents on the Stock Exchange. Thus a subscriber who is interested in the fluctuations of the Stock Exchange can keep himself in close touch with these fluctuations throughout the day by getting one of these machines fitted in his office. The machines when they have to give out a message make a clicking noise, like that of a typewriter, and emit a tape on which is typed the fluctuation or any other information connected therewith.

The Official List.—The Stock Exchange of London issues an official list of prices, in which prices of those securities, which in the opinion of the London Stock Exchange committee are of "sufficient magnitude and importance", are quoted. The list generally shows prices ruling from 10-45 A.M. up to 3-30 P.M. on week days and between 10-30 A.M. and 1 P.M. on Saturdays and also the closing prices. The first part of the list is made up of official quotations which are obtained through the process known as "marking" which we have already noted. The second gives the closing prices as current after 3-30 P.M. up to the time of the closing of the list. These are collected from the statements of the leading jobbers. According to the rules of the Stock Exchange no prices can be inserted in this first part of the official list unless the bargain shall have been made on the Exchange between members. In case any bargain has been made at a special price on account of the exceptionally large quantity for which it has been entered into, the same may be marked, but with distinguishing signs.

It may be added here that this "official list" contains much more information than the list issued by the committee known as the "daily supplementary list of securities not officially quoted". In case of securities in which there was no bargain made, the "business done" record gives the date and price of a bargain effected on any previous day. In some cases of inactive securities the date may be as far back as three to twelve months.

Permission to Deal.—In case of new joint stock companies, the prospectuses often declare that application will be made after allotment, to the committee of the Stock Exchange for permission to deal in shares of the company. Thus the Stock Exchange reserves to itself the power of granting or refusing permission to its members to deal in shares on the Stock Exchange of companies. The companies desiring to be permitted must send up their certificates of incorporation and the certificate entitling them to commence business, as well as the memorandum and articles of association and a copy of resolution authorising the issue. Where shares have been agreed to be allotted as fully paid, certified copies of the contracts relating to same must also be sent. Besides these a copy of the allotment letter has to be sent, and, if possible, also a copy of the prospectus. The important condition is that at least two-thirds of the shares for which the quotation is required must have been applied for and unconditionally allotted to the public. Where no prospectus is issued, the company has to advertise in two leading London morning papers giving complete particulars with regard to the issue, and a signed copy of the said advertisement must be lodged at the share and loan department of the Exchange. The usual requirements of the Stock Exchange for giving permission are—that (1) the directors must hold a share qualification which must not be merely nominal, (2) that the borrowing powers of the board are limited to a reasonable amount, (3) that non-forfeiture of dividends is secured, (4) that the common form of transfer shall be used, (5) there shall not

be any restriction among the transfer of fully paid shares and (6) that the fully paid shares shall be free from all lien.

These and various other requirements of the Exchange are meant for the safety of the shareholder to buy and sell shares on the Exchange. The committee of the Stock Exchange reserve to themselves the absolute right of refusing permission without stating any ground, even in cases where the requirements of the Exchange appear to have been duly complied with. This is because the committee want to reserve to themselves this right even in cases where though everything on the surface appears to be safe, they have certain private reasons for suspecting that everything is not quite as it should be.

Shares of "No Par Value".—This type of share is unknown in the United Kingdom or India, but in the case of American companies shares of "no par value" are issued. In case of such shares, no nominal value is fixed but they only represent a share in the net assets. To take an illustration if a company issues 5,000 shares of no par value at a particular price, the value of each share is supposed to be 1/5000 of the net assets, *i.e.*, the difference between the assets and liabilities, in the case of solvent companies. In case of companies having a regular share capital issued in addition to shares of no par value, each share is valued on the footing of the surplus after deducting from the net assets of the company the par value of previous issue. In the balance-sheets these shares are frequently shown at the actual price paid for them, or alternately at the value represented by the surplus of assets as stated above.

Options.—Besides the ordinary dealings, *i.e.*, actual purchase and sale, there are other transactions known as "option deals". Under these option deals a speculator is in a position to limit his liability to the amount paid for securing the option, whereas, his chances of profit are left almost unlimited. Under this system, a speculator on paying down so much per cent, or so much per share by way of option premium, gets in return an option to buy or sell a certain quantity of stock or shares

on the settlement day from a jobber at a price indicated at the time of the contract. The option to buy is known as a "call option" and the option to sell is called "put option". For example, if A were to think that according to his information the shares of the Bank of England, which are quoted on the date in question £100, will rise above £100 before the settlement day, but he does not want to risk the chances of loss in case these shares were to record a heavy fall, and supposing that the jobber wants £1 per share, *i.e.*, £10 for 10 shares, as option money, which A pays. Now if on or before the settlement day the market rises to £120, A would exercise his option to buy at £100 and immediately sell these shares at £120, thereby making a profit of £20 per share, *i.e.*, in all £200 *minus* the option money, namely, £10. His profit would thus come to £190. If on the other hand the market were to fall, say to £80 per share, he would not exercise his option, but would abandon the transaction and thus lose his option money, namely, £10. Thus we see in this case that though the actual fall in price is £20 per share, A loses only £1 per share which was the actual option premium paid by him.

"Put and Call Options".—Besides the single options, *viz.*, "put or call" options, there are dealings known as "double options" or "put and call options". Under these the speculator on paying double the usual premium, gets the option either to "put", or to "call", a certain quantity of securities at a certain price on the next settlement day, *e.g.*, if A wants a "put and call option" on 10 Bank of Bombay shares, the option premium being Rs. 10 per share, for each single option he would have to pay Rs. 20 per share, *viz.*, Rs. 10 for "call option" *plus* a further sum of Rs. 10 for "put option". Now supposing that on the settlement day the securities did neither rise nor fall, he loses the whole of his option money, *viz.*, Rs. 20 per share. In order to enable him to make a profit, the securities must rise or fall to a limit which is over that of Rs. 20 on each share, *e.g.*, where the agreed price was Rs. 1,500, the securities should rise over Rs. 1,520

or fall below Rs. 1,480. The "put and call" transactions are thus entered into only in connection with securities which are subject to violent fluctuation in prices.

"Call of More" and "Put of More".—These are transactions in which are found combined either a bull transaction with an option to double the quantity, or a bear transaction with a similar option. We shall proceed to deal with these fully.

Under the call of more, if a speculator thinks that the price of a particular security would rise before the next settlement day and wishes to buy a certain number of shares in the hope of making a profit, *s.g.*, he wishes to go in for 20 shares, but cannot undertake the whole risk, he enters into a bull transaction for the purchase of 10 shares coupled with an option to buy further 10 shares. In this case if the security rises as per his expectation, he takes delivery of the first 10, making a profit on the difference and also exercises his option of purchasing 10 more, thereby making a further profit. But if on the other hand the market were to fall, he would have to bear the full loss on the first set of 10 shares for which a bull contract exists, but with regard to the option to buy ten more, all he need do is to abandon the same, thereby losing his option money only.

If on the other hand he had information that the market was going to fall, he would deal in a "put of more", *viz.*, a bear contract to sell 10 shares coupled with an option to put or sell the same quantity, *viz.*, 10 shares.

The Cover System.—The cover is a deposit of so much per share, or so much per cent given to a broker by his client with instructions to enter into either a bull or a bear transaction, with the implied condition that in case the market moves against the dealer and the loss swallows up the cover, the transaction is to be closed without the client being referred to. In other words, the loss is never to exceed the cover money. If, on the other hand, the transaction proves profitable, the client receives the profits, *plus* the "cover" money. It would thus be seen that the "cover" money is returnable with

the profits, whereas the option money being a premium given to the jobber in consideration of his giving an option to buy or sell, is retained by him.

Checking a Bargain.—After any of the bargains as dealt with above are entered into, the principals, *viz.*, the brokers and the jobbers, get them entered in their respective books and on the next day their clerks meet in a special room on the Stock Exchange to check these bargains. The clerks of various jobbers stand in this room at places selected by each, where the clerks of the various brokers meet them and check the transactions entered into on the previous day by their masters.

BUYING IN AND SELLING OUT.

When the shares or stocks bought or sold on the Stock Exchange are not delivered within the time fixed by the Exchange committee, the party against whom the default is committed will have the right to publicly buy in, or sell out, the securities concerned through the officials of the Buying in and Selling out Department of the Stock Exchange of London. This of course is done by the purchaser or the seller through the broker. The committee has the power to suspend buying in of securities "when circumstances appear to them to make such suspension desirable in the general interest". The liability of intermediaries continues during such suspension unless otherwise determined by the committee. The seller may, however, apply to the committee for an extension of time on the ground that the securities are out of his control for the payment of calls or for the collection of dividends or bonuses, in which case buying in shall not be done until the same come under the control of the seller. In case of companies which prepare their own transfers, the securities should be bought in on the eleventh day from the date on which the transfers can be procured with all due haste. If the issuer of a ticket does not exercise the right of buying in within thirteen clear days from the ticket day, he shall release his seller from all liability, but the holder of the ticket shall remain responsible to him. In

other words all the intermediaries will be released and only the original seller shall remain responsible to the buyer. In the same way if a seller of securities fails to receive the ticket by 2-30 P.M. on the ticket-day, in order to enable him to complete the sale, he can sell out such securities. The difference of loss arising through such operation, plus Stock Exchange charges, will fall on the defaulting party.

THE BOMBAY SHARE BAZAAR.

Formerly the Bombay Share Bazaar or Stock Exchange used to meet, according to late Sir Dinsha E. Wacha, under two or three shady fig trees, somewhere near the spot where the premises of the present Mercantile Bank of India are situated. This was apparently an open space or maidan during the years 1863 and 1864, where share brokers as well as others congregated and did business in stocks, shares and government securities. They had no permanent abode at the time. The *varanda* of the old Mercantile Bank of India, which was located exactly in front of the present Mercantile Bank of India premises, a site where the Central Bank building is situated was also used by these brokers for the purposes of these meetings. Of course there were no regulations, nor an organized association existing, through whose medium discipline could be enforced. Any one who chose to do business in stocks and shares went to this market and acted as a broker. At this spot thousands used to meet in those days and enter into business of lacs of rupees. Bombay merchants made large fortunes at that time in the export of cotton to Lancashire, during the American Civil War, then going on, which made it impossible for Lancashire to procure an adequate supply of cotton from America.

Those were the times of exceptional speculative activity in Bombay, and the huge sums which Bombay merchants made, were used for the purposes of speculation in all sorts of joint stock companies that were founded at that time. Practically no industrial organization in the real sense of the word then

existed, and in the absence of investments in industrial concerns, various projects were conceived and joint stock companies were incorporated in large numbers, in spite of which the demand for these shares far exceeded the supply and the shares began to record prices loaded with heavy premiums. These companies were mostly made up of banks, financing associations and reclamation schemes. There were also a limited number of projects, for working steamer companies, cotton plantations, cotton spinning, etc., on the market. Encouraged by this excited state of the market, all classes of adventurers came forward with fantastic projects which they crystallized in the form of joint stock companies, whose shares found a ready market among the excited speculators of that day. In fact history repeated itself here as in the case of South Sea Mania days on the London Stock Exchange. All classes of people, from the poor to the rich, from the labourer to the professional man, huddled together in the share bazaar of the day in the scramble for securing shares of these joint stock companies, in the hope of soon selling them at a profit. The financial companies and banks formed during the excitement, as well as older banking institutions, lent monies freely on the deposit of these shares as securities, with the result that when the news as to the signing of the peace came from America, the crash that followed was terrific. It affected Bombay all round and resulted in a general disaster and ruin of the public companies formed at that time, and also of some substantial old institutions which got involved in the whirlpool of this speculative mania. Bombay is estimated to have received fifty million pounds in sterling of war profits from Lancashire during the year 1864 and 1865, all of which were lost through this mad speculation instead of being utilized in the building up of industries of national importance. These events serve to give us an idea as to the excited times during which the foundation of the Bombay Share Bazaar was laid. It is undoubtedly curious that a parallel is to be found in the history of the Stock Exchanges of London and New York, both of which institutions came into existence

at a period of great speculative excitement. The Share Bazaar was removed at a later date to Apollo Street, from whence it was again removed to its present premises. Its official designation is, the Indian Share and Stock Brokers' Association. Formerly, membership was open only to the natives of India, but now admission is thrown open to others. According to the 1929 rules, sanctioned by the Governor-General in Council, "No person shall be eligible for membership unless (1) he is a native of India, or (2) is a British subject having resided in the Bombay Presidency for at least ten years prior to his application for membership."

Speculation on the Stock Exchanges.—We have already noticed above how Bombay lost the huge fortune made by its citizens during the American Civil War days (1864-5). Curiously enough the last war (1914-1918) presented a parallel in this connection. The large purchases of stores made by both the Imperial as well as the Indian Governments not only brought huge profits to those who secured war contracts, but the mercantile world in general profited through the abnormal rise in price that this exceptional demand brought in its train. This led to wild speculation all round. Landed properties and commodities such as cotton were the principal media. The share bazaar soon took the lead. Cotton mill shares, as well as those of iron mining and cement companies, were the first to attract attention of the bulls who formed themselves in syndicates for this purpose, as well as dealing individually. Quotations went higher and higher almost to a limit where no sober and calculating investor would dream of risking his capital. New projects were being brought on the market almost everyday in the form of joint stock companies, whose shares were quoted at premiums from the very inception, and in many cases the whole capital was underwritten by groups of financiers, who of course made large profits at the expense of the excited speculators. Side by side with responsible promoters, adventurers took the field and easily secured applications for shares. The old share bazaar was found to be too

slow a place for business by these active minds and a cry was raised for a new market. People, mostly young men out from the mofussil, hearing how rapidly money was being made in Bombay, poured into the city, particularly from Gujarat and Kathiawar, bringing with them whatever they could lay hands on from their family reserve fund, helped to raise the cost of living of an already overcrowded city, and ended in losing not only what they had brought from home, but also involving their ancestral properties. These years were those of exceptional speculation. The close of the war in the year 1919 brought its usual depression which was at first reflected on the financial market. The prices of properties, commodities and shares came down rapidly, the local market was flooded with goods from European countries, the exchanges which were exceptionally advantageous to this country slid back to pre-war margins, thanks to the large issue of reverse council bills. The newly floated joint stock companies began to experience difficulty in collecting calls and many of them were wound up.

Bombay Stock Exchange Enquiry Committee.—These and other large losses suffered by the public naturally created great dissatisfaction which ultimately resulted in a resolution being passed in the Bombay Legislative Council on 16th October, 1922. Pursuant to this resolution the Bombay Government appointed a committee on 14th September, 1923, to inquire into the constitution, government, customs, practices, rules, regulations and methods of business of the Bombay Stock Exchange known as the Native Share and Stock Brokers' Association of Bombay. The committee by a majority, (only one member, a lawyer, differing), made its report reviewing the whole position in a businesslike manner and made very practical recommendations. They came to the conclusion that the rules and practice of the association with regard to corners were wholly unsatisfactory and that there should be a change in the policy here. They further stated that in case that was not done "the committee desire to impress on the Government

with all the emphasis at their command, the necessity of prohibiting by legislative enactment all forward dealings in stock and shares in the City of Bombay". They further added, "Yet if this grave defect in the present policy and practice be once removed, we see no reason why the security market in Bombay should not attain the position among the great security markets of the world which is warranted by the wealth, the enterprise, and the undoubted ability of the people of this great city." In their opinion the old Rules 26, 26k, 26kh, which gave power to the board of the association to interfere and fix rates in case of a contemplated or existing corner in any of the scrips dealt in on the exchange, etc., should be abolished. In their opinion such devices were mere palliatives and not cures. According to them there was one cure alone and that was that the short seller should, in absence of fraud, be left to pay the penalty. He should learn by experience the danger of selling short. That was, according to the committee, the practice of the London Stock Exchange. The rules on the contrary encouraged the bears, as well as corners, giving undue protection to the former. The committee's further suggestions were directed towards showing in what direction various rules could be introduced, or modified, particularly in connection with powers of the committee of management, holidays, closing of the Exchange for settlement, clerks authorised and unauthorised, margins, marking of bargains, etc., many of which have been since incorporated in the rules of the Exchange.

Legislative Action.—The Government of Bombay ultimately passed in the Bombay Legislative Council an Act entitled the Bombay Securities Contracts Control Act 1925, applying to the whole of the Presidency of Bombay, under which it is now open to any Stock Exchange to apply to the Governor in Council to be recognised and when so recognised, make rules subject to the sanction of the same authority as to the government of the exchange, powers and duties of the governing body, fixing of the scale of charges, making, settling and closing of bargains, exercise of emergency powers in case

of corners, regulation of dealings by members for their own account, and settlement of disputes arising between members and the punishment of defaulting members. Every contract for the purchase and sale of securities, other than a ready delivery contract, entered into after this Act shall be void, unless the same is made subject to, and in accordance with, the above referred to rules, and that, too, between members or through members of a recognised Stock Exchange. In case of such void contracts no claim for commission, brokerage, fee or reward, shall be allowed in any Civil Court. The word "securities" here include shares, stock, bonds, debentures, and any other like securities.

Morison Committee Report.—A further Stock Exchange Enquiry Committee popularly called the Morison Committee, was appointed in November 1936 by the Government of Bombay to examine and report on the organization and methods of working of the Native Share and Stock Brokers' Association of Bombay, and to consider whether any modifications were desirable in the interest of the investing public and to make recommendations. The committee published its report in March 1937. The committee recommended the power to suspend the "buying in" rule with the previous consent of the Government, and that there should also be a similar power, without the consent of the Government, to suspend "short selling", to close the market for 24 hours and to keep it closed for any longer period with only the consent of the Government.

With reference to defaulters the committee recommended that the practice of the Stock Exchange to compromise in case of defaulters was to be condemned; and recommended that the same should be prohibited. In their opinion this intervention of the board with a view to compromising with the defaulter was responsible in no small measure for the existence of unhealthy speculation and over-trading on the Bombay market. In their opinion when principals began to realise that the board had no longer the power to intervene between them and the consequences of their actions, in sheer self-preservation, they

would discard recklessness and conduct their business on more cautious and constructive lines. They also pointed out that under the regulations that existed at the time, a member was liable to be declared a defaulter only if he failed to fulfil his obligation to a fellow member; but that he was not liable to be declared as such in case of his engagements arising out of a contract made subject to the rules of the association with a non-member. They therefore suggested that the present rule should be modified with a view to bringing this failure also within the purview of a default, and the member should be declared as a defaulter for this transaction also. It was again pointed out that under the present conditions, a defaulter's property outside the Stock Exchange was not made available to the defaulters committee for the benefit of his creditors, and suggested that, as in London, it should be made a condition of membership and that in the event of a member being declared a defaulter he shall sign a deed of assignment in a prescribed form in favour of the defaulters committee. They further suggested that if the member's default was brought about, or had been contributed to, by speculation on his own account, he should not be re-admitted under any circumstances. They further recommended that a defaulter who had paid ten annas in the rupee may be eligible for re-admission if the board is satisfied that his conduct in other respects gives rise to no cause for complaint. Generally it was recommended that the board should have powers similar to those possessed by the committee of the London Stock Exchange as to the re-admission of a defaulter whose conduct on examination was found to be irreproachable, and whose failure is proved to be entirely, or in the main, due to misfortunes, even if such defaulter has paid in only a portion of his liabilities. The committee further recommended that a remarkable system of margin deposits should be instituted immediately, and that a minimum scale of brokerage should be established and enforced, and that in case of large business, concessional scales may be provided for in connection with brokerage. In order to prevent brokers from

charging unduly high commission the committee recommended that the contracts on the basis of principle to principle between the broker and his client should be proscribed, and that only the agency contract showing clearly the amount of brokerage charged should be made compulsory. They also suggest that blank transfers should be made a bad delivery.

Rules of the Bombay Stock Exchange.—We shall now proceed to deal with the Bombay Stock Exchange in brief. Besides the qualification as to nationality above referred to, the candidate for membership should not be a bankrupt, engaged as principal or employee in any business other than that of a stock or share or security broker, or member of some other association similar to the Stock Exchange in Bombay. The candidate of course has to be recommended by two members of not less than five years' standing, neither of them being a member of the board of directors. Such a candidate shall, on admission, deposit a sum of Rs. 20,000 in cash or in approved securities. Deposits of cash shall be lodged in a bank approved by the candidate in the names of the trustees of the association, to be held by them for and on behalf of the board at the risk of the member on whose behalf the deposit is made. Securities shall be transferred to the names of the trustees of the association to be also held by them for and on behalf of the board at the risk of the member granting the transfer.

The value of the security must be maintained at the figure of Rs. 20,000. If the member wishes to withdraw any security provided by him, he can do so by substituting other security of the same value with the consent of the board. These securities are subject to a lien for the due fulfilment of the engagements, obligations and liabilities of the member providing the security, or of the partnership of which he may be a member arising out of any contracts made subject to the rules of the association. These securities may be returned to the member on termination of his membership or on his ceasing to do forward business on the Exchange. The

candidate should either obtain a nomination in place of a member willing to resign in his favour, or must apply against a card in the hands of the board of directors. A member may, by resigning, nominate his son, grandson or brother if otherwise eligible and on the same footing a member of not less than twenty-five years' standing, or when fifty-five years old and of not less than ten years' standing, may nominate any person otherwise eligible. The legal personal representative of a deceased member may either nominate one of their number or any other eligible person as a candidate for membership. The election is by ballot and shall be carried by a majority of not less than three-fourths of the members present, at a meeting of the board of directors at which not less than one-half of all the members of the board shall be present. The entrance fee payable by a member other than one who was nominated is Rs. 30,000, and the annual subscription is only Rs. 5. The entrance fee shall be the property of the association.

The board has disciplinary powers of expulsion for unworthy conduct, conviction for criminal offences, fraudulent conduct, disobedience to the lawful resolution of the board, breach of rule, etc. A member of the board having an indirect or direct interest in a syndicate bear or bull, except as a broker, is also liable to be expelled from the board. The board has the power to expel any member of the association elected on or after 1st March, 1926 who, subsequent to his admission as principal or employee in any business other than that of stock, shares and like securities or of general financial broker, joins or becomes a member, of or subscriber to, shareholder or debenture holder of any association, company or corporation in India where dealings in shares and like securities are carried on. This is subject to the proviso that a member of seven years' standing may deposit his card with the board, and on his so depositing the card, the board may permit him, for reasons to be recorded in writing, to engage as principal or employee in any business other than that of stock, shares and other like securities. In this case, five or more members of the associa-

tion or their employees making any bid or offer, or entering into a contract or transaction in stocks, shares and like securities before, during or after business hours or during holidays at any place other than the floor of the association are to be deemed to be members of an association other than the Stock Exchange. In case of expulsion of a member the resolution must be passed by a majority of three-fourths of the members present at a meeting of the board specially summoned for the purpose, at which not less than half of all the members of the board are present, and the said resolution must be confirmed by a majority of the board present at a subsequent meeting of the said board specially summoned. On the same principle a member of the board may be removed from the board if in the opinion of the board he was guilty of improper conduct. This resolution must be passed by a majority of three-fourths of the members present at a meeting of the board specially convened for the purpose at which meeting not less than half of all the members of the said board must be present. In this connection it is laid down that the board shall be the sole judge of improper conduct within the meaning of the rule. In addition to that the board has the power to remove by a resolution from the membership of the board any member of the board who has a direct or indirect interest except that of brokerage, in any bull or bear, syndicate or combination formed to rig or depress the market, or who, being a partner or sub-partner in such syndicate or managing the business of the same, or, being a responsible representative of such syndicate, does not forthwith tender his resignation as a member of the said board. The board is given the absolute power of deciding whether the member of the board has any such interest in the syndicate. The board, of course, may, at its own motion reconsider its resolution on its own motion, and may cancel, revoke or modify same. This resolution must also be passed by three-fourths of the members present at a meeting of the board specially convened at which not less than half of all the members of the board must be present, and

which is confirmed by a majority of members of the board at a specially convened subsequent meeting. No action or proceedings can be maintained under any circumstances by the members so expelled or suspended against the association or the board or any member thereof, or any officer or servant of the association for the publication or circulation of such notification. Such expulsion or suspension of the member does not affect the rights of the creditors.

The board of directors is also empowered by resolution to impose any fine, or penalty, upon a member for any breach of regulation. This decision of the board may be, by its own motion, reconsidered if it so desires, or a written requisition from fifty-one members of the association may also put them in motion on the question of reconsideration. The reconsideration resolution must be passed by a majority of three-fourths of the members present at a meeting of the board at which not less than half of the total number shall be present.

Card or Right of Membership.—The membership right as indicated by the card is entirely a personal right, according to the rules of the association, and it is not to be deemed as part of the property or estate and effects of such member. The member is prohibited from assigning, transferring, pledging, hypothecating or charging his card, or right of membership, to any one else under the pain of being expelled for such acts. On the adjudication in insolvency of a member his card lapses with his membership, and all rights and privileges connected with it vest in the association. The same result follows in case of expulsion of a member. The board of directors have a complete right to deal with, or dispose of, the card as they think fit. In case of sale of the card the proceeds thereof have in the first place to be applied in satisfaction of the liability of the member concerned, to other members of the association, in respect of transactions made subject to the rules of the association and the balance has to be paid into the funds of the association. If the balance has to be applied in any other

manner it can only be done with the sanction of a resolution passed at a general meeting of the members.

Partnerships.—Two or more members or a member and his father, sons, brothers or brothers' sons intending to carry on business in the firm's name must give notice in writing to the board of directors and get the necessary permission. The board may refuse to allow any such partnership if it is of opinion that any member of the said partnership is unfit to be a partner. The association keeps a register of such partners containing the names of individual partners in each firm. Except the above, partnerships with non-members and expelled members is strictly forbidden. All members of the association who are members of a firm which is guilty of any act or omission which, if done by an individual member of the association, would render any such member liable to expulsion, suspension or any penalty, shall be liable to be expelled, suspended or penalised as the case may be. A member cannot conduct business under a firm name unless he has at least one partner and a member who is a surviving partner of an existing firm or continue business in the name of the same firm. A member who is not a member of a firm or partnership cannot carry on business in any name other than his own name. All members must state in all correspondence relating to the transaction of business subject to the rules of the association, and all contract notes, the names of the firm if any and the names of partners of the said firm. The board reserves the power to refuse to allow a firm to carry on the business under a name which they consider misleading.

