UG CM S1 01
(DSC/DSE)

FOUR YEAR BACHELOR'S DEGREE COURSE

(CBCS in Accordance with NEP 2020)

SEMESTER - I

BUSINESS ORGANISATION AND BUSINESS ETHICS

COMMERCE



Maniram Dewan School of Management

KRISHNA KANTA HANDIQUI STATE OPEN UNIVERSITY

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COURSE INTRODUCTION

Business is an occupation, which occupies an important place in the economic life of the businessmen as well as the nation. It has influenced the thinkers and they have evolved many theories of it. This course emphasizes on building organizational and management skills and creating a positive attitude towards business. The units equip the learners to analyse and evaluate various business processes.

The units are–

UNIT 1: Nature and Purpose of Business
UNIT 2: Business Organisation: An Introduction
UNIT 3: Proprietorship Business
UNIT 4: Partnership Business
UNIT 5: Joint Hindu Family Business
UNIT 6: Cooperative Societies
UNIT 7: Public Sector Enterprises
UNIT 8: Company Form of Organisation
UNIT 9: Multinational Corporations
UNIT 10: Micro, Small and Medium Enterprises (MSMEs)
UNIT 11: Entrepreneurship
UNIT 12: Vision, Mission and Objectives
UNIT 13: Business Ethics
UNIT 14: Social Responsibility of Business
UNIT 15: Human Values in Business

While going through a unit, you will notice some along-side boxes, which have been included to help you know some of the difficult, unseen terms. Again, we have included some relevant concepts in "LET US KNOW" along with the text. And, at the end of each section, you will get "CHECK YOUR PROGRESS" questions. These have been designed to self-check your progress of study. It will be better if you solve the problems put in these boxes immediately after you go through the sections of the units and then match your answers with "ANSWERS TO CHECK YOUR PPROGRESS" given at the end of each unit.

UNIT 1: NATURE AND PURPOSE OF BUSINESS

UNIT STRUCTURE

1.1 Learning Objectives
1.2 Introduction
1.3 Meaning of Business
1.4 Features of Business
1.5 Objectives of Business
1.6 Components of Business
1.7 Classification of Industries
1.8 Commerce and its Components
1.9 Factors to be Considered for Starting a Business
1.10 Sources of Finance
1.11 Let Us Sum Up
1.12 Further Reading
1.13 Answers to Check Your Progress
1.14 Model Questions

1.1 LEARNING OBJECTIVES

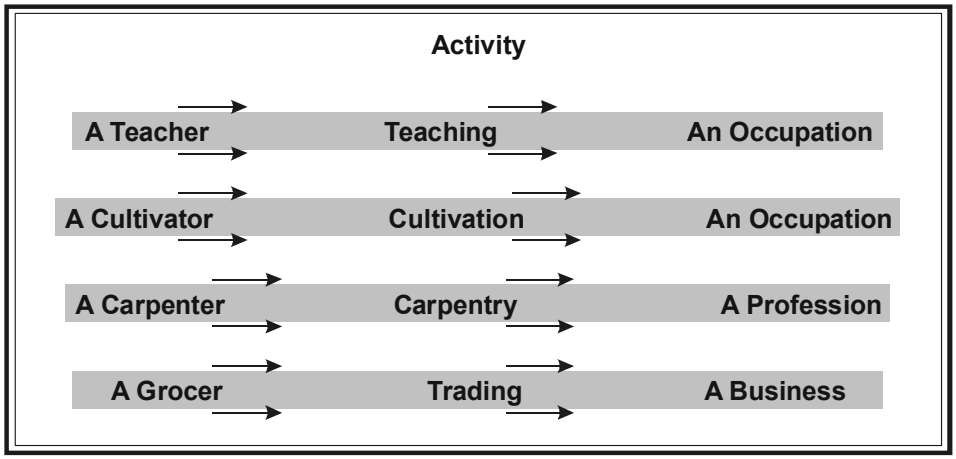
After going through this unit, you will be able to:

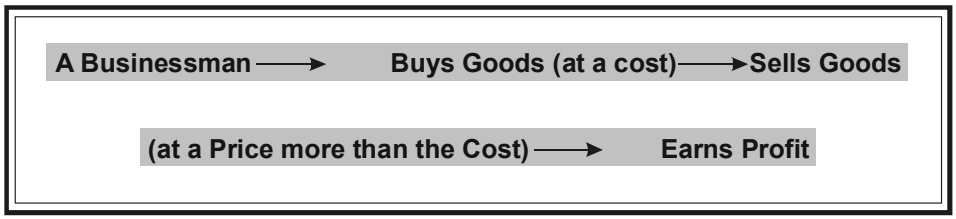
- define the meaning of business
- explain the features of business
- explain the objectives of business
- differentiate the terms Industry, Commerce and Trade
- explain the sources of finance for business.

1.2 INTRODUCTION

You are aware that men are always busy with some kind of work. These works are called human activities. These activities may be categorised as economic and non-economic. These activities are either productive or unproductive. All economic activities are productive. These are productive because we get money after doing these activities or we get

goods or services, which can satisfy our wants. Most of these economic activities are performed to earn our livelihood.





The activities in which we engage ourselves to earn our livelihood are 'occupation'. Every person is engaged in some kind of occupation. A cultivator works in the field, a labourer works in the factory, an officer does his office work in the office, teacher teaches in the class, a trader is busy in selling the goods, and so on. The primary aim of all these persons is to earn their livelihood while doing some work. "Business" is also an occupation in which goods and services are exchanged for money or money's worth on expectation of profit.

1.3 MEANING OF BUSINESS

The word 'Business' literally means 'state of being busy'. Every human being is busy with some kind of work with a view to earn his/her living. These works are called occupation as explained above. Now, let us discuss some of the definitions given by the experts in the subject.

According to L.H. Haney, "Business may be defined as human activities directed towards providing or acquiring wealth through buying and selling of goods". This definition includes activities relating to the production

of goods only and omitted 'services'. But business includes rendering of services also like transportation, insurance etc.

Wheeler defines business as "An institution organised and operated to provide goods and services to the society under the incentive of private gain." Wheeler considers 'Private gain' as the primary motivation factor. There are certain undertakings whose primary aim is to provide service to the society but still they are covered under business. The government for the benefit of society undertakes public utility services, but still they are covered under business.

All those activities, which are essential for the production and sale of goods, form the part of business. This definition also includes activities required for providing services.

According to M.C Naughton, 'The term business means the exchange of goods, money or services for mutual benefits '. This definition gives a narrow scope of business. It includes exchange of goods and services and not the production aspect of business.

From the definitions given above, it is obvious that the term "Business" includes all those activities that are related to the production and distribution of goods and services with a view to earn profit. It also includes all those activities, which indirectly help in production and exchange of goods as transport, insurance, banking and warehousing etc.

1.4 FEATURES OF BUSINESS

In the preceding section we have discussed the meaning of business. Now we will discuss the essential features of 'Business'

a) **There must be an Entrepreneur:** To establish a business there must be someone to take the responsibilities. The person who takes responsibilities to establish a business is known as entrepreneur. Here, we may call him as 'Businessman'. The entrepreneur visualises a business, combines various factors of production and puts them into an operating state.

b) **Business Activities are Economic Activities:** Business includes only economic activities. All those activities relating to the production

and distribution of goods and services are economic activities. Business is carried on to earn a profit. Activities undertaken without economic consideration will not form a part of business. So, business covers only economic activities.

c) **There are Exchanges of Goods and Services:** Business involves exchange of goods and services. The goods to be exchanged may be produced either by the businessman himself or by any other. But the services to be exchanged are generally produced by the businessman himself. Exchange of goods and services is undertaken with profit motive. Production or purchasing of goods and services for personal consumption do not constitute business. The purchase of goods by retailer constitutes business while the purchase of goods by consumer is not a business. The purchase of goods should be to sell them again. The same principle is applicable to services. If a person cooks his food at home, it is not business, but if the same person cooks at a restaurant, it is business, because he exchanges his services for money.