Authorised Clerks.—There are authorised clerks on our Stock Exchange just as in the case of the London Stock Exchange, and a member is permitted to employ not more than four such clerks who are not members of the association. A partnership firm of two or more members is permitted to employ seven authorised clerks. The authorised clerks are permitted to make bargains on behalf of their employer in the employer's name and the members are liable for all bargains made by

these clerks on their behalf. The association keeps a register of such authorised clerks where notice of authorisation, termination and withdrawal are entered. Authorised clerks have to wear a special badge supplied by the association. An annual fee of Rs. 100 or higher as may be fixed by the board from time to time has to be paid for such authorised clerk who is not a member.

Unauthorised Clerks.—Unauthorised clerks are not entitled to admission to the market in Bombay.

General Powers of the Board.—The general powers of the board as laid down by Rule 90 of the Stock Exchange are as follows :—

(a) The management of the business and the control of the association and the management and control of the properties and funds of the association and of its income and expenditure shall, subject to the rules of the association, vest in the board which in addition to the powers and authorities expressly conferred by any rule for the time being in force, may exercise all such powers and do all such acts and things as may be exercised or done by the association in general meeting assembled and which are not expressly required to be so exercised and done, and more particularly and without prejudice to any power or authority generally or expressly conferred by any rule for the time being in force, the said board is specially authorised subject to any rule for the time being in force, to do any of the following acts or things or exercise any of the following authorities or powers, namely;—

Brokerage.

(1) to make and from time to time alter the scale of charges for brokerage on all transactions for the sale and purchase of stock, shares and like securities and to fix the unit of dealings in such securities;

Disputes.

(2) to decide all questions and disputes affecting members in making, settling or closing of bargains and in their conduct towards each other or towards third parties and to punish such members as may be found guilty;

Disposal of Immoveable Properties.

(3) to sell, develop, lease, mortgage, dispose of or otherwise deal with the immoveable properties of the association with the consent of all or the majority of the members of the association given at a meeting specially convened for the purpose;

Expenses and Disposal of Funds.

(4) to make payments or disbursements out of the funds or other moveable property of the association or otherwise dispose of or deal with all or any part of such funds or property;

Provided that any payment, disbursement, disposal of or dealing with such funds or property for—

(i) expenses other than the current expenses for carrying on the business of the association, or

(ii) contribution or payment towards a charitable or public purpose,

shall not be made except with the consent of the majority of members of the association present at an extraordinary general meeting specially called for the purpose at which not less than one hundred members are present;

Litigation.

(5) to commence, prosecute and defend all such actions, suits, and proceedings, civil or criminal, as the said board may consider necessary and the same to compromise or to submit to arbitration and to make, give, sign and execute all documents in that behalf;

(6) to issue from time to time orders—

(i) closing the market for reasons to be recorded on days other than or in addition to the holidays under the Stock Exchange rules; provided that such closing shall be effective for 24 hours only and for any further period shall be effective with the previous consent of Government;

(ii) fixing 12 account days, days for buying-in and selling-out, days and hours for the payment of differences, and for the delivery of and payment for securities for the ensuing year;

Provided that the days so fixed for the various purposes may be altered by the board for sufficient reasons to be recorded in writing, Government being informed of such alteration within 24 hours;

Permission to Deal.

(iii) granting or refusing special settlements or admission to dealings in the market either for ready delivery or for the settlement or permission for dealings in new issues;

Provided that the president shall be entitled to exercise any or all of the powers exercisable by the board under Stock Exchange rules whenever he is of the opinion that immediate action is necessary, subject to his action being confirmed by the board within 24 hours;

Resolution of the Board not to be Rescinded by Association.

It shall not be competent to the association to rescind, alter or vary any resolution passed by the board under the powers or authority

conferred upon the said board by the provisions of this rule or under any other rule for the time being in force, and all such resolutions shall, when they come into force, be deemed valid and binding upon all members.

Leave.

The board may give any member thereof leave of absence for a period not exceeding four months and the said board may by a resolution appoint any member of the association eligible to be elected a member of the board in the place of such member for the duration of his leave.

Decision by Majority—Members Interested not to Vote.

Any question before the board or any sub-committee shall be decided by the votes of the majority of the members present at a meeting unless a specified majority is required by any rule for the time being in force but no member of the said board or sub-committee shall be competent to vote on any question in which he is personally interested. The chairman of the meeting shall be the final judge of whether any such member is so interested within the meaning of this rule.

Resolution by Circular.

A resolution in writing approved by not less than three-fourths of the total number of the members of the board present in Bombay, unless a special majority is otherwise required by any rule for the time being in force, shall be as valid and effective as if it had been passed at a meeting of the board duly called and constituted.

Outside Brokers and Remisiers.—The members of the Stock Exchange are not permitted to transact business as principal or act as brokers for a non-member in the purchase or sale of securities, if such a member acts as a broker within a distance of 50 miles from Bombay for others and passes his own contracts or advertises his business or issues printed lists or circulars respecting such business. There is, however, no objection to a member sharing his brokerage with any stock or share broker who does not carry on Stock Exchange business within a distance of 50 miles from Bombay and who does not advertise in the public the price or in any other manner for such business and who does not issue circulars respecting such business to others than his own constituents. In sharing the

brokerage the member must retain not less than 60 per cent of the brokerage. A member can employ remisiers, commonly called "sub-brokers", for the purpose of Stock Exchange business, and remunerate such remisiers with a share not exceeding 40 per cent of the usual commission charged by him. For employment of such remisiers, permission must be obtained by applying to the board, and the permission is given in case the remisier gives an undertaking that he shall, on registration, forthwith sever his connection with, as a principal or employee, any business other than that of dealings in shares and securities. In case the remisier is connected with some other broker as such, a clearance certificate from the former employer must be obtained, in which certificate it must be stated that the remisier left clear of all debts and outstanding liabilities, and that his conduct while in that employment was satisfactory. The remisiers are registered in a special register kept for the purpose and must act for one member only. The remisier must not share his brokerage directly or indirectly with his constituent or sub-agent, or he will be forthwith removed from the register, neither shall he advertise nor issue price-lists or circulars. A remisier must be an individual or a firm. A remisier on registration must deposit with the association a sum of Rs. 5,000 in cash or in approved securities or bank deposit. In some cases the board may accept a deposit of Rs. 3,000 on condition that the balance is to be paid in equal instalments within two years from the date of registration. A remisier will be entitled to admission to the market on payment of an annual fee of Rs. 100 in advance or such higher fee as may be prescribed from time to time, but he shall not make any bargain in his own name or on behalf of his employer. A remisier shall, in absence of an agreement in writing to the contrary, be deemed to have agreed to give a full and complete indemnity to the member with whom he is working for any loss which such member may incur by the failure of the constituents introduced by such remisier to fulfil their obligations.

BUYING-IN AND SELLING-OUT.

In Open Market.

Buying-in and selling-out must be effected by the secretary of the association in the open market during the official business hours save as otherwise provided in these rules. Only members may make a bid or offer. The charges for buying-in and selling-out shall be half of those authorised by Appendix G.

When Securities may be Bought-in or Sold-out.

Securities (including new issues) may be bought-in or sold-out on failure to comply with any rule of the association applicable to delivery or payment or on any failure to carry out any special conditions subject to which bargain for ready delivery was made.

Until 15 Days.

Buying-in or selling-out may be effected on the day following failure to make payment or give delivery of transfer or securities in accordance with the rules or on any day thereafter not later than the fifteenth day after such failure.

Forfeiture of Right.

The parties to a transaction will forfeit all right of recourse against each other if the buying-in or selling-out is not effected within the period prescribed by this rule, unless it shall appear that one of the parties has not exercised his right on the written request of the other.

Delay in Buying-in or Selling-out.

If the buying-in or selling-out is not effected within the period prescribed in this rule and if the member buys-in or sells-out at a later date and satisfies the arbitration committee that it was impracticable to buy-in or sell-out earlier than he did, the arbitration committee may allow damages on the footing of the rates at which the securities were bought-in or sold-out or at such other rates as the arbitration committee may determine.

Buying-in and Selling-out when Forbidden.

The shares of a company shall not be bought-in or sold-out while its transfer books are closed for payment of dividend or bonus or the receipt of calls or for any other reasons. The provisions of this rule shall not apply to the buying-in or selling-out effected by the association in the course of clearance through the Clearing House.

Notice of Buying-in and Selling-out.

Notice in writing signed by the secretary of the association of the intention to buy-in or sell-out securities must be delivered at the office of the member in default and if such notice be not so delivered,

the buyer or the seller as the case may be shall not be entitled to buy-in or sell-out or claim damages. The provisions of this rule shall not apply to the buying-in or selling-out effected by the association in the course of clearance through the Clearing House.

Tender by Seller before Notice.

The buyer must accept and pay for the securities at any time prior to the actual exercise of his right to buy-in.

Tender by Seller after Notice.

If the buyer has issued notice of his intention to buy-in securities for default in delivery and if the seller before the securities have been bought-in makes a proper tender of such securities, the buyer must accept and pay for such securities.

Tender by Buyer before Notice.

The seller must accept payment and deliver securities at any time prior to the actual exercise by him of his right to sell-out.

Tender by Buyer after Notice.

If a seller has issued notice of his intention to sell-out securities for default in payment and if the buyer tenders payment before the securities are sold-out, the seller must deliver the securities and accept payment.

Securities Bought-in but Undelivered.

Securities bought-in and not delivered on the next business day may be again bought-in for immediate delivery without further notice and any loss shall be paid by the member causing such further buying-in.

Securities Sold-out and not Paid for.

Securities sold-out and not paid for the next business day may be again sold-out for immediate payment without further notice and any loss shall be paid by the member causing such further selling-out.

Bid by Buyer or Seller Barred.

A member for whose account the buying-in or selling-out is effected shall not be permitted to make a bid or offer.

Notice of Damages.

A member buying-in or selling-out securities must within two days of the buying-in or selling-out give notice of the same to the member in default and claim damages, if any, arising therefrom. The member on whose account the buying-in or selling-out is effected shall notwithstanding that he is in default be entitled to the difference or profit which may arise by the buying-in or selling-out on his account, as the case may be.

Hours of Business.

The brokers' hall is open to members on every business day at 10 A.M. and remains open till 6 P.M. except on Saturday when it remains open till 4 P.M. The hours of business are as follows :—

STOCKS AND SHARES OTHER THAN GOVERNMENT SECURITIES.

| | |
|--------------------------------|-------------------------------------|
| Forward business | 12 to 2 P.M. on every business day. |
| Ready Delivery business | 12 to 5 P.M. from Monday to Friday, |
| | 12 to 2 P.M. on Saturday. |

GOVERNMENT SECURITIES.

| | |
|--|---|
| Ready Delivery and Forward Dealings | 11-30 A.M. to 5 P.M. from Monday to Friday. |
| | 11-30 A.M. to 2 P.M. on Saturday. |

Opening and Closing of Market.

The opening and closing of the hours of forward business shall be announced by the ringing of a bell and a warning bell shall be rung fifteen minutes before the closing.

Business in Certain Hours Forbidden.

No bargain shall be made before or after the hours fixed for business in accordance with the provisions of Rule 219 and a member who shall make any bid or offer or enter into any contract or transaction within or without the market contrary to the provisions of this rule or on Sundays or holidays may be suspended or fined by a resolution of the board.

Extending or Curtailing Business Hours.

The board may by a resolution extend or curtail or alter the business hours on any particular day, provided that if it be not possible to hold a meeting of the said board, the president of the association may exercise the power conferred upon the said board by this rule.

Ban on Short Selling.

In a crisis or emergency, or when it is obvious to the board that a crisis is at hand or that a fair or normal market may not exist, and the board is satisfied that a temporary suspension of short selling is in the public interest, the board shall prohibit short selling in any security, provided that such suspension shall be effective for 24 hours only and that for any longer period shall be effective with the previous consent of Government.

A resolution for this purpose must be carried by the votes of at least nine members of the board present at a meeting specially

summoned and consisting of not less than twelve members. If within fifteen minutes of the time fixed for the meeting twelve members of the board are not present the members present shall co-opt members as provided in Rule 83 (b).

**CONDITIONS OF ADMITTING SHARES AND SECURITIES
OF COMPANIES TO DEALINGS.**

The following are the rules of our Bombay Stock Exchange for admitting dealings in shares and securities of new companies :—

The board may not allow dealings in shares or securities of a company unless :—

Transfer Books open for Registration.

(1) The company notifies the association that its transfer books have been opened for registration.

Notice to Company of Settlement Days.

(2) The company agrees not to close its transfer books on such days as may be inconvenient to the association, for the purpose of settlement of transactions and of which three months' notice shall have been given by the association to the company.

Articles of Association.

(3) The articles of association contain the following provisions :—

- (i) that none of the funds of the company shall be employed in the purchase of or in loan upon the security of its own shares;
- (ii) that the borrowing powers of the board of the company's directors are limited to a reasonable amount not exceeding the issued capital;
- (iii) that the non-forfeiture of dividends is secured;
- (iv) that a common form of transfer shall be used and there shall not be any restriction on the transfer of fully paid shares;
- (v) that fully paid shares shall be free from all lien and in the case of contributory shares the company may have a lien only for all monies called or payable at a fixed time in respect of such shares;
- (vi) that the company in general meeting shall have power by extraordinary resolution to remove any director before the expiration of his period of office.

NOTE :—The board will take exception to any provision contained in the articles of association which may, in any way, restrict free dealings in the shares or which may, in the opinion of the said board, be unreasonable in the case of a public company.

Fair Allotment.

(4) (i) At least 50 per cent of the issue, whether such issue be the whole or part of the authorised capital, shall have been offered to the public in equal proportion as to class or kind and allotted fairly and unconditionally. For the purpose of this rule, vendor's shares or securities shall not be considered to form part of such public allotment;

(ii) The company shall satisfy the board that it invited applications for at least 50 per cent of the shares or securities issued for a period of not less than three days, that the public did not apply for 50 per cent of the number of shares or securities issued, and that in consequence less than 50 per cent of such shares or securities were allotted to the public.

Dealings in Bonus Shares.

(iii) Dealings shall be allowed in shares or securities which have been issued by an existing company already admitted to dealings and which has given such shares or securities as bonus to its own shareholders; and the provisions of this rule prescribing the allotment of a proportion of shares or securities to the public shall not apply to such shares or securities, provided that the bonus shares are identical in all respects with the existing shares.

Registration.

(5) The company shall have been registered under the Indian Companies Act and its prospectus shall have been filed with the registrar of joint stock companies in India and a copy of the prospectus thus filed shall have been advertised in newspapers published in Bombay save as provided under Rule 230 (b).

Prospectus.

(6) The public subscription list shall have been kept open for at least three days.

Information.

(7) The following documents and particulars shall be sent to the association by the company, namely articles of association, and in the case of a debenture issued a copy of the trust deed, certified copies of agreement relating to issue of shares, credited as fully paid, of all material contracts, agreements, concessions and other similar documents, the number of shares allotted to vendors and their distinctive numbers, the number of shares offered to the public, distinctive numbers of shares for which permission to deal is applied for, the number of shares applied for by the public and the number of shares allotted to the public unconditionally pursuant to such applications

and the proportion of the allotment, the list of allottees and the largest number of shares applied for by and allotted to any one applicant; where the whole of the capital has not been issued at the time when shares are offered for subscription, the company shall state whether the unissued shares are vendor's shares or are held in reserve for future issue. The company shall, on request, submit its allotment sheets to the association for inspection.

Undertakings.

Dealings in shares or securities of a company shall not be permitted unless the company shall have undertaken under its seal—

Splitting of Share Certificates.

(1) to split share certificates, letters of allotment, and if a "Rights" issued to split letters of rights, into smaller denominations in the same name and to have any such "splits" certified by an official of the company;

Issue of Certificates.

(2) to issue the definitive certificates within one month of the date of the lodgment of the transfer and to issue balance certificates, if required, within the same period;

Declaration of Dividend.

(3) to advise the association by letter of all dividends recommended or declared immediately a meeting of the board has been held to fix the same;

Change of Business.

(4) to notify the association promptly of any material change in the general character or nature of its business;

Changes in Directorate.

(5) to notify the association of any changes in the directorate by death, resignation, removal or otherwise;

Reports and Financial Statements.

(6) to forward to the association copies of statutory and annual reports and audited accounts as soon as issued;

Resolutions.

(7) to forward to the association copies of all notices sent to the shareholders and to file with the association certified copies of resolutions of the company as soon as such resolutions have become effective;

Increase of Capital.

(8) to notify the association promptly in the event of the re-issue of forfeited shares or securities or the issue of shares or securities held in reserve for future issue or the issue or creation in any form or

manner, of new shares or securities or of any other rights, privileges or benefits to subscribe to—and to give the shareholders reasonable time within which to record their interests and to exercise their rights, and to issue in the first instance all such shares or securities or rights, *pro rata* to the existing shareholders in the form to be approved by the board of the association and to give to the association at least fifteen days' notice in advance of the closing of the transfer books for the purpose; and

Listing of Additional Securities.

(9) to make an application to the association for the listing of any new issues of shares or securities except as provided in Rule 229 (4) (iii). Such additional shares or securities shall not be a good delivery until such further issues have been admitted to dealings.

Register in British India.

On the application of a member the board may grant permission to deal in shares and securities of companies which are admitted to dealings on any Stock Exchange provided the companies have or will undertake to provide a register in British India.

In connection with forward dealings in shares of companies the following are the rules of our Bombay Stock Exchange :—

Conditions of Admission to Forward Dealings.

The board in their discretion, have power to admit the shares of any particular company (except the shares of a bank) to dealings for the account and settlement subject to the following conditions :—

(1) the company undertakes to maintain an office in British India for registering the shares in the name of the transferee and to use the common form of transfer;

(2) all the shares are fully paid up;

(3) the company shall have been incorporated for not less than three years preceding the application for admission under this rule; or is a merger of companies, all of which shall have been incorporated for not less than three years previous to the date of merger;

(4) the company undertakes to split up its share certificates in the lots required by a shareholder who holds a certificate for a larger number of shares;

(5) the company undertakes to close its transfer books on such days as may be convenient to the association for the purpose of settlement and on the days of which the company shall have had three months notice;

(6) the company agrees to pay an annual fee of Rs. 1000 in respect of the clearing charges, if required.

Resolution Admitting to Forward Dealings.

A resolution of the board admitting the shares of company to the account and settlement must be passed by a majority of two-thirds of the members present at a meeting of the said board specially summoned and at which not less than three-fourths of the total number of the members shall have been present.

Withdrawal of Permission to Deal.

The board may by a resolution passed by a majority of three-fourths of the members present at a meeting specially summoned at which not less than three-fourths of the total number of the members of the said board shall have been present after one month's notice in writing has been served upon the company, for reasons to be recorded in the minutes of the said board, remove such share either from the list of shares admitted to ready delivery or forward dealings or from both as the case may be.

Stock Exchange Clearing House.—Our Bombay Stock Exchange has introduced for some time a Clearing House for the facility of their own members for clearing contracts between them and for delivering securities to and receiving securities from fellow members and for receiving and paying amounts payable to and by them. The rules with regard to this Clearing House are as follows:—

Function of Clearing House.

There shall be a Clearing House under the control of the board which shall act as the common agent of the members for clearing contracts between the members and for delivering securities to and receiving securities from the members and for receiving or paying any amounts payable to or payable by such members in connection with any of the contracts and to do all things necessary or proper to carry out the foregoing purposes.

Liability of Clearing House.

The Clearing House shall not be deemed to guarantee the title, genuineness or regularity of any security transfer or other document passing through the Clearing House, and the only obligation of the Clearing House in this matter shall be to facilitate the delivery of securities, transfers and other documents between selling members and purchasing members.

Members Only.

Members only shall be entitled to clear or settle contracts through the Clearing House.

Delivery and Payments through Banks.

The Clearing House shall maintain a list of banks, trust companies and other firms approved by the board who may act for members and their constituents in giving and taking delivery of securities, transfers and other documents and in making and accepting payment for the same at the making-up price. The said board may from time to time add names to such list and remove names therefrom.

Forms.

Securities to be delivered or received through banks, trust companies or other firms approved by the board, shall be entered in forms (Forms Nos. IV and V) specially provided for this purpose.

Banks and Making-up Price.

If so advised by members, the Clearing House shall make payments to banks, trust companies or other firms approved by the board, at a price lower than or accept payments from them at a price higher than the making-up price fixed by the board.

Clearing House Number.

A member shall be allotted a number which must appear on all forms used by the member in connection with the operations of the Clearing House.

Member's Clerks.

A member may nominate two clerks who shall be competent to sign in the name of such member all vouchers, claim notes and other documents and generally to transact on his behalf all such business as is necessary to be transacted in connection with the operations of the Clearing House.

Specimen Signature.

A member shall file with the Clearing House specimens of his own signature and of those of the clerks whom he has nominated to represent him.

Attendance at Clearing House.

A member who has to give or take delivery of securities or to make or accept payments shall either attend personally in the Clearing House or be represented by clerk nominated under Rule 262 at the proper time and no member shall be entitled to demand delivery of securities or payment outside the Clearing House.

Charges for Clearing.

The charges for transactions settled through the Clearing House shall be in accordance with the scale prescribed from time to time by the members in general meeting.

Settlement of Accounts.

The Clearing House shall render bills for their charges and fines payable by members on account of the business for any settlement as soon after the final settlement as may be practicable and the Clearing House debit the amount so payable by members to their accounts. All such bills shall be paid not later than the last day of the month in which they are rendered.

Forms to be Prescribed.

The clearing lists, balance sheets, delivery forms, claim notes, vouchers and other documents used for the purpose of the Clearing House shall be in such form as the board may from time to time prescribe and shall be signed by a member or his clerk nominated to represent him.

Charges for Forms.

The said board shall from time to time prescribe the charges for the necessary forms to be supplied by the Clearing House.

Forms.

The board shall have the power from time to time to fix or alter the time prescribed for the lodging of forms and for the taking and giving delivery of securities.

Notices and Circulars.

All members shall comply with the directions given by the board in all notices and circulars issued by the said board in connection with the operations of the Clearing House.

Penalty for Negligence.

The said board may impose upon any member a penalty not exceeding rupees fifteen in every case of failure by any member to comply with any such direction or for any error or omission or illegible entry in filling up any such form or other document required by the Clearing House in the course of its operations or for any delay in submitting any such form or document to the Clearing House.

Which Securities to be Cleared.

The board may from time to time specify the securities which shall be cleared through the Clearing House and deliveries and payments in all forward bargains in such securities must be made through the Clearing House;

Provided that any member, who holds for account of his different constituents contracts both for sale and purchase in the same settlement that offset each other, shall be entitled to offset such contracts and in that case he shall be entitled to give and take delivery outside the Clearing House.

Prohibition of Certain Bargains.

No forward bargains in securities not so specified shall be permitted in the market.

All Bargains Cleared Through Clearing House.

A member shall clear and settle through the Clearing House all forward bargains in such securities to which he may be a party unless otherwise stipulated at the time of the contract or it is otherwise agreed by the parties to the contract.

Release of Intermediaries.

If a member elect to deliver the securities outside the Clearing House members making and accepting such delivery shall release all intermediate parties from all liabilities. The deliverer shall alone remain responsible to the receiver.

Rules form Part of Contracts.

The rules of the Clearing House from time to time in force subject to the Bombay Securities Contracts Control Act, 1925, and notices and directions which the board may from time to time issue thereunder or under any other rule for the time being in force and publish on the notice board, shall be a part of the terms and conditions of every contract which is cleared or settled through the Clearing House. Such contracts shall also be subject to the powers of the board to close the Exchange by reason of any emergency or otherwise.

CLEARANCE OF GOVERNMENT SECURITIES.

Settlement Through Clearing House.

It shall be competent to the board to order that, unless provision to the contrary is made in the relevant contracts, all bargains in any specified security shall be cleared or settled by the system of Clearance Sheets instead of by the process of tickets, but delivery and payment shall be made Ex-Clearing House as hereinafter provided unless otherwise ordered by the said board.

Application of Clearing House Rules.

When under the provisions of Rule 343, bargains have to be cleared or settled by the system of Clearance Sheets, the rules relating to the Clearing House shall be a part of the terms and conditions of the relevant contracts.

Issue of Tickets.

Deliver and Receive Tickets (Forms Nos. X and XI in Appendix J) each for Rs. 25,000 face value of securities, containing serial numbers will be issued by the secretary of the association on payment of two

annas per ticket or such other charge as may be prescribed by the board from time to time. No other forms shall be used. The said secretary shall not issue tickets later than 1 P.M. on the ticket day without imposing such penalty as may be fixed by the board.

Lodging of Tickets.

Such tickets shall accompany the clearance lists to be lodged at the Clearing House not later than 3 P.M. on the business day (called ticket day) preceding the pay day.

Deliver and Receive Orders.

The Clearing House shall return on the pay day the said tickets to the members who lodged them, with the names filled in at its discretion of the members to whom deliveries are to be made and of those from whom securities are to be received. The tickets so returned shall be deemed to be orders for the delivery and receipt of securities.

Such orders when issued by the Clearing House shall be binding upon and enforceable against members as provided in Rule 303.

Presence at the Clearing House.

Members or their representatives shall be present at the office of the Clearing House at 11 A.M. on the pay day to receive such orders for the delivery and receipt of securities and to correct errors, if any, in the Clearing Lists (Form No. 1 in Appendix J).

Exchange of Orders.

The receiving member shall hand over to the delivering member as soon as practicable but not later than 12 noon a Receive and Pay Order, properly signed by him or his client, in exchange for the delivery order issued by the Clearing House.

Buying-in or Selling-out.

The neglect or failure to exchange orders shall constitute a default and the securities shall be bought-in or sold-out after 1 P.M. on the pay day without giving notice to the members in default.

Place of Delivery.

The delivery of securities shall be made at the office of the receiver of the securities before 2-30 P.M. on the pay day and payment must be made at the making-up price against delivery;

Provided that if such office is not situated in the Fort Area, the delivery shall be made against payment in the hall of the association.

Notwithstanding the provisions of sub-rule (a) parties mentioned in Rule 332 (b) shall have the right or option of requiring the payment and delivery to be made at their offices, in cases where the receiver of the securities is not one of such parties.

Statement of Purchase Money.

If the deliverer wishes to exercise his right or option under Rule 351 (b) he must make out a statement, showing the amount due at the making-up price plus the accrued interest and present the same together with the Receive and Pay Order at the office of the receiver. Not later than one hour after the receipt thereof, the payment of the amount involved must be made at the office of the said deliverer.

Buying-in.

Failing delivery of securities on the pay day, the member who is to receive shall, after giving one business day's notice to the member who is to deliver, buy-in the securities in accordance with the rules for buying-in.

Selling-out.

If the receiver fails to pay for the securities delivered in the manner provided in these rules, the member who is to deliver shall, after giving one business day's notice to the member who is to receive, sell-out the securities in accordance with the rules for selling-out.

Release of Intermediaries.

If securities are not bought-in or sold-out within three business days including the account day, all intermediate parties shall be released from all liability. The liability of the receiving and delivering members is not affected by the fact that intermediaries have been released by lapse of time.

Payment of Profit and Loss.

If the securities are bought-in or sold-out as authorised by these rules, the loss, if any, shall be paid promptly by the member in default to the member buying-in or selling-out; the profit, if any, shall be paid by the member buying-in or selling-out to the member in default;

Provided that if the member in default is or be declared a defaulter or insolvent, the profit or loss, as the case may be, shall be dealt with as provided in Rule 296.

Short Title and Commencement.

These rules may be called the Native Share and Stock Brokers' Association Rules, 1938.

They shall come into force on the 28th day of June, 1938.

Arbitration and Defaulters' Committees.—The two committees are (1) the Arbitration Committee and (2) the Defaulters' Committee.

In case of the arbitration committee, which consists of sixteen members, all disputes between members arising out of transactions under the rules of the association have to be referred compulsorily to it. The committee would in their turn appoint two of its members to act as arbitrators, who are to proceed on the arbitration by fixing time and place. From the decision of these arbitrators there is an appeal to the arbitration committee within seven days of the receipt of the award by the parties concerned. The award of the arbitration committee is final and binding on all members of the association and their constituents. A further appeal to the board is allowed only in case where the dispute is for Rs. 1,000 or more. Of course, the decision of the board is final.

The defaulters' committee shall consist of six members and has charge of the affairs of a member who has failed to fulfil, or is unable to fulfil his arrangement on the Exchange and has been declared a defaulter in the open market. The declaration of the board has to be made by the secretary of the association on application from a creditor of the defaulter, or on receipt of a complaint from the Clearing House. A member who has been adjudicated insolvent is *ipso facto* declared a defaulter. The defaulters' committee takes charge of all books and accounts, as well as documents and papers of the defaulting member, to ascertain his statement of affairs, and calls upon the defaulter to file a written statement within fifteen days containing a complete list of his debtors and creditors and sums owing to him, on which a strict enquiry is entered into by the committee which reports to the board of directors anything improper, or unbusinesslike, in connection with the defaulters' transactions. The committee recovers all moneys, shares, securities due to the defaulter by other members, which assets, if not contrary to the provisions of any law for the time being in force, vest in the defaulters' committee for and on account of the creditor members of the association. The committee then distributes *pro rata* among the creditor members

of the association these assets according to their claims which are admitted.

Teji-Mandi.—Similar to above transactions on the Exchange as discussed in the section dealing with London Stock Exchange, there are transactions on our Bombay Stock Exchange, as well as other markets for commodities known as *teji*, *mandi* or *teji-mandi* transactions or *sodas*. We shall deal with them in detail.

In case of *teji* pure and simple, what the dealer, A, does is to secure an option to buy a certain quantity of goods, say, 100 bales of cotton, at Rs. 500 per bale. In consideration of this option being given to him by merchant, B, who deals in *teji*, he pays him a premium of say, Rs. 10 on each bale. The option here is to purchase and take delivery of these bales at some future date as fixed by both these parties at the time of the contract, if it suits A, or failing that A is free to abandon the option. The option premium paid is of course non-returnable in either case. Supposing that on the delivery date the market were to rise to say, Rs. 550 per bale, A would exercise his option to purchase at Rs. 500 and make a profit of Rs. 50 per bale, less his option premium of Rs. 10 per bale, *i.e.*, a net profit of Rs. 40 per bale. If on the other hand the market were to fall say, to Rs. 480 on the delivery date, A would abandon his option. It will be thus seen that as under any circumstance the option money paid is not refundable, the transaction would not result in a profit unless the market rises above the margin of Rs. 10 per bale which is the option premium in this illustration.

In these transactions, B, the seller of the option, is known as "*Khanar*", *i.e.*, the "the eater" of the option, and A, the buyer, is called "*Lagadnar*", *i.e.*, the applier of the option.

On the same principle, in case of *mandi*, if A thinks that the market is going to fall, he secures an option from B to sell a certain number of bales, say at Rs. 500 to B, to be delivered at some future date fixed by the parties. Here supposing

that Rs. 10 per bale was the option premium and the market falls to say Rs. 460, A would purchase these bales at Rs. 460 and sell same to B at Rs. 500 in terms of his option. Here A would make a profit of Rs. 40 less the option premium of Rs. 10, *i.e.*, net Rs. 30 per bale.

In the above transactions the option was single, *i.e.*, A purchased in the first case the option only to "buy"; whereas in the second case he secured the option only to "sell". There are other transactions where "double options" are dealt in, known as *teji-mandi* transactions.

Here what actually happens is that one party buys what is known as a double option and pays a certain premium over the contract price of the commodity. This gives him the right to buy or sell a certain quantity at the price fixed by this agreement on the settling day either of the market concerned or as fixed by the agreement. Thus if A buys a *teji-mandi* of, say, silver, at 10 annas per tola, and for that purpose pays one anna for the *teji* and another anna for the *mandi*, what he would do would be that if on the settling day the price rises over 10 annas, say, it is 13 annas, he may buy the agreed quantity making a net profit of one anna per tola, after deducting 2 annas paid by way of premium on each transaction. If, on the other hand, the market falls to, say, 7 annas he would sell the quantity at 10 annas and recover three annas per tola of which one anna would be his net profit after deducting two annas per tola paid for the option premium. The question whether this type of transactions are wagering transactions has been repeatedly discussed in our High Courts. The old view was that such agreements were wagering agreements altogether and therefore void (*Ramchandra v. Ganabison* (1910), 12 Bom. L.R. 590); but in later decisions it has been held that *teji-mandi* transactions must be regarded as wagering transactions and the onus of proving that they are not such would lie on the party so alleging. In a later case this was further improved upon to the effect that *teji-mandi* cannot be held as wagers

on account of their apparent nature and characteristics alone, but the common intention of parties ought to be proved (*Jessiram Juggonath v. Tulsidas*, 37 Bom. 264; *Manilal v. Allibhai*, 24 Bom. L.R. 812). In another case where *teji* alone was brought, it was decided that a pure *teji* transaction is on exactly the same footing as *vaida* transactions, and unless it can be positively proved that the parties agreed neither to ask for nor to give delivery, the transactions are not wagering transactions. (*Manubhai v. Keshavji*, 24 Bom.L.R. 60.)

CHAPTER XIII.

SHIPPING, MARINE AND FIRE INSURANCE.

Shipping.—A contract for the carriage of goods by sea is to be found either in the form of a "charter party", or as in the case of a general ship, it is embodied in a "bill of lading". "Ship" includes every description of vessel used in navigation not propelled by oars, and "vessel" includes any ship or boat or any other description of a vessel used in navigation.

These contracts for carriage of goods over the sea are known as "contracts of affreightment". The consideration paid for the carrying of these goods is known as the "freight". Any British subject, or a corporation, may become the owner of a British ship by transfer of such a ship, or a share in such a ship, or by building such a ship himself. This ownership has to be registered and also the ship has to be registered if it wishes to enjoy the privileges of being British. Besides these, all the British ships above a certain tonnage are compelled to carry certified officers and the required number of seamen. In case of a steamer carrying a certain number of men aboard, a doctor is declared necessary. They are also required to carry compasses properly adjusted and passed by the surveyor of the Board of Trade, also life saving appliances.

Chartered and General Ships.—When an agreement is made to charter or hire a complete ship or steamer, the ship is called a "chartered ship" and the agreement is known as a "charter party". The charter party is a written or printed agreement, either for the complete ship, or for a part of it, either for a voyage or for a fixed time. The usual practice is for the ship-owner to supply the ship equipped with officers, crew and bunker coal, and also to pay expenses in connection with this. If, however, a merchant who hires the ship wishes

to supply the officers and crew himself, a special clause to that effect is inserted in the charter party.

After the agreement is executed and when goods are delivered on board, a document known as the bill of lading signed by the owner of the ship, is given to the shipper, in which the owner acknowledges receipt of these goods. When a charter party exists, the bill of lading is a simple document which contains an acknowledgment of the receipt of the goods on board and refers to the conditions in the charter party under which the same was received. In case of a general ship, however, no charter party is drawn out, as the voyage here is undertaken at the owner's risk and a large number of shippers ship here the goods which are consigned to the various ports at which the steamer is to call on its voyage. Here the ship-owner is the common carrier, carrying goods for all who desire to send them to the ports which he has declared would be visited. Therefore, here the bill of lading, besides being an acknowledgment of the safe receipt of the goods, contains various conditions and stipulations that make up this contract of carrying goods to the destined port. The practice in this case is that the shipper on delivering the goods on board receives from the captain a provisional receipt for them known as the "Mate's receipt", which he gets exchanged for a regular bill of lading at the office of the shipping company concerned.

The student therefore must note that in either case, *i. e.*, both where there is actual charter party and where there is none, the bill of lading is an indispensable document. The only difference being that in one case where the charter party exists, it is a simple acknowledgment of the receipt of the goods on board; whereas in the other case it contains, over and above this acknowledgment, the clauses and conditions of the contract of carriage between the ship-owner and the shipper. These two documents make up one contract in law known as the "Contract of Affreightment". Many writers call a bill of lading an agreement of carriage, whereas the charter party is known as the agreement of hire.

BILLS OF LADING.

A bill of lading is an indispensable complement of the charter party where one is drawn out, but in the absence of a charter party the bill of lading, besides forming an acknowledgment of the shipment of goods, also embraces the agreement of carriage. When it is signed by the master, as is usually the case, he does so as the agent of the ship-owner. In case of a general ship, the charter parties are not drawn out and the agreement of carriage is printed on the bill of lading itself, the conditions and terms of which correspond with those we have dealt with above in the case of charter parties. There are a few peculiarities, however, with which we shall now deal. A bill of lading is held to be a good evidence of a contract of carriage in case of a general ship.

As to the goods delivered the captain may state, either "delivered in good order and condition" or "weight, contents and value unknown". In the former case the captain is bound to deliver the goods in the same good condition as they were at the time of loading, the usual depreciation on the voyage being excepted; the document would in such cases be known as a "clean" bill of lading.

The peculiarity of a bill of lading is that it is a document of title to the goods, and in case the goods are made deliverable to the "bearer", or to a particular person or to his "order" or "assigns", the bill of lading can be transferred by the original holder to any one he chooses, and the transferee in his turn can also transfer it. This transfer can be made by endorsement or delivery, as the case may be, and the transferee acquires, by such a transfer, all the rights to the goods shipped that the transferor had and is also subject to the same liabilities as was the transferor. If, therefore, a bill of lading is transferred by the shipper to some other person, whether such a person is the buyer, or his mercantile agent lawfully entrusted with the bill of lading, and if that person, during the course of transit of the goods, endorses the same in favour of some

other person, who purchases goods in good faith and for valuable consideration, the right of stoppage in transit of the original holder cannot be exercised against this last party.

A bill of lading is frequently described as a negotiable instrument though it is not one in the strict sense of the term. There are undoubtedly many points of resemblance between a bill of lading and a negotiable instrument, *e.g.*, its transferability by delivery with or without endorsement, and without any notice to the person liable on it, and also that the transferee of a bill of lading can sue in his own name and give a valid discharge to the person liable. Thus some authors have called it a *quasi* negotiable document. It differs from a bill of exchange on the point of negotiability because in case of a bill of lading, a holder cannot give a better title than he himself has, whereas in case of the bill of exchange a holder in due course, who receives same for value and in good faith, receives same free from all defences as to the defect in title as could have been successfully urged against a previous holder, except of course, forgery.

The bill of lading is generally made out in a set of two or three. It sometimes happens, that these get into the hands of two or three different parties. In such cases the first transferee gets the best right at law. As far as the master is concerned, if he *bona fide* hands over the goods to any one of these holders, he is free from responsibility, and incurs no liability to the person who happens to claim a prior right, because the bills of lading provide for this contingency by a clause usually inserted in them, laying down that as soon as one of these documents is accomplished the others stand void.

"Lloyd's" and Marine Insurance.—From early times as the British foreign trade improved English merchants thought of providing against the risk of damage or loss at sea, both on goods and the ship that went out on a voyage. It is said that the business of marine insurance was first introduced into England by the Lombards, who were driven from Italy and took refuge in London; mostly in the locality which even to

this day goes by the name of Lombard Street, policies, or contracts of insurance, were commonly taken out by merchants who could not afford to allow the risks involved by the perils of the sea to remain uninsured with these Lombard merchants, as well as with other wealthy merchants of the town. Ultimately the jealousy of the local merchants drove the Lombards out of England, but the insurance business they had introduced remained in the hands of English merchants.

The Origin of "Lloyd's".—By the end of the seventeenth century coffee was first introduced in England and soon became a fashionable beverage. Coffee Houses were opened all over the country. One of them, Lloyd's Coffee House, in Tower Street, became a favourite resort of ship-owners, ship's captains and other merchants who came there, more or less on shipping business, as at that time the ships used to lie in the river off the Tower. Gradually people who had merchandise or ships at sea to insure found it most convenient to call at Lloyd's Coffee House, as they were sure to find some merchants ready to underwrite the risk. This brought into existence a set of underwriters who made it their principal business to undertake shipping risks. In 1691 the Coffee House was removed to Lombard Street. In 1696 the enterprising proprietor, Mr. Edward Lloyd, started a paper (the earliest of its kind in England) called "Lloyd's News", in which he gave shipping and other information of interest and importance to business men in general. In course of time Lloyd's Coffee House became the principal centre for Marine Insurance business in England. The "Lloyd's News" had to be stopped in the year 1697 owing to some trouble with the House of Lords, and was resumed after nearly thirty years under the designation of "Lloyd's List".

As marine insurance business progressed it was found that side by side with legitimate underwriters doing legitimate business, a large number of irresponsible outsiders indulged in illicit gambling. To prevent the business from getting a bad name, responsible underwriters and brokers banded themselves by forming an association known as the Association of Lloyd's

underwriters. The association afterwards (1774) took up its quarters in the Royal Exchange. After a most successful career the association was incorporated in 1871 by an Act of Parliament as "The Corporation of Lloyd's". It will be seen that the name "Lloyd's" was maintained as it had acquired a prestige through the standing of a large number of years. The object of the association is:—

- (1) promotion of the interests of members, and
- (2) collection and distribution of shipping intelligence among them.

Members.—The members of Lloyd's have to pay an entrance fee and a yearly subscription. They are divided into two classes, *viz.*, underwriting and non-underwriting members. The underwriting members do insurance business on their own account by underwriting policies, whereas, the non-underwriting members, or brokers, act as middlemen between the underwriters and the outside public. There are many members who act as both brokers and underwriters, and in many cases one member of a firm of underwriters acts as a broker whereas the other acts as underwriter. The hall of Lloyd's where the members meet for business is called "the room", to remind them of the old Coffee House where they had engaged a room for their business.

Business at "Lloyd's".—Lloyd's have agents all the world over who cable from time to time as to the arrival and departure of steamers hour by hour, also about casualties, wrecks, collisions, etc. This news is displayed at the allotted places in the "Room". It is also printed in the "Lloyd's List". It is then entered in a special index which is kept in Lloyd's Room, so that any member by simply opening out the pages relating to the name of the vessel concerned, can find out all details as to its movements, etc.

In England a large proportion of business of marine insurance is done on Lloyd's through private underwriters. Large insurance companies which have been floated at a subsequent stage of the history of marine insurance in England do comparatively very small proportion of business. The oldest of

these companies are the London Assurance Corporation and the Royal Exchange Assurance Corporation, both of which were floated in 1720, by special Acts of Parliament. It was at one time thought that these insurance companies, and many others that followed would, in course of time, take away from the members of Lloyd's the bulk of marine insurance business. This fear, however, has proved ill-founded and the members of Lloyd's are flourishing better than ever in spite of these and other insurance companies competing with them. The reason is that the quotation of the members of Lloyd's compare favourably with those of insurance companies, as the latter have to maintain large establishments.

We shall now consider how business is done on Lloyd's. A person wishing to insure at Lloyd's has to engage an insurance broker who has to go to the "room" and carry out the order. The broker receives instructions from the would-be insured and effects the insurance by communicating that fact to the underwriter on Lloyd's. When the broker effects the insurance with a private underwriter he gets a temporary document made out known as the "slip", which consists of a simple statement as to the name of the ship, date, description of the risk, the sum or sums insured and the rate of premium.

Taking a Line.—The underwriters who undertake the risk as mentioned in the slip initial same, each for the sum he thinks proper to underwrite, until the whole amount is subscribed. The legal effect of the slip as described by Justice Blackburn is as follows:—"The slip is in practice, and according to the understanding of those engaged in marine insurance, complete and final contract between the parties, fixing the terms of insurance and the premium, and neither party can, without the assent of the other, deviate from the terms thus agreed without a breach of faith, for which he would suffer in his credit and future business". However, the subsequent acts introduced in England, have laid down that the valid contracts of marine insurance can only be entered into by means of instruments known as policies which should be duly

stamped. It would, therefore, follow that a "slip" as it is not stamped, would not be a contract aimed at by the English law. On Lloyd's, however, a slip initialled by a member of Lloyd's would be binding on the member according to the rules of Lloyd's. It has been further held that where a stamped policy has been made out and executed after a slip, the slip may be looked into for the purpose of ascertaining the intention of the parties to the policy. It has, however, been held that if the contract of insurance is made in a country where no stamp laws are enforced, an action may be maintained on an agreement to issue a policy, and a specific performance of it may be ordered.

Very often, instead of a slip being made out by the broker or the underwriter, the insurance companies make out in their own office a document called a *cover note* or *insurance note*, containing a sketch of the insurance or a memorandum which is to serve as a first step to the drawing up of a proper document in the form of a policy. Of course, these documents contain incomplete information which can only be explained when read in connection with a regular policy of insurance. Unless the documents are properly stamped, they would not constitute a contract.

Implied Warranties.—Besides the actual conditions, clauses and stipulations contained in a policy of marine insurance, the policy is, by implication of law, taken to carry with it certain stipulations which are known as implied warranties. These are (1) warranty of sea worthiness ; (2) warranty of non-deviation ; and (3) warranty as to the legality of the voyage. Besides this, it is the first duty of the insured that he should make full and fair disclosure of all material facts to the underwriters at the time he takes over the risk, to enable them to clearly know the nature of the risk itself so that a correct rate of premium may be charged. If the insured fails to do so the policy may be avoided by the underwriters. This is because contracts of insurance are contracts *uberrimae fidei*, contracts of absolute faith.

1. *Sea worthiness* :—The insured at the time of effecting the insurance is supposed to give a warranty of sea worthiness, *i.e.*, at the time of insurance, the ship concerned is in every respect fit for the voyage on which it is sailing.

2. *Non-deviation* :—In case of a voyage policy where a voyage is contemplated between any two given ports, there is an implied warranty of non-deviation on the part of the insured, by which the insured is supposed to give an undertaking that the ship shall take the usual route taken by navigators, and shall not deviate therefrom except in cases where it is excusable by the law, *viz.*, (a) through unavoidable necessity, as the mutiny of sailors, or (b) where the ship is thrown out of its course by stress of weather, or (c) to procure fresh hands or stores which have run short, though at the commencement both were sufficient to last through the voyage, or (d) to avoid capture or destruction by the King's enemy, or (e) to save human life which is in danger. Deviation to save property does not fall under this exception.

3. *Legality of the voyage* :—There is an implied warranty on part of the insured that the voyage is undertaken for a legal purpose, *i.e.*, it is not a smuggling adventure or any other prohibited by law.

It must be added here that over and above the express clauses and stipulations contained in the policy, the parties are bound by all the established usages of trade and navigation affecting marine insurance which they are taken to have known.

Policy of Insurance.—A policy of insurance may be either (1) a *valued policy*, *i.e.*, a policy which specifies the agreed value of the subject matter insured, or (2) an *open policy*, which does not specify the value of the subject matter insured, which has, therefore, to be ascertained subsequently at the time the claim arises, or (3) a *time policy* (voyage policy), which covers the risk up to a stated amount for a fixed time, or (4) a *floating policy*, which describes the insurance in general terms and leaves the name of the ship or ships or other particulars to be defined by subsequent disclosures.

Re-insurance.—An underwriter or an insurance company may, when they consider the risk too great for themselves, get a part of it re-insured with another underwriter or insurance company. This re-insurance does not affect the position of the original assured, for the original insurance remains a distinct contract by itself, and the re-insurance in its turn becomes a distinct contract between the second set of parties. The original assured therefore can claim only from his own underwriter. To take an illustration supposing that A gets a ship insured with B for £10,000 for a certain premium. Now if B, the underwriter, wishes to re-insure half the risk, he may re-insure with C, say, for £5,000. In case of loss, A can only claim against B but he has no right against C. If, for example, B were to fail at the time of loss and only pays a part of A's claim, still A cannot claim from the underwriter C with whom the re-insurance was effected. C is liable to pay in such an event to B's trustees in bankruptcy this amount of claim on re-insurance.

Double-Insurance.—Double-insurance is quite distinct from re-insurance. Here the insured effects more than one insurance. If he does so without any intention of fraud, he can recover on all or any of the policies. If the total amount of all the policies taken together comes to more than the actual value of the subject matter insured, the insured can only recover the actual value. He can recover on the original policies their full amount till all losses are paid up. If, for example, a merchant not knowing the actual value of his goods, insures them for an approximate amount, and then thinking that the amount is not sufficient to cover the risk effects another insurance, he can do so. Now, when the loss occurs, he may recover as much of the loss as he can from the first policy and if that does not satisfy the claim he can proceed to recover to the extent of the balance of his claim on the other policy. The underwriters then may adjust among themselves by way of contribution, the rateable amount falling on each of them.

This rule of course applies when one party with the same interest insures his interest by more than one policy. It so happens that one or more parties with distinct interests in the same property, insure separately on their own separate accounts. Each of them would then be entitled to recover the full amount of their claim based on their separate interests.

Total Loss.—The total loss in marine insurance may be either (a) actual or (b) constructive. The actual total loss arises where the goods are wholly destroyed or annihilated, as when a ship is broken to pieces on the high seas and no longer answers the original description of a ship, but may be called a cargo of planks, or, where it is burnt to ashes. It is also held to be actual total loss when the subject matter insured is lost irrevocably, such as where a ship runs on an island and the goods thereon are plundered by the savages who live there. The constructive total loss arises where the ship is not destroyed, but is in such a position that to recover and get it repaired would be so expensive and risky that no man of ordinary prudence would care to do so, *e.g.*, where a ship runs on a rock and to save and repair it, it would cost more money than the actual value of the ship, or perhaps in spite of all the expenses that may be incurred to save same there is the risk of it being ultimately lost in the course of the attempt to save same the owner of the ship may treat same as a constructive total loss and claim from the underwriter as for a total loss. For this purpose he should abandon the ship and give a notice to the underwriter known as the "notice of abandonment". This notice informs the underwriter as to the condition of the said ship and the fact of the abandonment with a view to claim a total loss as per the policy.

Subrogation.—This doctrine of insurance applies equally to marine and fire insurances as well as to all contracts of indemnity generally. It lays down a principle which is quite equitable, *viz.*, that in cases of contracts of insurance such as marine and fire insurance, where a loss occurs, and the underwriters pay as for a total loss, they, the underwriters, step into

the shoes of the insured with regard to all the rights and remedies that the insured may have had against a third party and with regard to any benefit arising therefrom. To take an illustration, supposing that a ship called "India" was insured for Rs. 50,00,000, and it was lost through collision with another ship called "Egypt". If the underwriters paid the owner of "India" an indemnity of Rs. 50,00,000, as per the policy, they acquire a right, according to this doctrine of subrogation, to sue and recover this amount from the owner of "Egypt" if it can be proved that collision was due to negligence or default on part of the captain of "Egypt". The insurance company or the underwriter can bring this action in the name of the owner of "India".

Causa Proxima or the Proximate Cause.—This well-known maxim of marine insurance runs as follows: "*Causa proxima non remota spectatur*", which means that in deciding whether the loss has arisen through any of the risk insured against, the proximate or the nearest cause ought to be considered. It often happens that a succession of causes have operated to bring about a particular damage, and the difficulty arises when a number of these causes are not insured against whereas some others are. In such cases the rule is to ascertain the proximate or the nearest cause of damage and if the same is insured against, the underwriter must pay. To take an illustration, in one case where the goods were insured against damage by sea-water, some rats on board bored a hole in a zinc pipe in the bath which caused sea-water to pour out and damage the goods. The underwriters contended that as they had not insured against damage by rats they were not bound to pay. It was, however, decided that the proximate cause of damage being sea-water, the insured was entitled to recover damage, the action of the rats being a remote cause.

Insurable Freight.—At law freight is considered as earned by the ship-owner when the ship safely reaches its destination and the goods are ready for delivery. This rule of law may be modified by an agreement between the parties to the contrary.

Generally in case of a charter party, where the whole, or a large portion of the ship is chartered or hired, a part of the freight is paid in advance, and the other part is agreed to be paid on completion of the contract. Here the ship-owner can insure that part of the freight which he is likely to lose in case the ship, through some accident, is destroyed or does not reach its destination.

It may also be noticed here that the word "freight" in its ordinary commercial parlance means the consideration for hiring of a ship for a particular time or voyage or compensation for carrying goods from one place to another as in a general ship. In marine insurance law, freight also means any benefit which the ship-owner expects to derive by way of profits on his own goods which he carries side by side with goods of others to some other port.

Assignment of Policy of Marine Insurance.—An assignment of a policy of marine insurance may be made either by writing endorsed on the policy or by merely delivering the policy with the intention to assign. No particular form for assignment by endorsement is necessary. The policies are generally assigned by the original insured in favour of the person to whom he sells the goods, or to the agent to whom the goods are shipped. The only point to be noted is that at the time of assignment, the assignor had an insurable interest in the subject matter insured. If, however, the goods were lost or damaged at the time, it means that the assignor has transferred his own right as to the damage to the assignee.