d) **Earning of Profit is the Primary Objective:** The object of starting a business is to earn profit. The profit motive is the important element of business. Any activity undertaken without profit motive is not business. A business tries to earn profits out of the business activities. Profit is necessary for the continuity of the business. This does not mean that there will not be any losses in business. The object of starting a business is to earn profit, though there may be losses.

e) **There are Risks and Uncertainties in Business:** The business involves larger element of risk and uncertainty. In fact, a businessman tries to foresee the future uncertainty and plan his business activities accordingly. The factors on which business depends are never certain, so the business opportunities will also be uncertain. There may be a shift in demand, strike by employees, floods, war, fall in prices, fluctuations in money market etc. If a businessman is able to foresee future uncertainties and is also able to bear them, then he will be successful, otherwise he may be forced out of business. The

risk element in business keeps the businessman vigilant and he tries to execute his policies properly.

f) **Continuity of Transactions:** In business, only those transactions are included which have regularity and continuity. An isolated transaction will not be called business, even if the person earns profit from that deal. For example, a person builds a house for himself, but later on he sells it for profit, we will not call it business. On the other hand, if a house building society builds houses and sells them, this will be called business. So, the transaction should have continuity and regularity, otherwise they will not be a part of business.

g) **Creation of Utility:** The goods are provided to the consumer as per their likings and requirements. Business creates various types of utilities so that consumer may use them. The utility may be form utility, place, utility, time utility, etc. When raw materials are converted into finished goods, it creates form utility. The goods are transported from the places of production to the ultimate consumers; it creates place utility. In the present industrial system, production is not only for the present but it is undertaken for the future also. The process of storing goods when they are not required and supplying them at a time when they are needed is called creation of time utility. So the business creates many utilities in goods so that consumers may use them according to their preferences and needs.

h) **Organisation:** Every enterprise needs an organisation for its successful working. Various business activities are divided into departments, sections, and jobs. An organisation creates the framework for managerial performance and helps in co-ordinating various business activities. A proper organisation is helpful in the smooth running of the business and helps to achieve its objectives.

i) **Finance:** Business enterprises cannot move a step without finance. The finances are required for providing fixed and working capital. The availability of other factors of production also depends upon the availability of finance. After estimating its financial requirements, the

business tries to find out the sources from which these requirements will be met.

j) **Consumer Satisfaction:** The ultimate aim of business is to supply goods to the consumers. The goods are produced for the consumers, if the consumer is satisfied, then he will purchase the same thing again, otherwise he will go for alternative goods. The businessman should try to satisfy the consumers to maintain the demand for his products. The existence and expansion of business depends upon the likings of the consumers for the products of that business. The businessman should try to produce goods according to the likings and tastes of consumers. The commodities should also be made available when they are needed.

k) **Satisfying Social Needs:** The business should aim at serving the society. The business is a socio-economic institution. Now a days, a great emphasis is laid on the social aspect of business. It is only the public, which needs business, but business also needs public support. So, the business enterprises must serve public purpose.



CHECK YOUR PROGRESS

Q.1: Explain the meaning of business.

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1.5 OBJECTIVES OF BUSINESS

Without any purpose, we do not undertake any work. Every work is started with an objective. The objective is the goal, for the achievement of which we concentrate our efforts. A business is also undertaken with some objectives. According to Peter Drucker, “Objectives are needed in every area where performance and results directly and vitally affect survival and prosperity of the business”.

The main objective of a business undertaking is to earn profits. Profit earning is considered necessary for the survival of the business. The objectives of the business may be categorised under these headings:

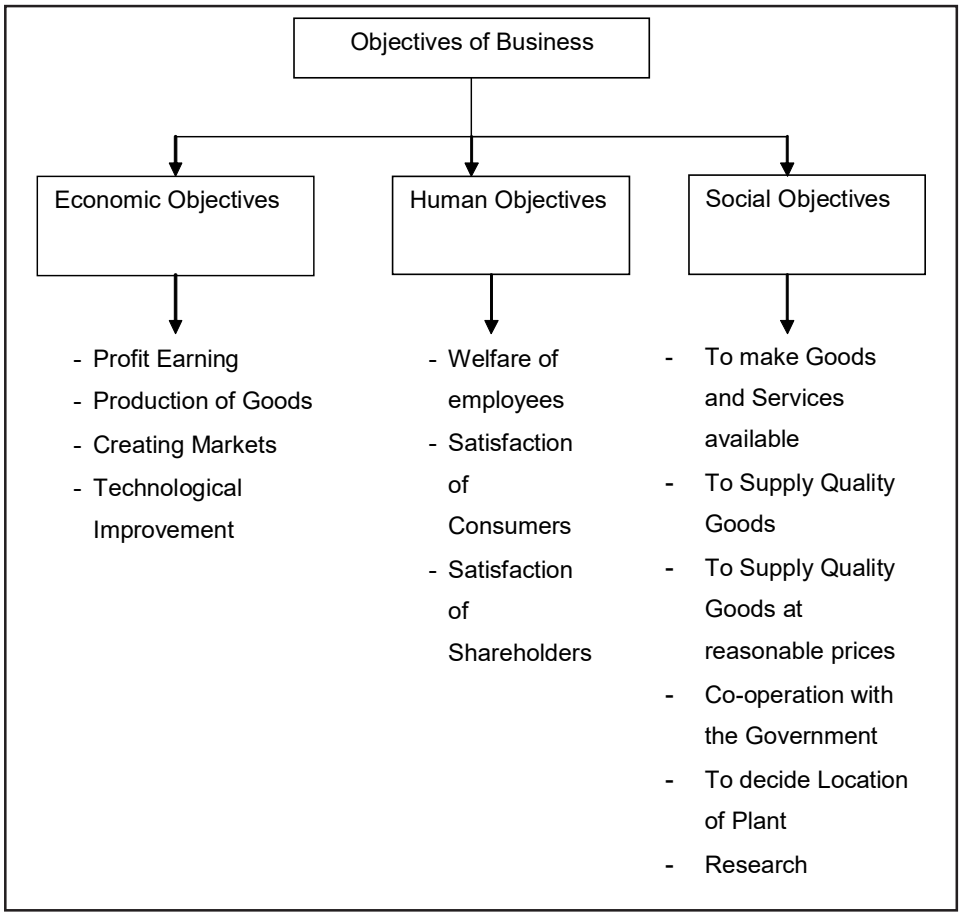


Fig. 1.1: Objectives of business

a) ECONOMIC OBJECTIVES:

1) **Profit Earning:** It is true that business is started for earning profit. Profit is the basic incentive to business pursuits. Profits are needed to face various uncertainties like trade cycle, change in demand pattern, fall in prices etc. A business needs profit not only for its existence but also for expansion and diversification. The investors want an adequate return on their investments, workers want higher wages and the entrepreneur needs money for reinvesting. All these demands and requirements will be met only when some profits are made.

2) **Production of Goods:** The profit can be earned only when exchange of goods and services takes place. So another objective of business is to produce goods and sell them to the consumers. The producers estimate the demands for goods and produce accordingly. The tastes, preferences and paying capacity of consumers must be taken into account. A business creates form, place and time utilities and meets the requirement of the society. So, a tangible form of wealth is produced in the form of goods.

3) **Creating Markets:** The aim of business is to sell products. Marketing consists of those efforts which effect transfers in ownership of goods and care for their physical distribution. Marketing covers all those activities which relate to the creation of time, place and possession utility. The businessman searches for new consumers for increasing his sales. An effort is made to retain old consumers by supplying them better quality goods at reasonable prices. The new markets are also exploited to keep a steady demand for goods. An enterprise cannot exist without finding out new market for its products.

4) **Technological Improvement:** A business should always strive to use new methods of production. In the world of competition, everybody tries to sell his products by offering good quality products at lower prices. This is possible when latest technology is used for producing goods, there should always be an endeavour to increase production and reduce cost. The businessman should try to devise new methods so that he may keep pace with the changing business world.

B) **HUMAN OBJECTIVES:** Human objectives of business require that a workable balance should be maintained among the claims of various interested groups like employees, shareholders and consumers. These objectives can be discussed as follows.