Lloyd's Register of British and Foreign Shipping.—This book is published by Lloyd's every year, and shows all particulars as to ships of one hundred tonnage or over which are registered in the United Kingdom, and also all foreign ships which have been specially registered at Lloyd's. This register is issued by a special society called the "Society of Lloyd's Register", "the general committee of which is composed of 72 members selected from various classes such as underwriters, ship-owners, ship-builders, merchants from London, Liverpool,

etc." The committee will not give its classification to any ship which has not been built according to its own regulations. This register is particularly referred to by the members of Lloyd's while underwriting risks on the ships concerned, as it furnishes detailed information as to the way the ship was built, its tonnage, its proprietor and its condition at the last survey.

Average.—The word average, as used in shipping parlance means damage, loss or charges or some burden on property carried by sea. This risk is insured against in one form or other by policies of marine insurance both by Lloyd's as well as by insurance companies. Average is divided into two classes, *viz.*, (1) Particular average, and (2) General average.

Particular average is a loss or damage on cargo or ship *through sea perils incurred independently of the general safety of the whole enterpriss*. Thus in case A had goods on board a ship and through accident, say a wave coming in, the same are damaged, the loss would be called a particular average loss and in case A has insured himself against particular average he will be able to recover same.

In case of *general average*, however, the *damage or loss suffered is by the owner for general safety* and that too by a *voluntary sacrifice*. Supposing for example that a ship loaded with goods of A, B, C, D and E leaves the port of Bombay for Marseilles. On its way, somewhere in the Red Sea, it meets with a heavy storm and the captain finds that in order to save the ship he must sacrifice a part of the cargo. He thus orders the goods that are most handy to be thrown overboard in order to lighten the ship, and in this process the goods of A are totally lost, whereas half of the goods of B are lost. The captain finding that the mast of the ship was endangering its safety, orders same to be broken and thrown overboard. When the ship enters Port Said thereafter, an adjustment called average adjustment will have to be made by experts called average adjustors, by which the loss will be proportionately distributed among all interested in the venture, *viz.*, A, B, C, D and E and the owner of the ship. In other words A, B,

C, D and E as well as the ship-owner, will have to pay or contribute towards the total loss, *viz.*—the value of lost goods, plus the mast, plus harbour expenses and expenses of repair in order to enable the ship to proceed further with its voyage, in proportion to the value of goods of each, as well as that of the ship, and out of this total contribution A would be paid full value of his goods, B half the value of his goods, and the ship-owner the value of the mast and expenses of repairing as well as harbour dues.

P. P. I. Policy.—The contract of insurance is said to be a contract of indemnity, and thus all that the insured can claim is to be indemnified for the actual loss suffered. In other words, he cannot, by insuring property which does not belong to him, or in which he has no interest either as a money-lender or mortgagee, or in any other capacity, or where the destruction or damage to the property does not entail a pecuniary loss, claim to recover the amount covered by the policy; and the policy in such a case is void in law and is known as a wager policy. This is because here the insured is taking out a policy with a view to bet or gamble on the chances of the goods or the ship that he has insured being damaged or destroyed, and the law sternly discourages such transactions. On Lloyd's, however, policies known as "P. P. I." or "Policies proof of interest" or "Honour policies" are taken out, where the underwriter guarantees that even if the insured may not have any insurable interest in the subject matter insured, the policy shall be payable in case of loss or damage to the subject matter insured. This of course does not make the policy enforceable at law though members of Lloyd's may be relied on to carry out their engagements to the letter.

FIRE INSURANCE.

A contract of fire insurance is a contract by which the insurance company, or the underwriter, or the insurer undertakes, for a consideration in form of a payment of money either in a lump sum or in instalments, to indemnify the insured

against the consequences of a fire, or the loss of injury as arising therefrom during an agreed period and up to a certain amount. The contract is to be found embodied in a document known as the "policy of the insurance".

Here, also, as in the case of life and marine insurance, the insured must have an insurable interest in the article insured, *i.e.*, he must be in such a position that by loss, destruction, or damage of the property he stands to suffer a pecuniary loss. In short, all the principles of insurable interest applicable in case of marine insurance apply to fire insurance.

The Policy.—It has been held in various English cases that it is not necessary to have an actual formal policy in order to constitute a valid contract of fire insurance. A slip initialled by a broker with a view to the preparation of a policy may be taken as a contract of insurance, and it has also been held that a mere proposal to insure followed by an acceptance of the proposal, in itself constitutes a valid contract of fire insurance, even though no payment by way of fire insurance premium has been made. The general practice is that after the proposal by the owner of the property for insurance, and after its acceptance, a document called a "cover note" is handed to the insured. This cover note is given as a protection between the interval of time covered by the proposal and the consideration of that proposal by the company or the underwriter. It has been held that such a cover note would be sufficient to enable the holder to claim damages in case the fire occurred during the interval. In short, the cover note, or an interim protection note, constitutes a binding contract for the time mentioned in it.

The Risk.—The risk on fire policy commences from the moment of time the cover note, or the deposit receipt, or the interim protection note is given, and continues for the term covered by the contract of insurance. It is the practice to allow a certain number of days as days of grace within which a fire policy may be renewed after the expiration of the term. In such a case, if fire occurs within such a time the insured

would be entitled to recover the damages. The days of grace only apply when the insured has the intention to renew the policy; failing that, the policy expires on the day the period runs out. If, on the other hand, it is expressly stipulated in the policy that unless the renewal premium is paid and the renewal risk is accepted the insurance would expire, the insured would not be able to recover in a case where fire occurred after the expiration of the term and before the acceptance by the fire insurance company of a proposal for further insurance.

Loss by Fire.—The question as to what is the precise meaning of the expression "loss by fire" has frequently arisen. Of course, the literal meaning, *viz.*, damage, loss or deterioration through ignition is included, but much more than that is covered. In India the Municipal Acts of the different provinces lay down that damage by fire within the meaning of policies in India, would include any damage done in the exercise of powers, in case of an outbreak of fire, by a magistrate, or members or secretaries of committees, or members of a fire brigade by way of breakage, pulling down of premises and through any measures that may have to be taken in case of fire to preserve lives or property. The exact wording of the Bombay Municipal Act of 1888, Section 363, is as follows:—

"Any damage occasioned by the fire brigade in the due execution of their duties, or by any police or municipal officer or servant who aids the fire brigade, shall be deemed to be damage by fire within the meaning of any policy of insurance against fire."

It would also include the damage to a property caused through heating which heat has been engendered by some property near it which has caught fire. Of course, pure and simple heating, without there being any ignition of the property itself or anything near it, would not be covered by the expression "loss or damage by fire". In case of lightning, if the actual fire has been caused by such an accident, it would, of course, be covered by the ordinary risk of damage by fire, not otherwise, unless specifically provided for in the policy, as is usually

done. In short, losses directly caused by or through fire, *i.e.*, those that are direct consequences of fire, are covered. The others are not covered unless specifically provided for. If the loss is caused through the malicious act of the insured himself, he would not be able to recover ; but it would be no excuse for the underwriter to say that the loss was caused through the negligence of the insured.

Fire policies usually cover loss through fire whether caused through lightning, explosion of boilers used for domestic purposes or explosion of gas used for domestic purposes or in a building not used as gas works. They do not include loss through fire caused by spontaneous fermentation, earthquakes, subterranean fire, riot, civil commotion, foreign enemy, military or usurped power, rebellion or insurrection.

Absolute Good Faith.—The contract of fire insurance is a contract *uberrimae fidei*, *i.e.*, a contract based upon absolute good faith, and therefore, the insured must make full and detailed disclosure of all material facts likely to affect the judgment of fire offices in determining the rates of premium or deciding whether the proposal should be accepted.

The description of the property, when asked for, should be correctly given, and all information that may be required, as to the class of goods and articles that are kept on the premises or in the surrounding neighbourhood, should be accurately supplied.

Claims and Average.—In case of an outbreak of fire the first care that the insured must take is to give notice to the insurance company. The policies generally provide for notice in case of an outbreak within a specified time, which clause should be strictly complied with. The claim to be made out should be for the exact value of the goods damaged or destroyed at the date of the fire. In case of goods partly destroyed or damaged, details as to their value in good condition (and in damaged condition) ought to be made out and furnished to the insurance company. In case of damage to buildings, a sum amounting to the cost of repairs of the damage, with due

allowance for the greater value of the new premises over the old, should be the basis of the claim. This is, of course, applicable where the policy covers the full value of the property; but in fire insurance the peculiarity is that, unlike marine insurance, the insurance company cannot, in case the property is partially insured, claim to pay only a proportional loss, *i.e.*, loss in the proportion in which the amount insured stands to the full value of the property. The company is, in fact, liable for the whole loss, as far as the amount insured covers that loss, irrespective of the value of the whole property; *e.g.*, if a property is worth Rs. 50,000 and is insured for Rs. 20,000 and the damage has been caused to the extent of Rs. 5,000, the insured can recover his full Rs. 5,000. Policies, however, counteract this advantage from the point of view of the insured by inserting clauses known as "average clauses" under which it is expressly provided that in such cases the loss in proportion to the risk covered on the property can only be claimed. These average clauses have now developed into a number of variations suitable to various circumstances. It may be added here that the fire offices by inserting a clause called "reinstatement clause" reserve to themselves the right to reinstate the property instead of paying in money. This clause goes a long way, in practice, to prevent rapacious and fraudulent claims being presented.

Subrogation.—Subrogation is a doctrine applicable both to fire and marine insurance, by which the insurer or the underwriter, becomes entitled to claim all advantages of every right of the insured on his paying compensation to the insured, against third parties who may be proved to be responsible for that loss, owing to such third parties' negligence, default, etc. In the words of Brett, L. J.: "As between the underwriter and the assured, the underwriter is entitled to the advantage of every right of the assured, whether such right consists in contract, fulfilled or unfulfilled, or in remedy for tort capable of being insisted on, or already insisted on, or in any other right, whether by way of condition or otherwise, legal or equitable,

which can be, or has been exercised or has accrued, and whether such right could not be enforced by the insurer in the name of the assured by the exercise or acquiring of which right or condition the loss against which the assured is insured can be, or has been, diminished" (*Castellian v. Preston* (1883), 11 Q. B. D., p. 388).

To take an instance, it often happens that a lessee takes the lease of premises for a long period, which lease covers the repairs to premises. The lessee under this covenant would be bound to repair the premises even in case of damage by fire. Now, if the premises has been insured by the landlord and fire occurs, the landlord can recover the loss immediately from the insurance company or the insurer, and the insurer or the insurance company can, in their turn, recover the amount from the lessee, because, on their having paid the loss to the lesser, *i.e.*, the landlord, the landlord's rights are subrogated to the insurer.

Assignment of Policy.—A fire policy can, according to English Common Law, be assigned only with the consent of the insurer or the insurance company. It is said to be a contract of a personal nature, and therefore a policy of insurance does not pass with the sale or assignment of the property on which it is effected. A transfer or assignment with the consent of the insurance office, as stated above, would only give an effective right to the assignee. In connection with this, sections 135 and 49 of the Transfer of Property Act, 1882, are important.

Section 135:—

"Every assignee by endorsement or other writing of policy of marine insurance, or of a policy of insurance against fire, in whom the property in the subject insured shall be absolutely vested at the date of the assignment, shall have transferred and vested in him all rights of suit as if the contract contained in the policy had been made with himself."

Section 48:—

"Where immovable property is transferred for consideration, and such property or any part thereof is at the date of transfer insured

against loss or damage by fire, the transferee, in case of such loss or damage, may, in the absence of a contract to the contrary, require any money which the transferor actually receives under the policy, or so much thereof as may be necessary, to be applied in reinstating the property."

Section 135 virtually states the law as to transfer of a marine policy both in England and India. The only peculiarity to be noticed in the language of this section is in connection with the words "in whom the property in the subject insured shall be absolutely vested at the date of assignment". These words may mean either that the absolute owner of the property alone can transfer or that any holder of the policy can transfer such interest in the property as may be absolutely vested in him. The latter meaning is presumably aimed at according to the best authorities.

Section 49 deals exclusively with immoveable property. Here our Indian law differs from the English. Here, unlike English law, the policy virtually passes to the purchaser on the transfer of the insured property.

CHAPTER XIV.
NEGOTIABLE INSTRUMENTS AND
INSTRUMENTS OF CREDIT.

Bills of Exchange, Promissory Notes, etc.—From very early date the necessity of using various instruments of credit was felt by business men, and by the custom of trade various documents came into use. These documents received, now and again, the sanction of Law courts when disputes arose between business men using it. This sanction was given after the usages were proved before Law courts and accepted as settled law in the interests of trade and public convenience. Later on the law relating to bills of exchange and promissory notes was codified and consolidated.

A bill of exchange is defined as an **unconditional order in writing**, addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed to pay **on demand** or at a **fixed determinable future time**, a **sum certain in money** to or to the order of a **specified person**, or to bearer.

Before proceeding to deal with the various legal and business technicalities concerning bills of exchange the student had better understand what these documents are.

The simplest of these documents is a promissory note. Supposing that A borrows from B £100 or owes him that money, he may give to B a promissory note, in which he promises to pay B £100 on demand, or at some other future date, with or without interest, according to arrangement between them. The simplest form would be as follows:—

On demand (or at three months after date) I
promise to pay Mr. B the sum of (£100) Pounds One
Hundred, for value received.

(Sd.) A.

Stamp

£100-0-0.

London, 10th June, 1939.

This instrument puts the debt in what is called a "tangible form", and B the holder of it, has not only the consolation of having a written acknowledgment of this debt, but also, in case he is in want of money and the debt is not due (in case where it is to be paid after some time), he can raise money on this promissory note by discounting same with a bank, *i.e.*, selling it for its value less a charge made by the banker by way of discount, or transfer it to some other person to whom he (B) may be owing money.

With regard to bill of exchange, it may be an inland or a foreign bill. We shall first take a simple example of an inland bill. A, a retailer, buys goods from B, a wholesale merchant, for say £150. The arrangement is that A should have a credit for one month after the date of delivery of the goods and that a bill should pass between them. Therefore, B, when delivering goods to A presents an invoice for the goods he has sold and also a draft drawn on A. This draft would be known as the draft of B which has to be accepted by A and returned to B, which makes it a complete document. The draft as drawn would be in the following form:—

London, 20th July, 1939.

Stamp

One month after date pay to me or my order the sum of pounds one hundred and fifty sterling, for value received.
£150-0-0.

(Sd.) B.

To Mr. A.

The above draft when accepted by A, would bear across the face of it the following writing:—

Accepted.

(Sd.) A.

London, 20th July, 1939.

The holder of this bill, *i.e.*, B can now hold it till its due date, *vis.*, 23rd August (which includes three days of grace) and recover £150 on that date from A the acceptor. If B likes he may endorse it over to any one in payment of any debt owing, or if he happens to be in want of money, before maturity

of this bill, he may discount it with his banker, as in the case of the promissory note dealt with above. It would thus be noticed that in this case, though A obtains goods on a month's credit, B obtains an instrument which to him renders almost the identical service that ready cash would have rendered, because, he can either hold it on, or discount it and obtain cash, or use it in payment of his own debt to others.

In case of foreign bills, *i.e.*, bills drawn on firms and individuals outside the country, they are generally drawn in sets of three, each of which is called a "*via*", and as soon as any of them is paid for, the others become inoperative. They are drawn in a set so that they may be sent by different mails, or through different routes, to ensure at least one reaching its destination. We shall take the following as an example:—

London, 21st July, 1939.

Sixty days after sight of this first of exchange (second and third of the same tenor and date unpaid) pay to the order of Messrs. Lyon Sons & Co., Bombay, the sum of rupees two hundred, value received.
Rs. 200-0-0.

Sd./- LYON SONS & CO.

To

Messrs. Jamaspji and Framji,
BOMBAY.

The second would read as:—

London, 28th July, 1939.

Sixty days after sight of this second of exchange (first and third of the same tenor and date unpaid) pay to the order of Messrs. Lyon Sons & Co., Bombay, the sum of rupees two hundred, value received.
Rs. 200-0-0.

Sd./- LYON SONS & Co.

To

Messrs. Jamaspji and Framji,
BOMBAY.

In the above example the set of bills is drawn by the London office of East India merchants, Messrs. Lyon Sons & Co., on Messrs. Jamaspji and Framji of Bombay for goods sent to them, and the bill is made payable to their Bombay branch's order. This set is then posted to the Bombay branch

which presents one of them for acceptance to Messrs. Jamaspi and Framji. On acceptance the Bombay branch holds same on and recovers the amount to the credit of the London head office on the due date. This bill was drawn on Messrs. Jamaspi and Framji for money due by them as per invoice of goods sold and exported by the London office of Messrs. Lyon Sons & Co.

What generally occurs with regard to these transactions is that large East India merchants, trading with foreign countries from the United Kingdom, receive orders for goods either from their Branch offices or Agents. These branches or agencies secure indents from local dealers in the respective countries where they are stationed. Now supposing that the Bombay agent of Messrs. Robins Tucker & Co., East India merchants of London, send an indent which these agents have secured from a local dealer. The agents' name is Messrs. Rupchand & Co. and the dealer's name is Abdul Rahim. The arrangement is that a bill may be drawn for the invoice amount at 90 days' sight on Abdul Rahim with interest at 6 per cent per annum. Messrs. Robins execute the order and make out their invoice as follows:—

Invoice of four boxes of woollen tweed, shipped per S. S. "Himalaya" for Bombay, on account of Mr. Abdul Rahim of Bombay, by Robins Tucker and Co., East India Merchants and Commission Agents, London.

| | | | | | | | | | |
|-------|----------------------------|------------------|-----|-----|-----|------|----|---|--|
| | 1-2 Superior No. 5 Tweed | | | | | | | | |
| | | 1,000 Yds. @ 5/- | ... | ... | ... | 250 | 0 | 0 | |
| Mark. | | | | | | | | | |
| | ▲ 3-4 Inferior C Tweed | | | | | | | | |
| | | 1,200 Yds. @ 2/- | ... | ... | ... | 120 | 0 | 0 | |
| R. T. | | | | | | | | | |
| | | | | | | £370 | 0 | 0 | |
| 1-4 | Packing | ... | ... | ... | ... | 1 | 10 | 0 | |
| | Insurance and Dock Charges | ... | ... | ... | ... | 0 | 10 | 0 | |
| | Freight | ... | ... | ... | ... | 5 | 0 | 0 | |
| | Commission | ... | ... | ... | ... | 15 | 0 | 0 | |
| | | | | | | | | | |
| | | | | | | £392 | 0 | 0 | |

R. & O. R. £392 0 0

Sd./- ROBINS TUCKER & Co.

London, 1st August, 1939.

When these goods are shipped, Messrs. Robins would receive a bill of lading in a set of two or three. Messrs. Robins would also receive a marine insurance policy for insurance that they may have effected. They would then proceed to draw bills on the Bombay dealer according to the terms and conditions of the indent. They would draw three bills payable to the order of their Bombay Agents, Messrs. Rupchand & Co., who may collect the amount to the credit of their (Messrs. Robins') account. This course is seldom taken in practice. What is generally done is that bills to the order of an English banker with a branch at Bombay are drawn. The English banker would then make an advance payment to the shippers, Messrs. Robins, on the bill, on same being handed over to him together with shipping documents, *viz.*, invoice, bill of lading and insurance policy. This English banker thereafter posts all these documents to his Bombay office, which presents the bill for acceptance to Mr. Abdul Rahim, and when accepted by the latter holds same till due date, when he recovers the amount plus interest as agreed upon. In this particular case the bill would be in the following form :—

£392-0-0.

London, 1st August, 1939.

| |
|-------|
| Stamp |
|-------|

 Ninety days after sight of this first of exchange (second and third of the same tenor and date unpaid) pay to the order of the Chartered Bank of India, Australia and China, the sum of three hundred and ninety-two pounds, sterling, with interest added thereto at six per cent per annum, from the date hereof to the approximate date of arrival of remittance in London, and payable at the current drawing rate for the drafts of the above bank at sight on London.

Value received in four cases of merchandise per S. S. "Himalaya".

Sd./- ROBINS TUCKER & Co.

Mr. Abdul Rahim,
BOMBAY,

"In case of need" with Messrs. Rupchand & Co.

(Note :—The above form has been taken from the files of an East India merchant.)

If this bill is not paid on maturity, or if the dealer Abdul Rahim refuses to accept or pay same on any excuse, the

Bombay Branch of the Chartered Bank would refer to Messrs. Rupchand & Co., who are stated on the bill as the "case in need", and who would try to settle any point raised by the dealer. Failing that the "case in need" would accept or pay for the "honour" of the London firm of Messrs. Robins. We shall in course of this chapter deal with the technicalities of all these expressions.

Negotiability.—Bills of exchange and promissory notes are known as negotiable instruments. An instrument is negotiable either by law or by custom of trade. Bills of exchange and promissory notes have long been held to be negotiable instruments all over the commercial world. By "negotiability" is meant, that not only is the instrument transferable by endorsement or delivery, but that apart from its transferability, the "holder in due course" of a bill, who has received it complete and regular on the face of it, for value, and without any notice as to the defect in title of a previous holder, acquires a good title, notwithstanding any defect in a previous holder's title, *e.g.*, A gave a bearer cheque to B which B dropped on the road. C picked it up and gave it to D in settlement of money due by C to D. C then disappeared. D cashed the cheque. In this case neither A nor B can ask D to refund the money because D can plead that he was "a holder in due course" of a negotiable instrument. It may be added here that the risk of a *bona fide* holder for value is defeated if there is a forged endorsement on the document because the rule which lays down that forgery gives no title applies to him with equal force.

Peculiarities.—A bill of exchange as mentioned above is defined in law as: "An unconditional order in writing addressed by one person to another, signed by the person giving it, requiring the person to whom it is addressed, to pay on demand, or at a fixed determinable future time, a sum certain in money, to or to the order of a specified person, or, to bearer."

The words in heavy type in the above definition should be carefully noted. A bill must, of course, be in writing. It must be unconditional. The time mentioned must be fixed and determinable, as "one month" or "five months". If a bill is drawn payable "on the day it rains in July, of this year", it would be bad for uncertainty because it may never rain during that month.

The amount payable must also be a sum certain, such as Rs. 5,000. If interest is payable the rate agreed upon must also be included. A bill drawn for "an amount which the court of arbitration may award" would not be certain. Again if the amount as mentioned in words differs from that indicated in figures, the sum expressed in words would be payable.

Both the drawee, *i.e.*, the person on whom the bill is drawn, as well as the payee, *i.e.*, the person to whom it is payable, ought to be mentioned with reasonable certainty, unless the bill is made payable to bearer. A bill is not void by reason of its being undated, or because it does not state the place where it is drawn or made payable. The same rule applies in case it is ante-dated, or post-dated, or dated on a Sunday.

In case of undated bills or acceptances, the holder may insert the right date, and the period runs from that date. Presumption always is that the date mentioned on the bill is the correct one unless the contrary is proved. If an incorrect date is inserted in "good faith" by the holder, it does not invalidate the bill. If no date of payment is mentioned in a bill it is deemed to be payable on demand. If the payee, *i.e.*, the person in whose name the bill is made payable, is fictitious person, the bill is payable to bearer. It is the practice with some to draw cheques as payable "Wages or Order" or "Salaries or Order" when they wish to draw for payment of wages or salaries. In law these are bearer cheques as they are drawn in favour of fictitious persons. Banks generally discourage their customers from drawing cheques in this fashion.

It often happens that a blank stamped *hundi* paper or a bill of exchange form is handed by the signatory with his

signature to be filled in afterwards. This act is construed as a *prima facie* authority to the party receiving the stamped paper, to fill in any sum up to the amount covered by the stamp, so far as he does so in a reasonable time. The law goes further and lays down that this authority to fill in is not restricted to the person to whom it was originally given, but is also extended to any holder, so far as the signer had delivered this blank paper to the original party of his own accord. It would thus be seen that the holder in due course gets ample protection on a bill of exchange. These documents are called "inchoate", or "incomplete" documents.

The wording of a bill of exchange must import a demand and not a request. The sum payable is not regarded as uncertain although it is required to be paid with interest.

A bill is generally made payable to the drawer, a payee, or to bearer. If however the payee's name is not filled in, it is open to any holder for value to fill in his own name and sue on the bill. A holder in due course of such a bill, the previous endorser of which had filled in his own name in the blank space left for the payee's name, would also be entirely protected. It may happen that the payee's name is filled in by the drawer but incorrectly spelt, in which case the bill is valid, and the payee would have to endorse it first in the way in which he is incorrectly described in the bill, and then add his own correct signature.

The Parties.—It should also be remembered that the parties to a bill are (1) the **Drawer**, the person who draws the bill. He is known as the "Maker" in case of a promissory note, (2) the **Drawee**, the person on whom the bill is drawn. He becomes the acceptor after he has signified his assent to the order of the drawer by writing the word "accepted" right across the face of the bill with his signature and date. (3) The **Payee** is the person to whom the bill is payable. The drawer may make the bill payable to himself or may name another person in the bill to whom it has to be paid. (4) The **Payee** of the bill may be the original payee named in the bill or

one to whom the bill is endorsed over by this original payee. In case of a bill or a promissory note payable to bearer, the bearer is the holder. (5) When payee endorses the bill he is also known as the **Endorser**, and the person to whom it is endorsed is the **Endorsee**. The endorsements are of various kinds as we shall see later.

Acceptance.—We shall now proceed to discuss the various peculiarities as to acceptance. An acceptance is the signification of the drawee's assent to the bill. This is usually done by him through his placing his signature on the bill with or without the word accepted. The usual place for writing the acceptance is on the face of the bill, but it may be written even on its back, and if the Court is satisfied that the signature was so placed with a view to accepting the bill, it would be a valid acceptance. The acceptance may be **general** or **qualified**.

A General acceptance is where the drawee signs his name across the face of the bill with or without the word "accepted", thereby signifying his assent to the bill. As a general rule the bill must always be accepted generally, and if the acceptor adds any qualification to it, it becomes conditional acceptance, as we shall see later, in which case the drawee may either agree to such an acceptance or treat the bill as dishonoured for non-acceptance, and move on it.

A Qualified acceptance.—An acceptance may be **qualified** in various ways. It may be qualified **as to the amount**; *e.g.*, a bill may have been drawn for £500, whereas the acceptor perhaps, arguing that he owes only £300, may accept for £300, as, "Accepted for £300 (three hundred) only".

It may be **qualified as to time**, *e.g.*, where a bill is drawn payable one month after date, the drawee accepts it as "Accepted payable three months after date".

It may, on the other hand, be **qualified as to place** and made payable at a particular place, and there only, as "Accepted payable at the Lloyd's Bank, and there only". If the words "and there only" were not there, the acceptance would not be a qualified acceptance because the holder can still present

same at the business place of the acceptor, the bank's name being here mentioned as a convenient place of payment, but with these words added, it becomes qualified as they make presentment at the bank compulsory.

It may be accepted as payable in instalments, as "Accepted payable in monthly instalments of £50". The drawer or holder of a bill is not bound to agree to an acceptance which is qualified. He can treat the bill, as dishonoured, and move for remedies open to him on that ground. In fact he ought to take a qualified acceptance without the consent of all endorsers and the drawer, otherwise they would be released from their obligations on the bill.

In case of foreign bills, a "Case in Need" is generally stated on the bill (see the form given on page 601). This "Case in Need" is the agent of the drawer in the foreign country, where the bill is made payable. When, therefore, the bill is dishonoured either by non-acceptance, qualified acceptance, or by non-payment, the holder refers to this "Case in Need". The "Case in Need" either gets the proper acceptance, or failing that, gets the bill protested for non-acceptance and accepts same himself for the "Honour of the drawer". This is known as an "Acceptance for honour *supra protest*". The holder then holds it till the due date, when he presents it again to the drawee for payment. If payment of the bill be also refused, he should first get it protested for non-payment and then present same to the "acceptor for honour" who pays same for the honour of the drawer.

The object served by this acceptance and payment for honour by the "Case in Need" is to save expense by way of interest and loss on exchange which would necessarily follow, as these foreign bills are generally drawn and discounted in the country of their origin. In absence of such an arrangement on the drawee's refusal to accept or pay the bill, the banker's foreign agent or branch office would refer the bill back to the office through which it was sent to him for collection. This would mean waste of time, during the whole

of which banker's interest keeps running, not to speak of the great inconvenience to drawer and loss on exchange, whereas, it may be that the refusal to honour was based on grounds as could easily have been settled by an Agent on the spot.

It may be noted however that protest is only **necessary** in case of foreign bills, specially when they appear to be such, but, if there is nothing on the face of the bills to indicate their foreign origin, they need not be protested. In English law protest is not necessary in case of a foreign promissory note. Protest is compulsory because the law of many foreign countries make it so. Noting only applies to inland bills and is not compulsory though desirable.

Protest for Better Security.—It may happen that the acceptor of a bill suspends payment, or becomes insolvent, before maturity of the bill, and in that case the holder for value may, for his protection, get the bill protested “for better security” against the drawer and previous endorsers. This gives the drawer, or the endorsers, an opportunity to accept for honour. The only disadvantage is that the expenditure on this “Protest for better Security” is not recoverable from the other side.

Acceptance for Honour.—With regard to the acceptance for honour, it may be noted that the “acceptance for honour” may be for honour of the drawer, or endorser, or one or more of them. If the acceptance does not state for whose honour it is made, it is presumed to be for the honour of the drawer. The acceptor for honour must be a person, who is not in any way liable on the bill, but who simply intervenes on behalf of a friend with the consent of the holder of the bill. When he pays the bill, which he has accepted for honour, he succeeds to the rights and duties of the holder, as against the party for whose honour he pays, and against all parties liable to that party.

When a bill is accepted for honour, it is understood that the same would be presented for payment on the due date by the holder, and that in case of non-payment, it would be noted

and protested, and that due notice would be given to the drawer.

Endorsement.—A bill or a promissory note is said to be endorsed when the holder by writing his signature on the back of the document transfers his rights to some one else. The writing and signature are called the endorsement, the person endorsing the "Endorser", the party in whose favour it is endorsed the "Endorsee".

The endorser of a bill, in case of non-payment, or non-acceptance, would be personally liable to a subsequent endorser, *e.g.*, if A endorsed a bill to B, and B endorsed it to C, and if C cannot get the money for the bill on its due date from the person who is the acceptor. C can hold B responsible and B would have to pay C. B in his turn would recover the money from A the former endorser, and so on.

Different Classes of Endorsements.—The endorsement may be either—

- (1) Blank, *i.e.*, only a signature, or
- (2) Special, *e.g.*, Pay to John Smith or order.

Sd./- William Green.

- (3) Partial, *e.g.*, where only a part of the amount of the bill is transferred. This does not operate as a negotiation of the instrument; but may authorise the endorsee to receive payment of the amount specified. The law lays down that an endorsement must relate to the whole instrument.
- or (4) Restrictive, *i.e.*, (a) where it prohibits further negotiation, as, "Pay to M. only" or (b) restricts the endorsee to deal with the bill as directed by the endorser, as, "Pay to M. or order for collection".
- or (5) *Sans Recourse, i.e.*, where the endorser makes it clear that the endorsee, or the subsequent holders should not look to him for payment in case of the bill being dishonoured, *e.g.*, if A endorses a bill "Sans Recourse" to B, and if B agrees to take it

with such an endorsement, he takes it with the understanding that in case he (B) fails to recover money from the acceptor, or any of the previous endorsers to A, he (B) cannot sue A on the bill.

Endorsements, as we noticed above, are written on the back of a bill, and when all the space there is filled in with endorsements, a slip is attached for further endorsements called an "allonge".

It may be added that there is no objection in law to the conversion of a Blank endorsement into a Special endorsement.

Dishonour.—A bill, as we have seen, is said to be dishonoured when the drawee refuses to accept it when duly presented, or when it has been accepted and the acceptor fails to meet it on due date. A bill must be presented for payment to the acceptor on the due date, at his business place, and at a reasonable hour. If he has no place of business it may be presented at his residence. The presentment must be made to the acceptor or his agent duly appointed.

As soon as a bill is dishonoured, the holder must give notice of dishonour to the drawer and all previous endorsers. The notice, though not required to be in writing at law, must be a written notice for safety. The notice must be given within a reasonable time, *i.e.*, if both the giver and the receiver of the notice reside in the same place, it should be given the day after dishonour. If, on the other hand, they live in different places, the notice must be posted the day after dishonour. Anyway, the holder must give notice of dishonour within a reasonable time. Of course, if, for some reason, the notice could not be given, or did not reach any of the parties, through no fault of the giver of the notice, he would be excused. Otherwise, failure to give notice within reasonable time would release all endorsers previous to the party failing to give notice, as well as the drawer.

Besides giving the notice as above referred to, the holder must get the bill "Noted". This is done through a Notary,

who presents the bill, notes down in his register the fact of its dishonour and the reason, if any, given by the acceptor for so doing. When the bill is a Foreign Bill, it requires also to be "Protested". The Protest includes a copy of the bill signed by the Notary making it, and states the name of the person at whose request the protest is made, the cause and reason of protesting, the demand made and the answer given, or if the drawee or the acceptor could not be found, that fact is stated in the protest. In case of inland bills noting alone is sufficient.

Lost Bill.—When a bill is lost, the holder can, on giving proper security to indemnify the drawer and acceptor against all persons who may claim from him, in case the bill be found, force the drawer to give him another bill of the same tenor.

Accommodation Bills.—Often bills are drawn, accepted and endorsed, for the accommodation of one or more of the parties concerned, though no value has passed on them. These are known as "Accommodation Bills" or "Kites", *e.g.*, A, B and C are each in want of £100 and they arrange that A should draw a bill for £300, which B should accept. That A should then endorse over this bill to C, who in his turn should discount same with his bank. They then divide the proceeds among themselves. This bill is an accommodation bill because here A, B and C, the parties to the bill, are accommodated, whereas, the banker is a holder for value. The holder for value can, therefore, recover the amount of the bill on due date from the acceptor "B", and failing him, he can sue C and A in turn. Here the fact that the bill was an accommodation bill, and that full consideration for it was not received by B the acceptor, would not affect the banker as a holder for value. With regard to the accommodated parties, the party who accepted or endorsed a bill, without receiving value, may raise that question successfully, and plead it against any of the parties to the accommodation.

Bills and Promissory Notes by Infants.—An infant is not liable on a bill or promissory note drawn, accepted or

endorsed by him unless it has been so drawn, accepted, or endorsed, for necessities of life. In this case the liability of the infant is said to be based on the consideration and not on the bill. When a person who holds this bill tries to enforce it against the infant, the burden of proving that the bill was obtained against necessities supplied would be upon such a person and if such a person were to endorse this bill to a third party, that third party cannot claim to sue the infant on the bill itself as an endorsee. If an adult is a party to the bill side by side or jointly with an infant, the bill can be enforced against the adult. An infant of course can always sue on a bill.

Signature.—The signature or endorsement on a bill is the name of the party so placing his signature, or that of the firm which he represents with proper authority. The law says that in case of a partnership, a bill, or a note, can be drawn, accepted, and endorsed, in the regular course of the business of partnership by any of the partners, or if the partnership agreement specifically provides, by the partner who has charge and management of the firm under this agreement: The manager of a firm or company may, draw, accept and endorse bills of exchange, in the regular course of the business of the firm or company. In case of partners they sign in the name of the firm, whereas a manager or an assistant holding a power of attorney would sign as:—*per pro. Smith & Co.,*
John Robinson.

A manager, agent or secretary of a company would sign as:—

The Lending and Borrowing Corporation, Ltd.,
L. RAJARAM,
Manager.

If, on the Contrary, L. Rajaram signs as:—
L. RAJARAM,
Manager.

The Lending and Borrowing Corporation, Ltd.,
the signature would not be reckoned as one by the manager of the company on its behalf, but would be considered at

law to be the personal signature of L. Rajaram. It must also be borne in mind that in case of "per pro" signatures it is clear that the person placing such a signature claims his authority to sign under a power of attorney. This power of attorney may be either very limited, or very wide and general, and therefore, before accepting this type of signature on any important document, or on a bill for a large amount, care should be taken to inspect the power with a view to ascertaining whether the signature on such a document falls within the scope of the authority of the person signing. It must also be noted that if John Smith holds a power of attorney from the firm of say Messrs. Ralli Bros., and if, he happens to have granted a power of attorney to his friend Thomas Williams, Williams cannot sign for Ralli Bros., and therefore a signature such as the following should not be accepted:—

Ralli Bros.
p. p. JOHN SMITH,
THOMAS WILLIAMS.

On the same principle the Directors of a Company when they sign ought to sign as:—

The Lending and Borrowing Corporation, Ltd.,
HIRJI NATHOO,
HAROON KHALIFF,
Directors.

If on the other hand they sign as:—

HIRJI NATHOO,
HAROON KHALIFF,
Directors.

The Lending and Borrowing Corporation, Ltd.,

the signatures would bind them personally, and would not be considered as their signature on behalf of the Company.

The signature on a bill or note may be a mark, provided there is evidence to prove that the person signing by mark habitually signs in that fashion.

Alteration.—If a bill or a negotiable instrument is altered, its validity would be affected according to whether the alteration is material or not. The materiality of the alteration is a

question of law, and in the following cases the alteration has been held to be material :—

1. Alteration of date.
2. Alteration of the sum payable.
3. Alteration of the time of payment.
4. Alteration as to the place of payment.
5. Addition of a place of payment where none is mentioned.
6. Alteration or addition of the rate of interest.
7. Addition or removal of the name of a joint maker.
8. Conversion of a joint bill into a joint and several bill.

The following are not material alterations :—

1. Addition of a wrong date of maturity.
2. Cancellation of the words "or order" when they were there before.
3. Conversion of an order bill into a bearer bill.

HUNDIS.

As we have already seen in the beginning of this chapter, the Negotiable Instruments Act generally does not apply to instruments in any oriental language (*hundis*), but where, by any words in the instrument itself, the usages regarding such instruments are excluded, or where the writing expressly indicates an intention that the legal relations of the parties thereto shall be governed by the Negotiable Instruments Act, the Act will apply. In the absence of either of these indications, *hundis* in oriental languages shall be governed by local usages applying to such documents. *Hundis* are principally divided into two classes, *viz.*, (a) the *Shah Jogi hundis*, and (b) the *Jokhmi hundis*.

The Shah Jogi Hundi.—This is drawn by one merchant on some other merchant asking the latter (drawee) to pay the said *hundi* to a "*shah*", *i.e.*, a respectable holder, after making proper inquiry and taking the usual precautions taken by merchants in that line of business. It usually states the name of the person on whose account the *hundi* is drawn, or who

has (as is usually the case) deposited money with the drawer against the *hundi* in question. The documents are generally used for the purpose of remittances. The drawer never accepts this *hundi*, but it is generally presented to the drawer at the time of payment by the holder. These are not instruments which come under the designation of those "payable to bearer", but are "payable to respectable holder" or "*shah*", and the usage throws this duty on the drawee, *i.e.*, the duty of ascertaining that the payee is a "*shah*". In case the *hundi* is indorsed as payable to a particular person named in the indorsement, the drawee must see that he pays to that person and no other. As long as the drawee pays the said *hundi bona fide* to a "*shah*", he is entitled to recover the amount from the drawer. In case the *hundi* turns out to be bad because it was forged or obtained by fraud, the "*shah*" collecting same has to make good the money or to present the guilty party to drawee. If the "*shah*" makes a mistake in collecting the *hundi* for a wrong party, he has to make good the amount with interest at the rate of 6 per cent from the date of payment to the date of refund. It has also been decided recently that in case of a *shah jogi hundi*, the drawee paying to the *shah* is not absolved from liability to the owner of the *hundi*, if the *shah* had no title to the *hundi* owing to a forged endorsement. (*Madhavdas Jethabhai v. Dindas Vardasa* (1934), Bom. L.R. 929).

Arising from this case when the drawee wanted to be indemnified by the *shah* for money which he had to pay to the holder, and thus to recover back from the *shah* the money paid to the *shah* on the *shah jogi hundi* with a forged endorsement, it was held by the Appeal Court that the cause of action against a *shah* who receives payment under these circumstances is to re-imburse the drawee for money had and received to the use of the drawee, based either on the money having been paid under a mistake of fact, or without consideration, and does not arise upon any implied covenant for indemnity. (*Madhavdas Jethabhai v. Sitaram Ram Narayan* (1934), Bom. L.R. 941).

It has been held in an Allahabad case, that a *shah jogi hundi* is not a bill of exchange under the definition of the Negotiable Instruments Act (*Mangal Sen-Jaideo Prasad v. Ganeshi* (1936), A.I.R. All. 396). It was also held in the same case that a *shah jogi hundi* is a negotiable instrument independently of the provisions of Negotiable Instruments Act in spite of the fact that it does not fall under the definition of a bill of exchange under that Act.

The Jekhmi Hundi.—In the words of Bayley, J., (*Raisey Amerchand v. Jusraj Vizpal*, Bom. 25th July, 1871): "A *jekhmi hundi* is in the nature of a policy of . . . insurance, with this difference, that the money is paid beforehand, to be recovered if the ship is not lost". It is in fact a mode of insuring goods shipped, peculiar to the native Indian merchants. There are here three parties—the drawer or shipper of the goods, the *hundiwala*, i.e., the underwriter, and the *malwala*, the consignee. The consignor consigns the goods, say, from a port in Cutch or elsewhere, to his agent or vendor in Bombay. He then draws a *hundi* on the consignee or *malwala* for the value of the goods and sells same to the insurer for cash, which is the value less the insurance premium charged. The *hundiwala* sends the *hundi* either to his branch office or agent in Bombay. The *hundi* is then presented after the goods arrive safe in Bombay, to the consignee or *malwala* who pays same and takes delivery of the goods, or in case he does not wish to take up the goods, he may hand over the goods to the *hundiwala* and leave him to fight the matter out with the consignor. The *hundiwala*, by his peculiar custom has no right to sue the *malwala* or consignee in case of non-payment or non-acceptance. His remedy is to recover the amount from the consignor. In case the goods are lost totally, the *hundi* cannot be presented, and the loss has to be borne by the *hundiwala* or underwriter. In case of partial loss or damage, the *hundiwala* is entitled to be paid in full. In case of general average loss the *hundiwala* or underwriter receives payment for so much

loss as may be computed towards the general average loss on these goods by the Average Adjusters (4 Bom. 344-45).

The form in which these *jokhmi hundis* are generally drawn as given in the above reference (4 Bom. 344), is the following :—

FORM OF JOKHMI HUNDI

"To wit : here have been kept and retained from Shah.....
 Ra.....in full; so the hundi is jokhmi on board the vessel.....
nakwa.....owner.....After the fixed time 4 (four)
 days after the vessel shall have arrived safely from the seaport town
 of.....at the seaport town of.....do you pay to
 Shah.....".

Zikri Chits.—According to Chalmers' "Negotiable Instruments", *hundis*, according to the custom of Marwari merchants, "are accepted for honour by means of 'Zikri chits' which are furnished by a party liable on the *hundi*, to the holder, and are addressed to some other person who is thereby directed to pay the *hundi* if the drawee does not; the latter accepts by writing on the chit". The *hundis*, according to the custom of shroffs, are not required to be noted or protested.

Dhanijog Hundi.—This is a *hundi* which is payable only to a *shah*, but it may be cashed by the *dhani* or holder of same.

Purja.—A *purja* is a written request, addressed to the lender and signed by the borrower, to pay the amount mentioned in the instrument, and is stamped with one anna stamp. The rate of interest is as mentioned in the body of the *purja*, and the period for which the loan is granted is never mentioned in it, but is either understood to be the period settled by the prevailing practice, or entered in a separate slip pinned to the *purja*. The *purja* is not attested by witnesses, but is merely an acknowledgment of a debt. The name of the person through whom the sum is received is mentioned. These documents are generally used in connection with short loans, not exceeding three months. Frequently *purja* is also given in a different form, that is, in the form of acknowledgment by the borrower,

declaring that he has credited the amount borrowed in his own account books in favour of the creditor.

FORM OF PURJA.

(Transliteration.)

Bhai Sri Nathuram Tekal Chand Selikhe Bhuramal Gopinath ka Ram Banchiyo upranch Ru 500 Akhre Panch So tumhare paslya kjaara beyaj dar 6 as hissab bhejachh so laileja rupaiya jamadarne diadejo miti 30 karohcee 1986 sal miti Mshag.

Dstkhat,

(Sd.) SAWANLAL NAHATA.

(Translation.)

Honoured brother Nathuram Tekal Chand be pleased to accept the greetings (Ram Ram) of Bhuramal Gopinath. Further Rs. 500, in words rupees five hundred, is being taken from you the interest on which at the rate of 6 as. is sent herewith. Please accept it and pay the money to Jamadar, dated 30th day of Magh 1986 Sal.

(Sd.) SAWANLAL NAHATA.

(Note.—Bengal Provincial Banking Inquiry Committee's Report.)

Hatchita.—This is a sheet bound in the account book of a creditor and entered in the form of a ledger, bearing one anna stamp and the signature of the borrower.

Khatapeta.—This is an account in the creditor's book, showing on the debit side all amounts advanced to the debtor and interest accrued, and on the credit side all payments as well as interest paid. No receipts are given for the repayment of interest. *Khatapeta* is itself considered sufficient as it is of the account and money given. The debtor makes written requests from the creditor for all advances he wants, and has to go and see that all his repayments, as well as payments of interest, are duly entered to his credit, in the same *khatapeta*. This form is generally maintained by Marwari bankers.

Darsani and Nadappu vaddi Hundis.—These are sight *hundis* payable at sight, but the second has this peculiarity, that it carries interest at the *nadappu vaddi* rate from the date of presentation.

DARSANI HUNDI FORM.

(Transliteration.)

(Obverse.)

| | |
|-----------------------------|------------------------|
| Bundi leni Bheja Amad. | Hundi lani bheja. |
| Haji Sale Muhammad. | Sohanlal Munsilal. |
| Bhai Sohanlal Munsilaljoga. | Jog Thakurdas Agyaram. |

Sri Hari.

Motilal Paramananda Wardha.

No. 426.

D/Paramananda ka Hundi likhe pujab sakardena 1st Siddha Sri Kalkatta Bandr subhasthane Bhai Sithalprasadji Kharag Prasadji Jog Sri Wardha se likhi Motilal Paramananda ken Sri Jaygopal Banchijo Uparancha Hindi Nag 1 Ru 500—Akhare Rupia Panch Sauka neeme rupia Arhai sauka Duna Pura itthe Rakhya Amad Sale Muhammad Kachhi Pas Miti Magsarbad 5 Pahuncha Turanta Naube shahijog Rupia Company Chalan ka Diyo 1 Sm. 1986 Miti Magsir Badi 5 Gurubar Ta : 21st November 1929.

(Reverse.)

Rs. 500.

Neeme ka neeme sawasan ka changuna Pura Ru Panch sau kar Diyo.

(Sd.) Thakurdas Agyaram.
Hundi Bharpaya Sibkumarsing.
Ta. 26th November, 1929.
Magasarbadi 10.

Bhai Sitalprasad Kharagprasad jog.

No. 30, Burtolla Street, Calcutta.

(Note.—Madras Provincial Banking Inquiry Committee's Report, p. 268).

(Translation.)

(Obverse.)

Rs. 500.

Ammad Haji Sale Muhammad Sohanlal Munshilal senda
sends brother Sohanlal Thakurdas Agyaram to
Munshilal to receive the receive the value of the
value of the hundi. hundi.

Sri Hari.

Motilal Parmanand Wardha.

No. 426. Please accept according to writing in the
Hundi of Parmanand.

In the prosperous, beautiful and auspicious port of Calcutta,
to honoured brother Sital Prasad Kharkprasad written from

Negotiable Instruments and Instruments of Credit 619

Wardha by Moti Lal Parmanand whose greetings (Jay Gopal) you may be pleased to accept. Further, one *hundi* of Rs. 500 in words rupees five hundred, full twice of Rs. 250 is drawn in favour of Ammad Haji Sale Mahummad Kachhi on the 5th day of Magsir Badi; immediately on the arrival of this *hundi*, you will (please) pay the amount thereof in current coin of the Company to the presenter after ascertaining his respectability. Sambat 1986, 5th day of Magsir Badi, Thursday, dated 21st November, 1929.

(Reverse.)

Half of half Rs. 125 four times of which Rs. 500.

(Sd.) THAKURDAS AGYARAM.

Received the full amount of *hundi*.

(Sd.) SIB KUMAR SINGH.

Dated 26th November, 1929.

Margasir Badi 10.

Brother Sitalprasad Kharkprasad,
No. 30, Bartola Street, Calcutta.

HUNDI BEARING NADAPPU INTEREST FROM DATE OF ISSUE.

(Translation.)

Sivamayam.

Rakteakshi Arpisi 10th—Kanakukathan—ABC Avergal ... Cr.

Kilasivalpatti XYZ Dr.

I owe ABC above Rs. 3,000 on account of cash taken for the purchase of samans. This sum of Rs. 3,000 please pay to ABC or order with current rate of interest and debit my account after payment is made.

| | | | | |
|-------------------|------|--------|--------|--------|
| To B.S.T. Rangoon | One | 1 anna | 1 anna | 1 anna |
| | anna | X | Y | Z |

(Sd.) ABC.

S kshaya Adi 1st—Principal of this *hundi*—Rs. 3,000—interest

Rs. 451-8-0=Total Rs. 3,451-8-0. Rangoon B.S.T. Firm.

No. Madras *hundi* 1-Rs. 2,883-8-0 cash

Rs. 568 received.

All accounts settled.

(Sd.) ABC.

(Note.—Madras Provincial Banking Inquiry Committee's Report, p. 268.)

Muddati Hundi.—This is a *hundi* which is not payable on demand like the *darsani hundi*, but it is payable according to usage or custom.

Hundis payable to order are called *Firamjog hundis*.

Paith.—When the original *hundi* called *khoka*, is lost, a duplicate or second copy is given, known as *paith*. If the second is lost, a third is given which is known as *parpaith*, and, in the event of all three being lost, a fourth *hundi* called *maijar*, or *panchyati*, is given. The last is called *panchyati*, because five leading bankers of the place of issue have to draw it.

CHAPTER XV.

GENERAL PROBLEMS OF FINANCE.

INDIAN BANKING.

Indian Banking is carried on by the following institutions :
(1) The Reserve Bank, (2) the Imperial Bank, (3) Joint stock banks (Indian and foreign) and (4) Indian indigenous bankers.

We shall now deal briefly with each of the above institutions.

The Reserve Bank of India.—The Reserve Bank of India was established by the Reserve Bank of India Act of 1934 and is now the Central Reserve Bank of this country, functioning on most modern lines side by side with similar institutions in other important centres of the world. The main functions of a Central Bank are the following :—

- (1) To act as a depository of the Government cash balances and as its financial agent and treasurer in general.
- (2) To manage, supervise and direct the currency of the country, and to maintain the currency reserve.
- (3) As the treasurer or cashier of the State to manage different remittances of the Government and to act generally as a banker of the Government.
- (4) To manage the public debts of the country.

According to our Central Banking Commission (Majority) Report, 1931 :—“The two principal tasks of the Reserve Bank will be to maintain the international value of the rupee and to control the credit situation in India, which would include the rate of interest at which credit would be available to trade and industry.”

The other peculiarity is that the Central Bank is not expected generally to do commercial business, or to compete with commercial banks, but generally to act as bankers' bank, i.e., keep

accounts of all the principal banks in the country and help them with finances wherever necessary.

Our Reserve Bank is a shareholders' bank, as is the case with almost all the principal countries of the world, and not a State bank. These shares cannot be purchased by any one who is not domiciled in India and is not either an Indian subject of His Majesty or the subject of a state in India or a British subject ordinarily resident in India and domiciled in the United Kingdom. In the case of Colonies and the Dominions the rule laid down is that a subject of that Colony or Dominion cannot be a shareholder in our Reserve Bank in case the Government of that dominion discriminates in any way against the Indian subjects of His Majesty. The government or management of the bank is under the supervision and control of (1) The Central Board of directors and (2) Local Boards. The Central Board is made up of the Governor and two deputy Governors, four directors to be nominated by the Governor-General in Council and eight directors to be elected on behalf of shareholders as two for Bombay, two for Calcutta, two for Delhi, one for Madras and one for Rangoon. In addition to this one government official is to be director as nominated by the Governor-General in Council. The Governor and the deputy Governors are the full time officers. These Central Board directors are to be elected or selected by directors of local Boards of each centre.

The local Board is to be constituted of five members elected from among themselves by the shareholders who are registered on the register for that area and qualified to vote. In addition there are to be not more than three members nominated by the Central Board. These local Boards are to be constituted for each of the five areas of Bombay, Calcutta, Delhi, Madras and Rangoon. A shareholder who has been on the register in the area for at least six months prior to the date of election shall have one vote for every five shares subject to a maximum of 10 votes.

Central Banking Functions.—In connection with Central Banking functions the most important, naturally, is the right

to issue bank notes, which is a monopoly right in the hands of the Central Reserve Bank. The Indian Government has naturally ceased to issue notes, having transferred the whole function to this bank. The issue department functions as a separate and distinct department from the banking department, as in the case of the Bank of England and other similar banks, and the assets of the issue department are not subject to any liability other than the liability of the issue department. The issue department liability will constitute a total amount made up of the currency notes of the Government of India and the bank notes for the time being in circulation. This is because on the date that Chapter Third of the Act came into force, the issue department of the Reserve Bank took over from the Indian Government the liability for all currency notes of the Government of India in circulation, and in return the Government of India transferred to the issue department of the said bank gold coins, gold bullion, sterling securities, rupee coins and rupee securities to the aggregate value equal to the total of the liabilities transferred by the Indian Government in connection with its notes in circulation. The requirement is that, of the total amount of assets held as such security against notes, there shall be at least two-fifths of the total value made up of gold coins, gold bullion and sterling securities, and that, the amount of gold coins and gold bullion must not at any time be less than 40 crores of rupees in value. The remaining assets are to be held in rupee coins, Government of India rupee securities of any maturity and such Bills of Exchange and Promissory Notes payable in British India as are eligible for purchase by the Bank under the Act. Here the further provision is that the amount held in the Government of India rupee securities must not at any time exceed one-fourth of the total amount of the assets or 50 crores of rupees, whichever amount is greater or with the previous sanction of the Governor-General in Council such amount plus the sum of 10 crores of rupees. In connection with the valuation of these securities it is further provided that gold coins and gold bullion shall be valued at 8.47512 grains of

fine gold per rupee, rupee coin shall be valued at its face value and the securities are to be valued at the market rate for the time being obtaining. Of these gold coins and gold bullion held as assets against note-issue, not less than $17/20$ ths shall be held in British India and such holding must be in the custody of the bank or its agencies. Details are given as to what form of sterling securities may be held as part of these assets against the note-issue in the Act.

The Bank must issue rupee coins on demand in exchange for bank notes and currency notes of the Government of India and must issue currency notes or bank notes on demand in exchange for coins which are legal tender under the Indian Coinage Act, 1906.

Besides this, the much debated sections 40 and 41 threw an obligation on the bank to purchase and sell sterling for immediate delivery in London at a ratio not below 1sh. 5d. and $49/64$ ths of a penny for a rupee and not over 1sh. 6d. and $3/6$ ths of a penny for a rupee, the only protection being that no person is entitled to demand to sell to the bank an amount of sterling less than £10,000 and that no person shall be entitled to receive payment unless the bank is satisfied that the payment of the sterling in London has been made.

Scheduled Banks.—There are to be a number of banks in India, names of which are given in Second Schedule to the Act, which are to be known as "Scheduled Banks", which banks must maintain with the Reserve Bank a balance which must not be less at the close of any day than five per cent of the "demand liabilities" and two per cent of "time liabilities" of each of such bank in India. These liabilities for the purpose of calculation would not include the paid-up capital or reserves, or any credit balances in the profit and loss account of the bank, or the amount of any loan taken from the Reserve Bank. Managers of these Scheduled banks have thus to send a return showing their position in connection with these liabilities at the close of business on each Friday and in case such Friday happens to be a public

holiday under the Negotiable Instruments Act, at the close of business on the preceding working day.

The Banking Business of the Reserve Bank.—The banking business of the Reserve Bank is (1) to receive money on deposit without interest from any person, bank, government, etc.,

(2) it can discount bills of exchange provided it has two endorsements, one of which shall be that of a Scheduled bank and may similarly purchase, sell and re-discount bills of exchange,

(3) it can purchase and sell to Scheduled banks sterling amounts not less than Rs. 1,00,000,

(4) it can purchase, sell and re-discount bills of exchange including treasury bills drawn in the United Kingdom maturing within 90 days. These transactions if made in India should be through the Scheduled banks,

(5) it can keep balance with banks in the United Kingdom,

(6) it can advance loans to states in India, as well as provincial co-operative banks against securities in accordance with the rules laid down by the Act,

(7) it can grant loans to the Governor-General in Council and provincial governments for the purpose of management of provincial revenues,

(8) it can issue bank post bills and demand drafts,

(9) it can deal in government securities,

(10) take the moneys, valuables and securities in safe custody,

(11) act as an agent for the Secretary of State, Governor-General in Council or provincial Government or any state in India for purchase and sale of gold or silver, bills of exchange, securities, etc.,

(12) manage public debts,

(13) manage, purchase and sell bullion of gold coins and bullions on its own account,

(14) borrow money for a period not exceeding one month for its business and may give security for same,

(15) make and issue its own notes as authorised by the Act.

It will thus be seen that our Central Reserve Bank is predominantly a bankers' bank. The Reserve Bank cannot pay dividend of more than 5 per cent, and all extra profit after payment of such dividend will have to be paid to the Government of India. It has a special agricultural credit department where an expert staff has to study all questions of agricultural credit which is available for consultation by the Government of India or provincial governments or provincial co-operative banks, etc.

Imperial Bank of India.—The Imperial Bank of India was founded in the year 1921. Since the formation of the Reserve Bank of India, the Imperial Bank of India Act had to be amended in the year 1934. This bank performed important functions in the past years as the banker of the Government of India, though it could not control the issue of currency and could not function as a Central banking institution. Thus when the Reserve Bank of India Act was passed with a view to providing for India a Central Bank in the real sense of the term, the Imperial Bank Act had to be amended in 1934 with a view to removing certain restrictions which had been hitherto imposed on the bank because during past years this bank had the monopoly of acting as a banker of the Government. These functions have now been transferred to the Reserve Bank, and naturally many of these restrictions had to be removed, though it should not be placed on the same footing as an ordinary joint stock bank, because under the new arrangement, though the Imperial Bank ceased to be a banker of the Government of India, it has been by a special agreement between it and the Reserve Bank of India, appointed as the sole agent of the Reserve Bank at all

places in British India where the Imperial Bank had branches at the commencement of the Reserve Bank of India Act and where no branch of the Banking department of the Reserve Bank happens to be located.

The Imperial Bank also is governed by two boards of management, *viz.*, the Central Board and the Local Board. The general superintendence of the affairs of the business of the bank is in the hands of the Central Board of directors. The local boards are established at Calcutta, Madras and Bombay. These local boards have power to transact all the usual business of the bank without prejudice to the powers reserved to the Central Board.

Joint Stock Banks.—The bulk of the banking business however, in a large way, is carried on by joint stock banks, Indian, British and foreign. The most prominent of our Indian joint stock banks is naturally the Central Bank of India Limited. They look after mostly internal finance and hardly any Indian bank does what is called Exchange banking business because they cannot compete in this branch with the old giant British and foreign banks known as Exchange banks, whose head offices are located outside the country and who are doing the largest business in this country. Besides the Central Bank of India which has a capital of 13.86 crores, the other prominent Indian banks are the Bank of India Limited with 9½ crores, the Allahabad Bank Limited, with 9.25 crores, the Punjab National Bank, with 6.26 crores, the Bank of Baroda with 5.28 crores and the Bank of Mysore with 1.39 crores.

The Exchange banks practically command the whole of the finance of the Indian import and export trade which compels Indians to work under European houses in connection with their foreign imports and exports. This position is naturally resented by the Indian public, the more so because these Exchange banks do not give assistance to Indian banks or Indians of developing exchange banking and do not engage them to hold important positions in their banks.

The Exchange banks' finance largely consists of the following :—

(1) Financing of goods which are sent out from Indian ports to foreign ports and *vice versa* and (2) financing of goods from the interior of India to the ports.

The financing of goods from outside into India is generally done through the medium of documentary bills, mostly D.A. (documents on acceptance), and in some small measure by D.P. (documents on payment) bills. The bills are drawn either at 30 days or 60 days sight, sometimes they are drawn at three months sight also. On the same footing the exports are treated through the opening of a credit in Great Britain with London banks or finance houses which are communicated to India through the local Exchange banks or their branches. In all these cases, the usual currency used is sterling, on the basis of which the payments are measured and dealt with. The Exchange banks also finance the imports and exports of gold and silver bullion, the orders for most of which are placed in London.

The Exchange banks have consistently done a roaring trade and made large profits in this country, irrespective of the fact whether trade happens to be in a good or depressed condition. The dividend rate per cent paid by some of the principal banks such as the Chartered Bank of India, Australia and China and the National Bank of India comes very near to 20 to 25 per cent of capital, whereas the banks like the Hong Kong and Shanghai Bank have paid dividends over 50 per cent, and sometimes over 64 per cent.

Indigenous Banking.—Indigenous banking, as distinguished from pure money-lending, is mostly confined to members of certain well-known castes of Hindus, such as the Marwaris, the Jains, the Multanians, the Natukkotti Chettis, etc. These are mostly family concerns, and in some cases have become a hereditary calling. These indigenous bankers are located at different centres in villages and towns. In villages we have the village banker who lends money to the people as well as

sells corn and seed to the cultivators. They do not generally deal in instruments like *hundis* and cheques, though they receive deposits from their clients in small amounts. The rate of interest charged by these village bankers is very heavy, and sometimes exacting, but the advent of the co-operative credit society has to a very large extent kept this tendency within bounds. The high rate of interest, is no doubt, made compulsory through the unsatisfactory nature of the security which an average Indian villager is in a position to offer, not only owing to poverty, but also to the peculiar nature of the country which is mostly dependent on its agricultural output, and where crops entirely depend on the vagaries of the monsoon. In certain villages these bankers have to keep their money idle for nearly half the year, which is one more reason why they are driven to the necessity of charging higher interest with a view to making up for the loss so entailed. These indigenous money-lenders have also, in certain number of cases, to keep their money locked up on fixed loans for a long period against security of land, jewellery, etc.

The Deposits and Cheques.—The deposits with these bankers are not generally very large, for the simple reason that banking has not spread in modern India on anything like the footing on which it has in western countries. These bankers frequently honour cheques, or *hundis* payable on demand, to those of their clients who keep a current account with them. Western banking, no doubt, depends largely on additional money received by it in deposits, but the indigenous banker has mostly to rely on his own capital and accommodation, or loans, received by him from his brother bankers. Some indigenous banks issue cheque books and pass books. The cheques are in vernaculars, but having no inter-relation with joint stock banks, these cheques are cashed more on the footing of *hundis* payable on demand than as cheques dealt with in course of clearing. There is much room for the expansion of indigenous banking, if efforts are made in a proper manner to induce people to cultivate banking habits, thereby facilitating

commerce and industry, as well as bringing about the most desired expansion of indigenous banking. There is no class of people better qualified than indigenous bankers to take up this work of great national importance in connection with villages and outlying stations, as they command the advantage of being in close personal touch with the clients, the advantage which no branch manager of a joint stock bank can ever aspire to. In case of deposits, the depositors give sufficient notice before withdrawing. There are some *shroffs*, or indigenous bankers, who do not receive deposits from all and sundry, but restrict these operations among their personal friends.

Combination of Banking and Trading.—A good proportion of these indigenous bankers, particularly in the interior of India, are also traders. They carry on a variety of businesses side by side, their banking business ranging from that of grain dealers to jewellers, industrialists, etc. A number of business firms also do banking business as a side line. This peculiarity seems to prevail among bankers of almost all the Indian provinces, a tendency which seems to be on the increase due to the growing competition of joint stock banks in the mofussil. In centres around Bombay and Central India, they deal largely in cotton and seed, or act as commission agents, and flourish both as bankers and traders. If one were to search among them for those who confine themselves strictly to banking business, he would find them among the Natukkotti Chettis and Multanians. The former are exclusively bankers, whereas the latter restrict their operations to dealings in *hundis*.

Financing of Internal Trade.—A large number of these bankers remit money from place to place through the medium of *hundis* which are strictly speaking inland trade bills. Some of them act as *shroffs*, and discount *hundis* either directly with the merchants, or through *hundi* brokers, thereby advancing money on them. These *hundis* are freely re-discounted by *shroffs* at the bazaar rate, particularly when the bazaar rate is high. Thus internal trade is very largely financed through the medium of *hundis*. These *hundis* communicated by the *shroffs*,

are very rarely dishonoured, with the result that they circulate freely. Besides this, there are well-known *shroffs* and bankers who purchase *hundis* at a high rate of discount for ready money, and re-discount same with the Imperial Bank, who are prepared to advance money on those endorsements. Virtually speaking, these operations of important *shroffs* are more or less similar to those of the large bill-broking or discount houses of London, who borrow the surplus day to day fund of the London money market, and use same along with their own capital for the purpose of their business. In Bombay, the most prominent indigenous bankers doing this type of business are the Multani *shroffs*, who command considerable credit and reputation for astute banking knowledge ; so much so, that when the Multani refuses to discount a *hundi* the same is treated as a danger signal by all market operators. These Multani bankers are banded into an association with a view to regulating their rate of discount in accordance with the fluctuation of the Imperial Bank rate. These *shroffs* and indigenous bankers seldom deal in foreign trade bills. They make a speciality of the *hundi* or the indigenous bill.

The Financing of Crops.—The indigenous bankers play a very important part in the financing of crops all over the country. The village trader, in case of less enlightened villages, lends money on the growing crop and ultimately purchases same himself. He then sends out the surplus, after keeping a portion of the produce for sale locally, to the town to a trader who is also a banker. From here the produce is sent out to outlying centres and *hundis* are brought into play. In case of more enlightened villagers, who have not borrowed from the village trader, the produce is sent to the town to the exchange marts, otherwise known as *mundis*. Here the produce is purchased by a variety of persons such as merchants from towns, their buying agents, and indigenous bankers who are either buying for their clients or themselves. Purchases are generally made here for cash, as the villagers prefer that form of payment.

The Large Type of Banker.—The large type of indigenous bankers such as the Marwaris, the Jains and Chettis have offices and branches all over the country, particularly in important centres like Bombay, Calcutta, Madras and Delhi. Some of them even keep correspondents outside India in places like Africa, Aden, Abyssinia, and even in Europe, Japan and China. The Chettis are said to be the cleverest of all the indigenous bankers in India in spite of the fact that they generally are not educated on modern lines. They possess considerable banking acumen, for the simple reason that they are associated from early childhood with the business of banking which their family members have been carrying on for generations. The whole family generally works as one unit in connection with the business of the firm, and the incentive to increase the family fortune is a great element in bringing about efficient results. They are most reliable as bankers and are frequently trusted with large sums of money, without security, by other bankers of their own caste. The other caste most resembling this type is that of the Marwaris of western India who are equally competent, and whose banking acumen is also hereditary.

These bankers are mostly associated together in *mahajans* or similar institutions. In Bombay they have the Bombay Shroffs' Association, the Marwari Chamber of Commerce, the Multani Bankers' Association, etc. Joint meetings of these bodies are frequently held to discuss and deal with the problems of their business. In Ahmedabad they have the Ahmedabad Shroffs' Association and there is also the Shikarpuri Shroffs' Association whose membership is made up of the Multani bankers.

Financing of Goods and Industries.—In connection with goods, also, the local shop-keeper either borrows from the village banker in order to buy the goods, or by depositing certain amount with bankers, orders out the goods through them. The bankers here finance the shop-keeper through honouring *hundis* drawn upon him, or by credits in account for a period. Here

the banker makes additional income by charging commission or brokerage on each deal.

In this connection it may be noted that in case of goods imported from foreign countries, the Exchange banks play a very small part. These imported goods are simply handed over to the dealers on payment in cash, and the indigenous bankers provide the finance. Generally, these bankers or *shroffs* take up these goods on account of merchants in the *mofussil* by paying for them in towns like Bombay or Karachi and recover same after delivery.

Besides advancing money to the local cottage industries and small factories, the large types of indigenous bankers are also lending money on deposit to the mill industry, particularly cotton textile. Here they frequently arrange with the managing agents to secure a share in their commission in addition to interest as a condition precedent to depositing a fairly large amount.

THE BANK OF ENGLAND.

It would also be interesting to state here the position of the English banks as in England.

The Bank of England was established in the reign of William III following a period of revolution during which the credit of the country had been entirely destroyed owing to civil war as well as want of confidence in monarchs like King Charles I and King Charles II, who had confiscated for their own purpose money lodged by the public in the Exchequer. William III, though a foreigner did a great service to his country of adoption by introducing wholesome reforms in connection with currency and re-establishing peace and stability of the government as well as confidence in the State and its integrity. This bank originally was started by a grant of the Royal Charter of the King.

The position of the Bank of England as a Central bank is rather peculiar. The main idea governing the organization of a Central bank is to provide a constitution for it that would

be directed towards the furtherance of public interests, *i.e.*, the interests of the State and industry in general. The Central banks in all civilized countries work in close relationship to the State (in some States they are conducted directly under the guarantee of the Government) and manage the currency of the country, for which purpose they have to manipulate gold reserves and adopt various methods for protecting their currency. Their stability, in short, is the particular concern of the State to which they relate. Generally, all the Central banks of the world are shareholders' banks, except in three most insignificant centres like Australia, Latvia and Estonia, where Central banks are State banks without capital. But, of course, the right of shareholders, as we know them in connection with joint stock companies, are considerably restricted here, particularly in connection with the election of directors, receipt of dividends and the exercise of various other powers. As we have already noticed one of the principal functions of a Central bank happens to be the maintenance and care of the currency, and the control of the money market in public interest.

The Bank of England is a shareholders' bank and the shareholders are given votes on the footing of one vote for every £500 stocks held by them. The Bank of England is the banker of the Government as well as the nation, and as such has accounts of almost all principal joint stock banks with it. As all the surplus cash and other money of each of these banks happens to be deposited the central gold reserve of the Bank of England is looked upon as the gold reserve of England. It occupies a prominent position in the London money market.

The Bank issues weekly a return called "Bank Return" which is practically speaking a balance sheet for every week ending Wednesday. This balance sheet is divided into two divisions, *viz.*, (1) the Issue department and (2) Banking department as required by the Bank Charter Act of 1844. The Issue department section shows the exact notes issued and the securities as well as bullions held against them, whereas the banking section displays the business

done by the bank, or rather the financial position of that bank on that day. The "fiduciary" issue is now the issue of notes against securities, and not against deposit of gold as was done under regulations which were in force before England went off the gold standard. The reserve fund of the Bank of England as shown on its Weekly Returns is known as the "Rest". This reserve shows an accumulated figure of reserve fund of £3 millions, and from week to week from the beginning of its financial year, it keeps on adding to it its balance of profits until they are divided by way of dividends. Thus the excess over £3 millions shows the profit made by the Bank from the beginning of the financial year to the date of the balance sheet or return. The Government balances deposited with the bank are shown against the heading of public deposits, whereas money deposited by all others is shown on the assets side under the heading of other deposits.

Money Market.—"Money Market" is a term applied to those people who are engaged in lending and borrowing money on what are known as short term financial operations such as "call money" or cash at call or short notice, which is a loan which may be given with the condition that it is repayable on call or on short notice or even for fortnight loans are sometimes given and taken by Stock Exchange operators and others. In England this section of the money market is principally concerned with discounting of bills of exchange, otherwise called the "Discount Market".

Rate of Interest.—The rate of interest quoted on the money market, generally speaking, is the bank rate, *i.e.*, the advertised minimum rate at which the Bank of England or the Reserve Bank of India are prepared to discount bills of exchange. The Bank of England or the Reserve Bank loan rate is a little higher than the discount rate which is also quoted on the market. The market itself has a special rate for discounting bills, known as the market rate of discount, which is the rate charged by various joint stock banks, bill brokers and *hundi shroffs*. Bank deposit rates are also quoted for interest allowed

by banks on current account as well as on fixed deposit account. They constantly vary with the fluctuation of the market. Both the Bank of England and the Reserve Bank of India do not allow any interest on current account deposits. The interest charged on call money is known as "bankers' call rate". This call money may be for overnight, or day to day, or seven day or weekly loans, and the interest on this fluctuates or varies with the demand and supply of loanable funds on the money market. When money is lent by clearing banks to discount houses and bill brokers in London, it is generally left permanently with them, though the condition is that the same may be called up immediately at the option of the lender. The money so lent is known on the money market of London as "good" money. On the other hand, clearing bank funds which are available only on two days a week are known as "bad" money. Naturally all these rates are more or less interdependent, and the whole money market generally follows the indication of the Central banks, *viz.*, the Bank of England in England or Reserve Bank in India. These Central banks also manipulate the money market frequently with a view to maintaining their rates of interest for one purpose or other. Generally this market deals in the surplus cash lying with various joint stock banks which they are ready to invest on short loans.

The Capital Market.—The capital market on the other hand is the organization which supplies money or funds for long term capital for investment in fixed assets such as shares in joint stock companies, or mortgages of assets, or loans to the Government. Generally speaking, large investors invest or finance corporations issue and issuing houses deal on this market, though the commercial banks participate to a limited extent.

Discount Houses.—The discount houses are institutions to purchase or discount bills before maturity for a sum less than the face value which difference is their margin of profit. In England the discount market is made up of private firms *plus*

three public companies, who do a large amount of business in this department of finance. These discount houses in their turn borrow from joint stock banks out of their surplus cash, in addition to their capital. This lending is done by joint stock banks on bills with endorsements of these discount houses. Thus these discount houses, practically speaking, play the same part as *shroffs* play in India in connection with *hundis*. The *shroffs* purchase *hundis* signed by merchants, and by endorsing them, discount these *hundis* with the Imperial Bank of India, making a profit of a certain percentage on each of these operations because they are here, virtually speaking, standing guarantee or lending their credit to the merchant for obtaining finance. The banks also in their turn prefer this form of dealing because they get greater security on the endorsement of these well known *shroffs* than on the signature of merchants.

Bill Brokers.—These are firms specialising in discounting bills in addition to the discount houses we have dealt with above. The function of the bill broker is to act as an agent with a view to bringing the buyer and the seller together. These brokers are also known as running brokers, because they go from bank to bank with a view to finding out the type of bills the banks want to sell and those which certain other banks want to buy. The other bigger firms of brokers act on their own account and deal both as principals and agents. In other words, they deal in bills on their own account by buying them and selling them, and at the same time act as bill brokers pure and simple by running between banks and merchants, etc. These brokers do not generally make themselves responsible on the bills by endorsements.

Issuing Houses.—Issuing houses are firms which assist the raising of capital either on issue of shares and debentures for industry and commerce in local companies or for the purpose of foreign borrowers. Frequently they purchase or underwrite the shares and securities which are offered and re-sell same. The fact that a first class issuing house has purchased these securities and is re-selling naturally commands public confidence

and facilitates their sale. These issuing houses are experts who, in case of industrial companies, make special study of the whole proposition before they undertake the responsibility of underwriting, or undertaking the responsibility for providing finance for these companies.

Accepting Houses.—Besides bankers, many finance firms play the part of an accepting house, *i.e.*, they undertake to accept and pay bills drawn upon them by a foreign exporter on behalf of an English merchant who happens to be importing the same goods to England. Thus the foreign exporter getting the guarantee from a well known accepting house or bank, which is generally given on a confirmed or unconfirmed letter of credit, is not only more clear with regard to the payment of the goods that he ships for the London merchant but also gets a bill which he draws easily discounted at his own centre. If an Indian merchant receives a confirmed letter of credit on behalf of the London merchant who wants him to export wheat, he could, after making the said shipment, draw a bill on the London merchant and get same discounted in India on the footing of the guarantee given by the accepting house in England. These accepting houses enjoy great reputation for soundness and stability of their finance, and hence these operations are most easy. As we have seen, not only private accepting houses, but also British joint stock banks, both local and colonial, are entering into this branch of business, with the result that in England the acceptance business is said to be largely captured by British banks.

Discount Market.—The discount market is a term applied to the business consisting of buying and selling bills of exchange or discounting same. It embraces all whose principal business is made of dealings in sterling bills in England. The bill broker, the discount houses and accepting houses operate on this market.

Investment Trust.—This term is applied to companies that have raised capital by selling shares and have invested the said capital in shares and securities of other companies with a view

to giving the best possible income to the buyer of their shares. In other words, these companies act as specialists in connection with selecting investments and give the benefit of their specialised knowledge to those who purchase their shares. The expenses of management and running these companies have of necessity to be kept at the lowest limit, and it is said with regard to British Investment Trust companies that on the average their expenditure seldom exceeds $5/8$ ths per cent of their capital. An Investment Trust may be a "fixed investment trust", in which case the securities cannot be changed but must be held as a fixed or permanent investment, whereas in case of the "ordinary investment trusts", the said securities are allowed, by their constitution, to be changed from time to time under expert direction. No doubt in this case there is a great element of risk if those in whose hands the work of changing or shifting the securities is placed are inclined to be speculative or partial to some companies in which they themselves happen to be indirectly or remotely interested.

Mint Pars of Exchange.—In case of countries having a gold standard currency, mint pars of exchange are arrived at by comparison of gold contained in standard coins of any two given countries. In pre-war days, when the metallic currencies of countries concerned were in perfect condition, the mint par between Paris and London was 25.22 francs a £1; Berlin and London 20.43 marks a £1; New York and London \$4.866 a £1, and so on.

The Specie Points.—The logical idea here is that the loss on exchange between two given centres should never exceed the actual cost of remitting bullion from one centre to the other, *i.e.*, the "specie point". This is because as soon as the specie point is crossed, merchants and bankers would naturally prefer the less expensive method of remitting bullion under such condition. If sometimes on paper, the quotations seem to exceed the specie points, that may be accounted for either by (1) the condition of currency of the remitting country being debased, or (2) the published specie points not being accurate, due to

some recent fluctuation in freight, insurance, interest rate, etc. Generally speaking, such conditions seldom arise because remittance of bullion is the most expensive method of settling accounts between two countries.

The specie points have now totally disappeared, since practically every nation is on a theoretical metallic basis. The specie points do not operate now in gold standard countries, like France, because the restrictions imposed on the movements of gold are severe. Gold has become a commodity where imports and exports are influenced by a variety of considerations, monetary, exchange and political. The use of aeroplanes for the transfer of gold has changed the old basis on which the specie points were calculated.

APPENDIX A.

COMMERCIAL ABBREVIATIONS.

| | | | | | |
|--------------------|-----|---|--------------|-----|-------------------------------------|
| A. | ... | Anna (Indian coin). | A/v. | ... | Ad valorem (on the basis of value). |
| A. A. R. | ... | Against all risks. | B/- | ... | Bag; bale. |
| A. a. r. } | ... | | Back | ... | Backwardation (Stock Exchange). |
| A. r. | ... | First class. | Bal. | ... | Balance. |
| A. 1 | ... | Account Current. | Bar. | ... | Barrel. |
| A/c | ... | Account. | B. B. | ... | Bill Book. |
| Ac. or acct. | ... | Acre. | B. C. | ... | Bills for Collection. |
| Ac. | ... | Acceptance, accepted. | B. D. | ... | Bank Draft. |
| Acc. | ... | Accountant. | B. D. I. | ... | Both days inclusive. |
| Acct. | ... | Acknowledgment. | B/d. | ... | Brought down. |
| Ackgt. | ... | Anno Domini (The year of the Lord). | B. Dt. | ... | Bill discounted. |
| A. D. | ... | After date. | Bd. | ... | bound; bond. |
| A/d. or A.d | ... | Advertisements. | Bdle. | ... | Bundle. |
| Ads. or adverts. } | ... | Advice. | B/E | ... | Bill of Exchange. |
| Adv. | ... | Ad valorem (on the basis of value). | B/f | ... | Brought forward. |
| Ad val. | ... | Affidavit. | B. G. | ... | Birmingham gauge. |
| Aft. | ... | A good brand; or any good brand. | Bg. | ... | Bag. |
| A. g. b. | ... | Agent, against. | B. H. | ... | Bordeaux and Hamburg (grain trade). |
| Agt. | ... | After hatch (shipping). | B. H. P. | ... | Brake horse power. |
| A. H. | ... | Ante meridiem (before noon): | Bk. | ... | Bank; book, backwardation. |
| A. M. | ... | amount. | Bkg. | ... | Banking. |
| Amt. | ... | Answer. | Bkpt. | ... | Bankrupt. |
| Ans. | ... | Account of. | Bkt. | ... | Basket. |
| A.O. | ... | And, or. | Bl. | ... | Bale; barrel. |
| A/or. | ... | (1) a protestor, <i>i.e.</i> , to be protested (bills). | B. L. | ... | Bill of Lading. |
| A. P. | ... | (2) Additional premium (insurance). | B. N. | ... | Bank Note. |
| App. | ... | Appendix. | B/o. | ... | Brought over. |
| Approx. | ... | Approximate. | B. O. | ... | Branch office, buyer's option. |
| A.R. | ... | All Risks (marine insurance). | Bot. | ... | Bought; bottle. |
| Art. | ... | Article. | B. P. | ... | Bill Payable. |
| A.S. | ... | Account Sales. | B. P. B. | ... | Bank Post Bill. |
| a.s. | ... | at sight. | Br. | ... | British. |
| Assn. | ... | Association. | B/R | ... | Bill Receivable. |
| Asst. | ... | Assistant. | B. R. | ... | Builder's Risk (marine). |
| A/T. | ... | American Terms. | Brit. | ... | British. |
| Av. | ... | Average. | Brl. | ... | Barrel. |
| Av. or avoir. | ... | Avoidupois. | Bro. | ... | Brother. |
| | | | B.S. | ... | Balance sheet. |
| | | | B/S. | ... | Bill of sale. |
| | | | B/s. | ... | Bags, bales. |
| | | | Bsh. or bus. | ... | Bushel. |
| | | | Bt. | ... | Bought. |

| | | | |
|---------------|--|-------------|---|
| B.T.U. | ... Board of Trade Unit. | c/o. | ... care of; carried over. |
| Bx. | ... Box. | C. O. D. | ... Cash on delivery. |
| Bxs. | ... Boxes. | Collr. | ... Collector. |
| c/- | ... Case, currency; com-
pon. | Com. | ... Commercial; Com-
mission. |
| c. | ... cents. | Con. | ... Contra (against). |
| Ca. | ... Cases. | Con. Cr. | ... Contra credit. |
| Cap. | ... Capital; Capitulum. | Con. Inv. | ... Consular Invoice. |
| Capt. | ... Captain. | Con. or | |
| Cash. | ... Cashier. | Consols | ... Consolidated Annu-
ties (Government
Stock). |
| Cat. | ... Catalogue. | Cont. | ... Contract. |
| C. B. | ... Cash Book. | Contg. | ... Containing. |
| C. C., C. cl. | ... Continuation clause. | Coy. | ... Company. |
| C/d. | ... Carried down. | c. p. d. | ... Charterer pay due. |
| C. div. | ... Cum dividend (with
dividend). | C/P. | ... Charter Party; cus-
tom of ports. |
| C and D. | ... Collection and deli-
very. | C. R. | ... Company's Risk. |
| Cent. | ... Centum; (100) cen-
time; centigrade. | Cr. | ... Credit, creditor. |
| Cert. | ... Certificate. | C/s. | ... Cases. |
| C. and F. | ... Cost and Freight. | Csk. | ... Cask. |
| C/f. | ... Carried forward. | Ct. | ... Cent, credit, current. |
| Cert. Inv. | ... Certified Invoice. | Cts. | ... Crates, Cents. |
| Cf. | ... Cenferatur (Com-
pare). | Ctge. | ... Cartage. |
| c. f. i. | ... Cost, freight and
insurance. | C.T.L. | ... Constructive total
loss (marine). |
| C. f. o. | ... Cost for orders (ship-
ping). | Cub. | ... Cubic. |
| Cg. | ... Centigrade. | Cum. div. | ... with dividend. |
| Cge. | ... Carriage. | Cum. Pref. | ... Cumulative Prefer-
ence (shares). |
| C. H. | ... Custom House. | C. W. O. | ... Cash with order. |
| Ch. | ... Chapter. | Cwt. | ... Hundredweight. |
| Ch. fwd. | ... Charges forward. | Cy. | ... Currency. |
| Ch. ppd. | ... Charges prepaid. | d. | ... Denarii (pence). |
| Chq. | ... Cheque. | D/A. | ... Days after accept-
ance; Documents
against acceptance;
Discharge afloat;
Deposit Account. |
| C. I. | ... Channel Isles. | D. B. | ... Day Book. |
| c. i. f. | ... Cost, insurance and
freight. | Dbk. | ... Drawback (customs). |
| c.i.f. & c. | ... Cost, insurance,
freight and com-
mission. | D/C, D. Cl. | ... Deviation clause
(marine). |
| c.i.f. & i. | ... Cost, insurance,
freight and interest. | D/D. | ... Demand Draft. |
| c.i.f.c. & i. | ... Cost, insurance,
freight, commission
and interest. | D/d. | ... Days after date;
days' date. |
| Ck. | ... Cask. | Dd. | ... Delivered. |
| Cld. | ... Cleared (shipping). | Dd/s. | ... Delivered sound. |
| C/m. | ... Call of more (Stock
Exchange). | D. D. and } | ... Dock dues and ship-
ping. |
| Cml. | ... Commercial. | Shpg. } | |
| C/N. | ... Credit note, consign-
ment note; circular
note. | Deb. | ... Debenture. |
| Co. | ... Company. | Dec. | ... Decrease. |
| C/o. | ... Cash order (banking). | Def. | ... Deferred. |
| | | Def. or | |
| | | deft. | ... Defendant. |
| | | Deg. | ... Degree. |
| | | Deld. | ... Delivered. |

| | | | |
|------------|--|-------------|---|
| Dept. | ... Department. | Ex int. | ... Without interest. |
| d. f. | ... Dead freight. | Ex n. | ... Ex new (without the right of the new shares). |
| Dft. | ... Draft. | Exers. | ... Executors. |
| Diam. | ... Diameter. | Exs. | ... Expenses. |
| Diff. | ... Difference. | F. | ... Feet, folio, franc. |
| Dis. | ... Discount. | F. A. A. | ... Free of all average (marine). |
| Dist. | ... District. | f. fc. | ... Franc. |
| Div. | ... Dividend; division. | F. or Fahr. | ... Fahrenheit. |
| Dk. | ... Dock. | Fac. | ... Facsimile. |
| D. L. O. | ... Dead letter office. | F. a. q. | ... Fair average quality. |
| d. l. o. | ... Dispatch loading only (marine). | F. a. s. | ... Free alongside ship. |
| D/N. | ... Debit Note. | Fco. | ... Franco (free). |
| D/O. | ... Delivery order. | Fcp. | ... Poolscap. |
| Do. | ... Ditto (the same). | fcs. (Fcs.) | ... Francs. |
| Dols. | ... Dollars. | F.c.s. | ... Free of capture and seizure (marine). |
| Doz. | ... Dozen. | F/d. | ... Free docks. |
| D/P. | ... Document against payment. | Ff. | ... Folios. |
| Dr. | ... Drawer, Debtor, Debit. | F. f. a. | ... Free from alongside; free foreign agency. |
| D/R. | ... Deposit receipt. | Ffy. | ... Faithfully. |
| D/s. | ... Days sight. | F. g. a. | ... Foreign general average (marine). |
| D/W. | ... Dock Warrant. | F. H. | ... For hatch (shipping). |
| d/w. | ... Dead weight. | Fig. | ... Figure. |
| dwt. | ... Pennyweight. | Fl. | ... Florin. |
| Dy. | ... Delivery, Deputy. | Fm. | ... Fathom. |
| E. | ... East. | Fo. | ... Folio. |
| Ea. | ... Each. | F/o. | ... For orders. |
| E. & O. E. | ... Errors and omissions excepted. | F. O. | ... Firm offer. |
| E. C. | ... East Central. | F. o. b. | ... Free on board. |
| e. c. | ... Exempli causa (for example). | F. o. c. | ... Free of charge. |
| Ed. | ... Edition; Editor. | Fol. | ... Folio. |
| e. d. | ... Ex dividend. | Folg. | ... Following. |
| E. E. | ... Errors excepted. | For. | ... Foreign. |
| e. g. | ... Exempli gratia (for example). | f.o.r. | ... Free on rail. |
| E/I | ... Endorsement Irregular. | f.o.s. | ... Free on steamer. |
| Enclo. | ... Enclosure. | f.o.t. | ... Free on trucks. |
| Ency. | ... Encyclopædia. | f.o.w. | ... First open water (shipping). |
| Eng. | ... England, English. | f. p. | ... Fully paid. |
| Entd. | ... Entered. | F. P. | ... Fire Policy. |
| E. o. | ... Ex officio (officially). | f. p. a. | ... Free of particular average. |
| Eq. | ... Equivalent. | Fr. | ... French; franc. |
| etc. | ... Et cetera (and other things). | Frd. | ... Forward. |
| et. seq. | ... Et sequentes (and the following). | Frt. | ... Freight. |
| Ex. | ... Examined, exchange, executed; out of; without. | Frt. fwd. | ... Freight forward. |
| Exch. | ... Exchange; exchequer. | Frt. ppd. | ... Freight prepaid. |
| Ex cp. | ... Ex coupon. | Ft. | ... Foot; feet. |
| Exd. | ... Examined. | F'ture. | ... Furniture. |
| Ex div. | ... Without dividend. | F.T.W. | ... Free Trade Wharf. |
| | | Fthm. | ... Fathom. |
| | | Ft. in. | ... Feet, inches. |
| | | Far. | ... Furlong. |

| | | | | | |
|-------------|-----|--|-----------------|-----|--|
| G. | ... | Gauge, gramme. | K. B. | ... | King's Bench. |
| G/A | ... | General average
(marine insurance). | K. B. D. | ... | King's Bench Division. |
| Gall. | ... | Gallon. | Kg. | ... | Kilogramme. |
| Galls. | ... | Gallons. | Kilo. | ... | Kilogramme. |
| Gaz. | ... | Gazette. | £ | ... | Pound sterling. |
| Gents | ... | Gentlemen, sirs. | £E | ... | Egyptian pound. |
| G. gr. | ... | Great gross (144 doz.) | £T | ... | Pound Turkish. |
| G. m. b. | ... | Good mercantile
brand. | L/A. | ... | Letter of Authority. |
| G. m. q. | ... | Good mercantile
quality. | Lat. | ... | Latitude. |
| G. o. b. | ... | Good ordinary brand. | lb. | } | Pound(s) in weight. |
| Gov. | ... | Government. | lbs. | | |
| G. P. O. | ... | General Post Office. | L/C. | ... | Letter of Credit. |
| Gr. | ... | Gross. | Ld. | ... | Limited. |
| Gr. Wt. | ... | Gross weight. | Ldg. &
dely. | ... | Landing and delivery. |
| Gras. | ... | Grains. | Led. | ... | Ledger. |
| Gs. | ... | Guineas. | L.I.P. | ... | Life Insurance Policy. |
| Hhd. | ... | Hogshead. | Long. | ... | Longitude. |
| H. M. C. | ... | His Majesty's Customs. | L.S. | ... | Locus sigilli (place of seal). |
| H. M. S. | ... | His Majesty's Service. | £ s. d. | ... | Pounds, shillings, pence. |
| H. O. | ... | Head Office. | Ltd. | ... | Limited. |
| H. P. | ... | Horse Power. | Ltg. | ... | Lighterage. |
| H. P. N. | ... | Horse-power nominal. | M. | ... | Thousand, Monsieur, sir. |
| Hrs. | ... | Hours. | -/m | ... | Thousand (as 50/m). |
| I. B. | ... | Invoice Book. | m. | ... | metre, mile, minute. |
| ib. | ... | ibidem (in the same place). | Mag. | ... | Magazine. |
| I. C. & C. | ... | Invoice, cost and charges. | Max. | ... | Maximum. |
| id. | ... | Idem (the same). | M/C. | ... | Metalling clause (marine insurance). |
| i.e. | ... | Id est (that is). | M/C. | ... | Marginal Credit (banking). |
| I/I. | ... | Indorsement irregular. | M.D. | ... | Memorandum of deposit. |
| I. H. P. | ... | Indicated Horse Power. | m/d. | ... | Months' date (f.e. months after date). |
| In. | ... | Inch, inches. | Mdlle. | ... | Mademoiselle, Miss. |
| Inc. | ... | Increase. | Mdme. | ... | Madame. |
| Inst. | ... | Instant (of the present month). | Mdse. | ... | Merchandise. |
| Int. | ... | Interest. | Mem. | } | Memorandum. |
| In trans. | ... | In transitu (in transit). | Messrs. |  |  | ... | Gentlemen, sirs. |
| Inv. | ... | Invoice. | M.H. | ... | Main hatch (shipping). |
| I. O. U. | ... | I owe you. | Mchs. | ... | Michaelmas. |
| I. S. W. G. | ... | Imperial Standard Wire Gauge. | Min. | ... | minimum; minute. |
| I. R. O. | ... | Inland Revenue Office. | Min. B/L. | ... | Minimum Bill of Lading. |
| Iss. | ... | Issue. | Min. wt. | ... | Minimum weight. |
| Ital. | ... | Italics. | M. I. P. | ... | Marine Insurance Policy. |
| J/A. | ... | Joint Account. | Mks. | ... | Marks (coin). |
| JJ. | ... | Justices. | mm. | ... | Millimetre (French measure of length). |
| Jun. | } | Junior. | M. M. | ... | Messieurs, sirs. |
| Jr. | | | | | |

| | | | |
|-------------|---|-----------|--|
| M. M. | ... Mercantile Marine. | O. P. | ... Open Policy (insurance). |
| M. M. A. | ... Mercantile Marks Act. | O. R. | ... Owner's risk. |
| Mme. | ... Madam. | O. R. B. | ... Owner's risk of breakage. |
| M. O. | ... Money Order. | O. R. C. | ... Owner's risk of Chafing. |
| Mo. | ... Month. | O. R. D. | ... " " Damage. |
| Mons. | ... Monsieur, Mr. | O. R. F. | ... " " Fire. |
| M. O. P. | ... Mother of pearl. | O. R. L. | ... " " Leakage. |
| Mos. | ... Months. | Ord. | ... Ordinary. |
| M/R | ... Mate's receipt. | Oz. | ... Ounce. |
| Mr. | ... Mister, sir. | p. | ... Per; page. |
| Mrs. | ... Mistress, madam. | P./A. | ... Power of Attorney. |
| MS. | ... Manuscript, mail steamer. | P. A. | ... Particular average. |
| m/s. | ... Month's sight (f.s. month after sight). | P. and L. | ... Profit and loss. |
| M.S.A. | ... Merchant Shipping Act. | Par. | ... Paragraph. |
| MSS. | ... Manuscripts. | P. C. | ... Post card. |
| N. | ... North. | p. c. | ... Per cent. |
| N.A. | ... Non-acceptance. | P/C | ... Price current, Petty cash; per cent. |
| N./A. | ... No advice (banking). | Pc. | ... Piece; price. |
| N./A. | ... New Account (Stock Exchange). | Pcl. | ... Parcel. |
| N.B. | ... Take note, mark well. | Pcs. | ... Pieces. |
| N/E. | ... No effects. | P. C. B. | ... Petty Cash Book. |
| N. E. | ... North East. | Pd. | ... Paid. |
| Nem.con. | ... No one contradicting. | P. D. | ... Port dues. |
| Net | ... Netto (lowest). | Per Ann. | ... Per Annum (by the year). |
| N/f. | ... No funds. | Per cent. | ... Per centum (by the hundred). |
| N/m. | ... No mark. | Per Pro | ... Per procuracionem (on behalf of). |
| N/N | ... No noting. | Pk. | ... Peck. |
| N/O | ... No Orders. | Pkg. | ... Package. |
| No. | ... Number. | P. L. | ... Partial Loss (insurance). |
| Nom. | ... Nominal. | P/m. | ... Put of more (Stock Exchange). |
| N. P. | ... Notary Public. | p.m. | ... Post meridiem—afternoon. |
| n/p | ... Net proceeds. | Pm. | ... Premium. |
| Nos. | ... Numbers. | P/N. | ... Promissory Note. |
| N. R. | ... No risk (insurance). | P. O. | ... Post Office, Postal Order. |
| N/S | ... Not sufficient (banking). | P. O. B. | ... Post Office Box. |
| N. S. | ... New style, new series. | P. O. D. | ... Pay on delivery. |
| Nt. wt. | ... Net weight. | p. p. | ... Picked ports (chartering). |
| N. W. | ... North West. | p. p. | ... per procuracion (on behalf of). |
| N. Y. | ... New York. | pp. | ... Pages. |
| o. | ... Degree. | Ppd. | ... Prepaid. |
| O/a | ... On account of. | P. p. i. | ... Policy proof of interest (marine insurance). |
| Obdt. | ... Obedient. | P. P. S. | ... A further Postscript. |
| O/c. | ... Over charge. | Pr. | ... Pair. |
| Oc. B/L | ... Ocean Bill of Lading. | | |
| O/d. | ... On demand. | | |
| O/D. | ... Over Draft. | | |
| O. H. M. S. | ... On His Majesty's Service. | | |
| O/o | ... Order of, on account of. | | |
| % | ... per cent. | | |
| ‰ | ... Per mille, per thousand. | | |

| | | | |
|-----------------|--|-----------------|---|
| Pref. ... | Preference or preferred. | S. g. ... | Specific gravity. |
| Pres. ... | President. | Sgd. ... | Signed. |
| p. pro. ... | per procuracion. | Sh. ... | Share. |
| Pro. ... | For. | Shipt. ... | Shipment. |
| Pro and con ... | For and against. | Shr. ... | Share. |
| Pro forma ... | As a matter of form. | S. I. ... | Short interest (insurance). |
| Pro tem. ... | Pro tempore (for the time being). | Sk. ... | Sack. |
| Prox. ... | Proximo (of the next month). | Sks. ... | Sacks. |
| P. R. ... | Parcel receipt. | S. L. ... | Salvage Loss. |
| P/S. ... | Public sale. | S. & L. ... | Sue and Labour (marine insurance). |
| P. S. ... | Post scriptum. | S/N. ... | Shipping Note. |
| Pt. ... | Pint. | S.o. ... | Seller's option. |
| P. T. ... | Parcel Ticket. | Soc. ... | Society. |
| P. T. O. ... | Please turn over. | Sov. ... | Sovereign. |
| Pts. ... | points. | Sovs. ... | Sovereigns. |
| P. X. ... | Please exchange. | S.P. ... | Supra Protest. |
| Qty. ... | Quality. | Spec. ... | Speculation. |
| Qr. ... | Quarter. | SS. S.S. ... | Steamship. |
| Qra. ... | Quarters. | Sq. ... | Square. |
| Qt. ... | Quart. | Sq. in. ... | Square inches. |
| Qto. ... | Quarto (4 to). | Sq. ft. ... | " feet. |
| Qts. ... | Quarts. | Sq. yd. ... | " yards. |
| q v. ... | Quod vide (which see). | Sq. m. ... | " mile. |
| Qy. ... | Querry. | St. ... | Saint, street. |
| R. ... | Rupees. | St. ... | Stone (in weight). |
| R/D. ... | Refer to drawer (banking). | St. ... | Stet (let it stand). |
| R. D. C. ... | Running down clause (insurance). | Std. ... | Standard. |
| re ... | with reference to, in the matter of. | Stg., Ster. ... | Sterling. |
| recd. ... | received. | Stk. ... | Stock. |
| reg. regd. ... | Registered. | S. to S. ... | Station to station. |
| R. I. ... | Re-insurance. | Str. ... | Steamer, street. |
| rm. ... | Ream. | S. W. ... | South West. |
| R. M. S. S. ... | Royal Mail Steamship. | T. ... | Tons, tare. |
| R. O. ... | Receiving Office. | T.B. ... | Trial Balance. |
| R. P. ... | Reponse payee (reply paid). | T.B. ... | Trade expenses. |
| R. R. ... | Rail road. | Throu' B/L ... | Through Bill of Lading. |
| Rs. ... | Rupees. | T.L.O. ... | Total Loss only (marine insurance). |
| R. S. O. ... | Railway Sub-Office. | T.M.O. ... | Telegraph money order. |
| R. S. V. P. ... | répondez s'il vous plait (please reply). | T.O. ... | Turn over. |
| Rx. ... | Ten rupees. | Tonn. ... | Tonnage. |
| \$... | Dollars. | T/q. ... | Tale quale; average quality, subsequent damage at buyers' risk. |
| s. ... | shillings. | T.R. ... | Tons registered (shipping). |
| sec. ... | Section; Secretary. | Treasr. ... | Treasurer. |
| S. & F. A. ... | Shipping and Forwarding Agent. | T.T. ... | Telegraphic Transfer. |
| seq. ... | The following. | U/a ... | Underwriting account (marine insurance). |
| servt. ... | Servant. | U. K. ... | United Kingdom. |
| | | Ult. ... | Ultimo—of the last month. |

| | | | |
|----------|------------------------------------|--------|--|
| U/p | ... Under proof (spirits). | Wt. | ... Weight. |
| U. S. | ... United States. | w/w. | ... Warehouse Warrant. |
| U. S. A. | ... United States of America. | xc. | ... Ex coupon. |
| U./w. | ... Underwriter. | x.d. | ... Ex dividend. |
| V. | ... Versus (against). | x.int. | ... Ex interest. |
| Var. | ... Various. | x.new | ... Ex new shares. |
| Via. | ... By way of. | Y./A. | ... York Antwerp Rules (marine insurance). |
| Vid. | ... Vide (see). | Yd. | ... Yard. |
| Viz. | ... Videlicet (namely). | Yday | ... Yesterday. |
| Vol. | ... Volume. | Yds. | ... Yards. |
| v.v. | ... vice versa. | Yr. | ... Your, year. |
| W. | ... West. | Yrs. | ... Yours. |
| W.A. | ... With average. | & | ... And. |
| W.B. | ... Warehouse Book ; Way Bill. | &c. | ... and the rest, and so on. |
| w.b. | ... Water ballast (shipping). | ‡ | ... Numbered (as 11/50). |
| W.C. | ... Western Central. | ' | ... Foot (as 1' 6"—one foot six inches). |
| Wd. | ... Warranted. | " | ... Inches (as 6" x 2"—six inches by two). |
| W.G. | ... Wire Gauge. | x | ... By (as 6 x 6—six by six). |
| Wk. | ... Week. | o | ... Degree (as 90°—ninety degrees). |
| Wks. | ... Weeks. | | |
| W.P. | ... Without prejudice (insurance). | | |

APPENDIX B.

LATIN PHRASES SOMETIMES USED IN CORRESPONDENCE.

| | | | |
|----------------------------------|---|----------------------------------|---|
| <i>ab initio</i> ... | from the beginning. | <i>ex tempore</i> ... | at the time, off hand. |
| <i>ab origine</i> ... | from the commencement. | <i>ex toto</i> ... | absolutely. |
| <i>ad infinitum</i> ... | to infinity. | <i>fac simile</i> ... | an engraved resemblance of a man's handwriting. |
| <i>ad interim</i> ... | meanwhile. | <i>gratis</i> ... | free; for nothing. |
| <i>ad valorem</i> ... | according to the value. | <i>ibidem</i> ... | in the same place. |
| <i>ad verbum</i> ... | to the word. | <i>id est (i.e.)</i> ... | that is. |
| <i>alias</i> ... | otherwise. | <i>ignorantia legis</i> ... | ignorance of the law |
| <i>a maximis</i> ... | from the greatest | <i>neminem</i> ... | excuses nobody. |
| <i>ad minima</i> ... | to the least. | <i>excusat</i> ... | |
| <i>ante diem</i> ... | before the day. | <i>in actu</i> ... | in reality. |
| <i>a primo</i> ... | from the first. | <i>in camera</i> ... | in the judge's chamber; in private. |
| <i>a priori</i> ... | from the cause to the effect; by deduction. | <i>in extenso</i> ... | at full length. |
| <i>bona fide</i> ... | in good faith. | <i>in loco</i> ... | in the place. |
| <i>bona fides</i> ... | good faith. | <i>in re</i> ... | in the matter of. |
| <i>caveat emptor</i> ... | let the purchaser beware! | <i>inter alia</i> ... | among other things. |
| <i>ceteris paribus</i> ... | other things being equal. | <i>in toto</i> ... | entirely. |
| <i>conditio sine qua non</i> ... | an indispensable condition. | <i>in transitu</i> ... | in passing; on the way. |
| <i>Coram iudice</i> ... | before the judge. | <i>intra vires</i> ... | within the powers (of). |
| <i>conditio sine qua non</i> ... | an indispensable condition. | <i>ipso facto</i> ... | by the fact itself. |
| <i>Coram iudice</i> ... | before the judge. | <i>ipso jure</i> ... | by the law itself. |
| <i>conditio sine qua non</i> ... | an indispensable condition. | <i>locus standi</i> ... | recognised place or position; standing place. |
| <i>conditio sine qua non</i> ... | an indispensable condition. | <i>mala fide</i> ... | in bad faith. |
| <i>conditio sine qua non</i> ... | an indispensable condition. | <i>mortis causa</i> ... | in view of impending death. |
| <i>conditio sine qua non</i> ... | an indispensable condition. | <i>mutatis mutandis</i> ... | the necessary changes being made. |
| <i>conditio sine qua non</i> ... | an indispensable condition. | <i>nemine contra dicente</i> ... | without opposition (nem. con.). |
| <i>conditio sine qua non</i> ... | an indispensable condition. | <i>Nota Bene (N.B.)</i> ... | mark or note well. |
| <i>conditio sine qua non</i> ... | an indispensable condition. | <i>pari passu</i> ... | at an equal rate; on the same footing. |
| <i>conditio sine qua non</i> ... | an indispensable condition. | <i>per</i> ... | by; by means of. |
| <i>conditio sine qua non</i> ... | an indispensable condition. | <i>per annum</i> ... | by the year. |

| | | | |
|-------------------------|---------------------|------------------------|-----------------------|
| <i>per capita</i> ... | by the head. | <i>status quo</i> | |
| <i>per centum</i> ... | by the hundred. | <i>ante.</i> ... | the same state as |
| <i>per contra</i> ... | on the contrary. | | before; as things |
| <i>per diem</i> ... | by the day. | | were before. |
| <i>per mensem</i> ... | monthly; by the | <i>stet</i> ... | let it stand or |
| | month. | | remain. |
| <i>per se</i> ... | by itself. | <i>sub judice</i> ... | under judicial con- |
| <i>prima facie</i> ... | at first sight or | | sideration. |
| | appearance. | <i>sub poena</i> ... | under penalty (of). |
| <i>pro bono</i> | | <i>sub rosa</i> ... | under the rose; i.e., |
| <i>publico</i> ... | for the public | | privately. |
| | good. | <i>uberrima</i> | |
| <i>pro et con</i> ... | for and against. | <i>fides</i> ... | utmost good faith; |
| <i>pro forma</i> ... | as a matter of | | implicit faith. |
| | form. | <i>uberrimae</i> | |
| <i>pro rata</i> ... | at the same rate; | <i>fides</i> ... | in the utmost good |
| | in proportion. | | faith. |
| <i>pro tanto</i> ... | to that extent; as | <i>ultra vires</i> ... | beyond (legal) |
| | far as it goes. | | powers. |
| <i>pro tempore</i> ... | for the time being. | <i>vade mecum</i> | go with me; a |
| <i>quid pro quo</i> ... | one thing for | | pocket com- |
| | another. | | panion. |
| <i>quod vide</i> | | <i>verbatim</i> ... | word for word. |
| (q.v.) ... | which see. | <i>via media</i> ... | a middle course. |
| <i>re</i> ... | in the matter of; | <i>vice versa</i> ... | the other way round; |
| | as regards. | | the reverse. |
| <i>sine die</i> ... | without fixing a | <i>vide</i> ... | see. |
| | day. | <i>viva voce</i> ... | by or with the |
| <i>sine qua</i> | | | living voice. |
| <i>non</i> ... | an indispensable | | |
| | condition. | | |

APPENDIX C.

COMMERCIAL TERMS USED IN TRADE.

Account.—A statement of financial or commercial transactions. Ledger Accounts are the various sections of a ledger showing details of a merchant's dealings with persons or in things or with regard to items of expenditure and income. Account day, on the Stock Exchange, is the day on which dealings for "account" are either settled or carried over.

Account Current—is the detailed statement in the form of a ledger account containing transactions which have taken place between the trader and his customer. Such an account is rendered to the customer either quarterly or yearly and is generally made out with the additional columns for interest charged or allowed upon each item.

Account Sales.—It is the statement rendered by the consignee to the consignor of goods showing the total amount realised by him less charges and commission incurred by him. The nett figure is finally brought down as the balance due by the consignee to the consignor after deducting advances given, if any.

Ad Valorem.—Latin phrase signifying *according to the value*. Customs *Ad Valorem* duty is a charge of so much per cent on the value of articles, irrespective of their weight or quantity. *Ad Valorem* Stamp Duties on Bill of Exchange, Court Fees, etc., are charged on the same principle.

Advice Note.—A written communication informing that a particular transaction has taken place or is about to take place.

Amalgamation.—A combination of two or more independent businesses or companies into a joint undertaking.

Amortization.—The periodic writing off of a proportionate amount of any particular class of expenditure. When tangible assets are written off gradually, the periodic charge is known as depreciation. When capitalised expenditure is to be written off within a stated number of years the periodic charge is known as amortization.

Apportionment.—A division into parts. The term as used in accounts relates to apportioning of income and expenditure with a view to ascertaining the amount chargeable to the period under review and the

balance relating to the next period to be carried forward. In Insurance, the term is applied in connection with division of the amount of total loss to be borne by different parties involved.

Appreciation.—Increase in value. The term is generally used in connection with Stock Exchange securities, and indicates the increase in their market value.

Arbitrage.—The buying of securities or produce of one market and telegraphing orders to agents abroad to sell them in another market whereby a profit is secured due to difference or constant fluctuation in price, noticed in foreign markets.

Arbitration.—A reference, by the parties to a dispute, of the matter at issue, to a third and independent party for settlement, the decision of such third party is known as the "Award". This method of settling disputes is very popular among merchants, instead of resorting to litigation in a Court of law.

Articles of Association.—A document containing Rules and Regulations in connection with the internal working and management of a limited company, including rights and duties of shareholders, powers of officers, etc.

Assets.—The items of property of a merchant including the amounts due to him are called the Assets of the merchant.

Assignment.—An absolute transfer of interest in property or goods by one party to another party. The latter is called the assignee.

Auditing.—the process of verification of accounts by an independent person.

Average.—The apportionment of expenses and loss, incurred in order to save the ship and cargo from a total loss, among the various contributors.

Award.—The decision or the judgment given in arbitration proceedings by the Arbitrator or by the Umpire is called an Award.

Backwardation.—When a bear speculator on the Stock Exchange desires to carry over his transaction to the next settlement he pays a consideration to the stock broker for so doing which is called backwardation.

Bad Debt.—Any debt that becomes irrecoverable is called a Bad Debt.

Balance.—The difference between the debit and credit sides of an account is styled as "Balance".

Balance Sheet.—A statement setting forth on one side the values of all the assets of a firm and on the other side its liabilities and Capital. The Balance Sheet is prepared with a view to ascertaining the true financial position of the firm as on a given date.

Bankrupt.—A debtor who finds himself unable to meet his liabilities in full and whose estate is consequently administered by or under the supervision of the Court.

Bank Draft.—Bills of Exchange drawn by one Bank upon its branch abroad or upon another banker. They are issued for the convenience of customers' remittances from one country to another.

Bank Post Bill.—A Promissory Note issued by the Bank of England payable at 7 days' sight.

Bank Rate.—The minimum rate per cent charged by the Bank of England (in India, by the Reserve Bank of India), for discounting first class bills of exchange of customers. Bank rate is regulated every week and depends mostly upon the demand for advances, quantity of gold in the market and the amount of reserve in the Bank.

Bank Return.—The weekly statement issued by the Bank of England showing the amount of Bank-notes in circulation, the stock of bullion and coin in reserve and other details as to assets and liabilities of the Bank which would enable a business man to judge the state of money market and its probable tendencies in the near future.

Bill of Exchange.—An unconditional written order given by one person on another asking the latter to pay a sum of money to a certain person or his assignee at a given date. This is a negotiable instrument and passes from hand to hand by endorsement.

Bill of Lading—is a contract of affreightment in the form of a document of title given by the owners of the ship sailing abroad acknowledging receipt of goods on board the ship for transportation and containing a number of clauses as to risks, freight, the delivery of goods to the consignee at the port of destination.

Bill of Sale (B.S.).—It is a registered document under which one person assigns his property to another as security for a loan advanced. By virtue of this document the assignee can seize and dispose off the property assigned to him, upon non-payment of the loan when due.

Blank Cheque.—A cheque signed by the drawer without mentioning the amount which is left blank to be filled in by the drawee before cashing.

Blank Transfer.—is a transfer deed, generally given as security for a loan wherein full details are filled in but the name of the transferee and the date are left blank with the intention that if the borrower of money fails to repay on due date the name and the date can be inserted and the transfer enforced.

Bonded Goods.—Merchandise liable to duty, deposited in Government warehouse, until the duty is paid.

Bonus.—An additional distribution of unusual profits, among the shareholders of a Public Company besides the usual dividend on shares held by them. A special monetary reward or additional remuneration given to an employee, usually as an extra salary, or a lump amount or a sum in the form of a percentage on results.

Book Debt.—The amounts due and outstanding at a given date and owing to the trader, *i.e.*, the total debit balances of personal accounts of the customers. The total debtors.

Bottomry Bond.—A contract by which the captain of a ship borrows money on the security of the vessel in his charge, specially with a view to repairing the ship and reaching the destination.

Broker.—Any person who acts as an intermediary in any commercial dealing to bring about a contract of sale, is called a Broker.

Brokerage.—The allowance paid to a broker in consideration of his services rendered in the completion of a transaction between two parties.

Bullion.—Gold and Silver in bulk or in bars as distinct from the coined metal.

Capital.—The excess of assets over liabilities of a concern is called its Capital.

Carriage.—The charges paid for carrying or transporting overland goods from one place to another is called carriage (expenses).

Cash Credit.—An arrangement whereby a Bank permits its customer to overdraw his current account up to a specified sum. This arrangement generally necessitates lodging or assigning of some kind of security with the bankers to cover the overdraft granted.

Chamber of Commerce.—An association of merchants and business men formed for the purposes of promoting the commerce and industry of a country generally.

Charter party.—A contract by which an entire ship or part of a ship is let to an exporter for the conveyance of goods for a defined period of time or for some determined voyage to one or more places.

Cheque.—A written order or a bill of exchange drawn by a customer on his banker directing the latter to pay a specified sum of money to or to the order of a specified person or to bearer.

Circular Note.—A modified form of a letter of credit, usually with cheque forms attached, obtained from a banker in return for a sum of money deposited with him whereby the banker directs his foreign agents to pay any amount or amounts in all not exceeding the sum named to a person whose signature is found in a letter of identification. These notes are very convenient in travelling.

Circulating Assets.—Assets which are constantly used in business in connection with sales and manufacture converted into money and *vice versa* as opposed to fixed-assets which are acquired by a merchant for permanent equipment.

Commission.—Any remuneration that is allowed by a principal to his agent for services rendered by the latter to the former, is known as commission.

Company, Limited.—A limited company is a company formed under the Companies Act, limiting the liability of its shareholders to the nominal value of the shares they hold.

Composition.—An arrangement by which an insolvent debtor agrees to pay his creditors a portion of his debt in full and final satisfaction of the whole debt.

Contango—is a charge made by a stock broker to a bull speculator for carrying over his transaction to the next settlement.

Contingent Liability.—An obligation to pay dependent on events of uncertain or doubtful occurrence, *i.e.*, which may or may not happen; *e.g.*, if one becomes a surety on behalf of his principal, by guaranteeing the repayment of a sum of money, he would, in the event of the principal failing to fulfil his obligation, become liable for the amounts specified.

Copy Right.—An author's exclusive right to print or publish anything composed or written by him. This right is assignable.

C. F. (Cost and Freight).—C. F. price quotation covers the cost of goods, shipping charges and freight to the port of destination.

C. I. F. (Cost, Insurance and Freight).—This term indicates that the price includes cost, freight, and all charges to the port of destination including marine insurance of the goods while in transit.

C. I. F. C. I.—C. I. F., plus agents' commission and interest on the total cost till payment.

Credit Note.—A statement (frequently in red ink) rendered to a person claiming credit for the goods returned to whom some allowance or reduction in price is made; it is an intimation to the party to whom it is sent that his account is credited by the sender with the amount mentioned therein.

Creditor.—A person to whom an amount is owing.

Cum. Div. (with dividend).—When shares are bought on the understanding that the dividend which has accrued due at the time of purchase but is payable at a later date, is included in the purchase price.

Cumulative Dividend.—Preference Shares have a preferential right as to payment of dividend out of profits before anything is paid on the Ordinary Shares: Where, however, the profits of the company in any

one year are not sufficient to pay the dividend to the preference shareholders, and consequently when they do not receive the guaranteed dividend the right of such shareholders to receive unpaid dividends accumulates or is carried forward to the succeeding years when sufficient profits are made.

Dead Freight.—This is the compensation payable to the ship-owner when the charterer has failed to provide a full cargo for the vessel chartered, in consideration of the loss of freight to the ship-owner.

Debenture.—A certificate issued by a joint stock company or any public body or government department acknowledging the receipt of a loan and containing the terms as to the rates of periodic interest, terms as to repayment, if any, and other particulars. If any property of the company is mortgaged or secured against the due repayment of such loans they are called *Mortgage Debentures*: where no mortgage exists the Debentures are known as *Simple or naked Debentures*.

Debit Note.—A memo or intimation sent by a creditor to his debtor stating the item and the amount, with which he has debited his debtor's account.

Debtor.—A person owing money or money's worth either for goods sold or for any services rendered to him or for any other reason.

Del. Credre. Commission.—The extra commission agreed to be given by the consignor to the consignee in return for the latter guaranteeing to make good any loss by way of bad debts. The Agent who gets such commission is called a Del. Credre. Agent.

Demurrage.—A charge of so much per day payable to the owners of the ship for the detention of the ship beyond the specified time limit in connection with loading or unloading of cargo.

Depreciation.—Decrease or loss in value of any property on account of its use or for any other reason whatsoever.

Discount.—An abatement or allowance given to a person for payment before due date.

Dock Warrant.—An acknowledgment for goods lodged in Public warehouse, showing date of entry, details of the goods with marks and numbers, name of the owner and other particulars necessary to identify the goods on delivery generally transferable.

Documentary Bill and Clean Bill.—A bill of exchange accompanied by shipping documents such as *pro forma* invoice, bill of lading and policy of insurance is called Documentary Bill while a clean bill of exchange has no reference to other documents.

Drawback.—The excise duty returnable by the authorities on exportation of excisable goods or return of customs duty paid on re-exportation of goods.

E. & O. E.—"Errors and Omissions Excepted." The term is usually found on invoices, and is intended to mean that the values as stated are subject to correction in case there are any *bona fide* errors and omissions.

Ex-Dividend.—This term means "without dividend", and the Ex-div. quotation of prices of shares do not include the right to receive unpaid dividend, which may have accrued due at the time.

Fixed Asset.—Property acquired for permanent equipment or with an intention of earning profits by its use.

Fixed Charges.—Recurring items of expenditure which is constantly incurred in a trade, year after year, such as rent, rates, taxes, interest on mortgage, etc.

Floating Asset.—The property acquired with a view to re-sale or subsequent conversion into cash.

Folio.—When a sheet of paper is so folded as to make the two pages appear opposite one another the complete portion covered by two opposite sides is called folio. Ledger Accounts and Cash Books rulings extend over two pages open to view and the complete ruling form into one folio. Each folio is numbered consecutively for giving cross references in account books.

F. O. B. (Free on Board).—The quotation of F. O. B. price covers the cost of the goods, carriage to port and shipping charges, etc., in fact all expenses until the goods are placed on board the ship for export, the buyer having to pay the freight.

Freight.—Consideration paid for chartering a ship or a part of a ship, or for transmission of goods from one port to another in a general ship.

General Average.—The contribution made by the owners of the ship and cargo (or their underwriters) as compensation to a particular party who has had to sacrifice his property for the safety of the ship and the cargo in time of peril.

Gilt-edged Securities.—First Class securities or investments on which the regular interest payment is assured and where the principal invested is considered absolutely safe, e.g., Municipal Bonds, Government Papers and Stock and Shares of first class limited concerns.

Good-will.—The extra value attached to a business as a going concern over and above its intrinsic value (as shown by the excess of its assets over liabilities) on account of its established reputation, its profit-earning capacity, its advantageous situation, as well as an expectation that profits will be continued to be earned and customers will continue to resort to the place of business in spite of any change of ownership.

Gross Profit and Nett Profit.—The excess of sales over the cost of the goods sold is called gross profit, whilst the profit as arrived at after

deducting from gross profit all indirect expenses and establishment charges, is the nett profit.

I. O. U.—It is an acknowledgment of indebtedness given by a debtor to his creditor generally for a temporary loan of money. The writing is :—"I. O. U.", with the amount and signature of the debtor.

Indent.—A contract containing a firm written order for supply of goods received from a foreign correspondent.

Interest.—Compensation or "rent" paid by a borrower for a loan of money. The charge is usually in the form of a percentage per annum based on the financial condition of the money market, including premium, if any, for the risk involved.

Interim Dividend.—Dividends declared by the directors of a company at some intermediate date before the close of the financial period in anticipation of profits and provided for either out of current profits or out of accumulated profits brought forward from previous period. In case of joint stock companies the right of declaring dividends rests with the company's general meeting, but the directors are often authorised to declare interim dividends, which may be afterwards confirmed by the general meeting.

Insurance Premium.—The annual or periodical payments due under the terms of a Policy of Insurance. The Insurance Policy is a contract containing the obligation of the insurer to bear or sustain loss or damage arising out of the risk undertaken by him, or to pay a certain fixed sum to the insured upon the happening of a specified event.

Intrinsic Value.—The real or actual value (as distinguished from apparent worth) for which a thing can be exchanged.

Inventory.—The stock list or a statement prepared of articles in stock.

Invoice.—A statement setting forth full details as to the quality, quantity, rates and prices of goods sold or consigned to a purchaser or a factor. It also contains the marks and numbers with which each parcel is labelled and includes the charges, if any, incurred in forwarding the goods.

Jettison.—The act of voluntarily throwing overboard of cargo in order to lighten the ship to save her from being sunk, stranded or damaged in case of a storm or similar perils at sea.

Lay Days.—The usual number of days allowed to cargo owners for unloading of ships beyond which demurrage is chargeable for further detention.

Lease.—It is the agreement or document setting forth the conditions of the contract for letting lands or buildings for a term of specified

number of years in consideration of annual rent. The parties are styled as lessor and lessee.

Legal Tender.—The current coin of the realm or any other medium of payment that can be lawfully offered in payment of a debt.

Letter of Credit (L/c).—It is a communication addressed by bankers to their agents either at home or abroad directing them, upon the credit of the writer, to advance the bearer any amount or amounts within a specified limited sum and debit the total amount to his account.

Liability.—An obligation. The debts owing by a trader, firm or a company are known as the liability of the person, firm or company.

Lien.—The right of a person who is in possession of another person's goods or property, to retain them if the owner of such goods or property is indebted to him.

Limited Company.—The company incorporated under the Companies Act, the members of which enjoy the benefit of limited liability, *i.e.*, their liability towards the debts of the company is limited only to the unpaid amount on any shares taken by them or to any lump amount which they have agreed to contribute in the event of the liquidation of the company.

Liquidation.—Process of winding up of a Limited Company, under which all the property of the company is converted into ready cash, out of which all debts are first paid either *pro rata* or in full as the case may be, the surplus if any, is then returned to the members of the company in proportion to their holdings.

Liquid Asset.—Cash or any such assets which can readily be converted into money.

Long-dated Bill.—A long-dated bill is one drawn for a long term to run, say, for six to nine months after date or after sight, whilst a short-dated bill is one payable on demand, at sight or within 7 days.

Manifest.—A statement prepared by the captain of a ship and lodged at the custom-house on his leaving the port, and it contains full particulars of the cargo and crew on board and the port of destination to which he is bound.

Memorandum of Association.—A document containing certain clauses as prescribed by the Company's Act and signed by the original members of the company. It is filed with the Registrar of companies with a view to the company's incorporation. The document contains the name and address of the company, its objects, the extent and limitation of liability of its members and details as to share, capital, etc.

Middle Price.—The central price between those at which a dealer offers to buy and sell.

Minute Book.—A book containing record of the proceedings at meetings, such as general meeting and directors' and committee meetings, etc.

Mortgage.—A document or deed for transfer of ownership of property by the borrower of money to the lender as a security for the loan obtained. The lender is called Mortgagee and the borrower Mortgagor.

Negotiable Instrument.—A document usually containing a written undertaking or order to pay a certain amount, to bearer or to a specified person or order, and which is capable of transfer from hand to hand by means of delivery, with or without endorsement, as for example, Cheques, Bills of Exchange, Promissory Notes, etc.

Net.—The term is used to express the amount, quantity, or price for merchandise after all deductions are made.

Pari Passu.—On an equal footing; in equal proportions.

Patent.—Grant of an exclusive right to an inventor to derive all benefits out of his invention for a number of years. A patent right is granted by the Government (subject to payment of fees) generally for 14 years during which the inventor is protected against any infringement of his right by other persons. In exceptional cases the term may be extended to a limited number of years usually seven years at a later date.

Petty Cash.—A small round sum of cash entrusted to an assistant cashier, for meeting small items of expenditure.

Postage.—The charges paid for buying postage stamps for transmitting any article or goods from one place to another.

Post Dated Cheque.—A cheque drawn and signed but which bears a future date.

Preferential Creditors.—Certain creditors of the insolvent are entitled to payment of their claims in full in priority to all other creditors. In case of Insolvency (or Bankruptcy) proceedings as for example, Government and Municipal Rates and Taxes, Clerks' Salaries and Labourers' Wages, according to legal provisions.

Prices Current (P. C.).—A table showing the market prices of commodities as published in newspapers or in trade journals. It is a general custom among merchants to issue a list of Prices Current to their customers either daily, weekly or monthly showing articles dealt in by them and the current market price of each of them.

Price List.—It is a list, showing the selling price of articles published by retail dealers, grocers, etc., in the form of handbills, booklets or advertisements.

Profit Sharing.—The system under which the workmen receive a share of the profit which the business realises in addition to getting their fixed ordinary wages.

Prospectus.—A document drawn on behalf of a Limited Company detailing the prospects of its success, and including the contents of the memorandum with a view to inviting the public to subscribe for its shares or debentures.

Proxy.—The person authorised to act for another; or the document authorising a person to act on one's behalf. The term is generally used when one is authorised to vote for another at a Company meeting.

Quorum.—The minimum number of members of a Committee or a Board of Directors or any other body of persons such as an association, a joint stock company, etc., who can meet and transact business according to their constitution.

Rate of Exchange.—The price of money of one country quoted in the terms of money of another country.

Raw Material.—Materials in bulk or unfinished state obtained for manufacture of finished articles.

Rebate.—An abatement or allowance in price, made at a subsequent date. It is a portion of discount returned by a banker on discounted bill when it is retired previous to the date of maturity by the party liable thereon.

Receipt (Receipt).—A written acknowledgment of something having been received.

Receiver (O. R.).—Official Receiver is a Government officer appointed to take charge of, realise, and distribute an insolvent's estate, among his creditors, during the liquidation of his business.

Respondentia.—A contract by which a captain of a ship borrows money on the security of the cargo with a view to enabling the ship to reach the destination.

Reserved Liability.—The liability of shareholders for uncalled portion of the shares they hold, which the company decides not to call up except only in case of its liquidation.

Ring.—A combination of capitalists for the purpose of forcing up the prices of certain commodities above their ordinary market value by withholding such commodities from circulation. Such a method is also known as "cornering".

Royalty.—A royalty is a payment by way of rent made by one person to another in return for some privilege or concession, e.g., the payment made by a manufacturer to the inventor for the use or sale

of a patent, or payment to a mine proprietor for every ton of coal or other mineral extracted.

Salvage.—It is a compensation made to or repayment of expenses incurred by those through whose exertions ships and goods have been saved from being lost through perils of the sea. It is also a term applied to goods saved from fire.

Set Off.—A counter-claim.

Ship's Protest.—A declaration made by the master of the ship, upon oath, detailing the true circumstances under which damage to ship or cargo was sustained. A copy of this is usually required by the underwriters before insurance claim is settled.

Sinking Fund.—A sum set aside periodically out of profits of a business for a number of years in order to meet out of such accumulation a specific loss or liability at the end of a given date, as for example, Redemption of Debentures or provision for Replacement of Machinery.

Solvent and Insolvent.—A trader is said to be solvent if his assets are more than his liabilities, whilst if his liabilities exceed his assets, he is said to be insolvent.

Statement of Account.—An account rendered generally by a creditor to the debtor at stated intervals mentioning the dates, particulars of debits and credits and the balance due, together with interest, if any.

Sterling.—Standard English money or coin.

Surrender Value.—The amount which an Insurance Company is prepared to pay in cash as a return of a portion of the premiums paid upon the surrender or cancellation of a policy issued by it before it has matured.

Tale Quale.—An expression used in contracts where bargains are made for goods "to arrive" and signifies that the goods were according to sample taken out at the time when they were shipped but the buyer takes the risk of any damage or deterioration during transit.

Tare.—It is the weight of the box, cask, or other container wherein goods are packed apart from the weight of the goods contained therein. Tare is used in connection with the allowance or deduction to be made in the gross weight of the goods to ascertain the net weight of the contents.

Tret.—It is allowance of 4 lbs. on every 104 lbs. on merchandise as a compensation to the buyer for wear or damage in transit or for dust or sand or waste liable to have crept in with that merchandise.

Trial Balance.—A Trial Balance is a statement of the debit and credit balances of all ledger accounts prepared on a given date, with an object of proving the arithmetical accuracy of ledger postings.

Trustee.—A person in whom is vested the right of ownership of a property on behalf of another person for its administration in a specified manner.

Turnover.—A trader's total sales during a given period.

Ultra Vires (Beyond the Powers)—*s.g.*, the directors of a company must see that they are not acting *ultra vires* (beyond the powers conferred upon them by) the memorandum of the association of that company.

Usance.—The customary period or term for which bills of exchange are to be drawn between two different countries.

Voucher.—Any documentary evidence in support or accuracy of accounts entry.

Waste Book.—A rough memoranda book in which a trader enters his transactions as and when they take place, from which ultimately the trader writes up his books of accounts.

Watering Stock.—Issuing capital of a company by new stock or shares without having substantial assets behind same through overvaluation of assets, etc., on which a dividend has to be paid.

Winding up.—The process of liquidating the affairs of a business and settling up finances of a concern by realising all assets and paying out the liabilities either in full or *pro rata* as the case may be and in case of excess paying back the capital.

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