1) **Welfare of Employees:** The employees should be looked upon as human beings. The old theory that workers should be forced

to get more work is no longer valid. With the advent of industrialisation, the production has increased many times resulting in more profits to the businessman. The employees of an enterprise help in increasing the profitability and they should also be given a due share in profits. It may be in the form of bonus, increased allowances or spending money on their welfare. Productivity should be linked to various incentives schemes. The workers should be rewarded for their hard work. The workers should be provided with physical comforts, material incentives, appreciation, and dignity of labour and conditions which will motivate the workers to give their best.

2) **Satisfaction of Consumers:** The consumer should be provided quality goods at reasonable prices. The tastes, likings and requirements of the consumers should be given due weightage. The business is meant for consumers and their satisfaction should be the main objective of the business. So, business needs setting up and maintaining standards of quality and service in addition to reasonable price.

3) **Satisfaction of Shareholders:** In the present business world, ownership and management are in two different hands. The shareholders are spread all over the country and they have no say in the day-to-day working of the business. The management should give reasonable return on the money invested by the shareholders. The shareholders should also feel that their money is not misused by the management. Taking these considerations into account, company law has provided many restraints on managements so that the company resources are employed for the welfare of all. These things are important to encourage more investment into the business.

C) **SOCIAL OBJECTIVES OR SOCIAL RESPONSIBILITY OF THE BUSINESS:** The interdependency of business and society cannot be ruled out. Without the society, business cannot exist and society expects more from the business than merely earning profits. In the

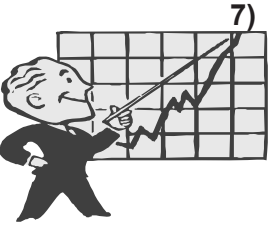
words of George A. Stenier, “In real sense, the assumption of social responsibilities implies recognition and understanding of the aspiration of the society and determination to contribute to its achievement”. H.R Brown has defined social responsibility as “obligation (of manager) to pursue those policies, to make those decisions or to follow those lines of action which are desirable in terms of the objectives and values of our society”. The business should undertake those activities, which are essential for the betterment of the society. The business should not undertake anything, which is against the interest of the society.

The social responsibility of the business can be studied as follows.

1) **To make Goods and Services Available:** The business should ensure the smooth supply of goods to meet requirements of the society. The business should estimate the total demand for various commodities and adjust the production accordingly.
2) **To Supply Quality Goods:** The supply of quality goods and services to consumers is the responsibility of the business. The business should never supply adulterated goods, poor in quality, unusable or harmful to health. A business cannot flourish in the long-run if it ignores consumers.
3) **To Supply Quality Goods at Reasonable Prices:** It is the duty of the business to study wants and needs of consumers and provide them with quality goods at reasonable prices. The price should be fixed in such a manner that it ensures good quality and supply at right time.
4) **Co-operation with the Government:** Business should co-operate with the government to achieve the objective of socialistic pattern of society. The national government has devised roles for both public and private sectors. The business community should adopt a positive approach towards policies of the government and should help in solving national problems.
5) **To Decide Location of Plant:** One of the important decisions to be made by the management at the time of starting a concern

is regarding location of the plant. If possible the plant should be established at no-industry place or at backward place. It will open the employment opportunity for the local people and will boost up the national economy.

6) **Research:** In the changing technological world, it is essential to use latest devises for production and marketing of goods. Change is the essence of business. Consumer's needs and preferences should be taken into consideration in formulating production and marketing policies. Research and development should be given due place in the business. One can compete with the changing business world only through research programmes. If attention is not given to research work, then it will become difficult to stay in business for a longer period. So, research activities are necessary for the success of an enterprise.



7) **Dynamic Leadership:** The success of an enterprise will depend upon the efficiency of its management. The task of management is to plan, organise, co-ordinate and direct various activities for achieving business objectives. This will be possible only if the leadership is dynamic. The person managing the concern should have foresight, initiative, courage and aptitude for a change. These leadership qualities are necessary to take the concern on the road to progress.

CHECK YOUR PROGRESS

Q.2: Explain the various aspect of social responsibility of business.

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1.6 COMPONENTS OF BUSINESS

Business activities may be divided into five categories:

1) Activities related to production of goods
2) Activities related to rendering of services
3) Activities related to distribution of goods
4) Activities rendering financial assistance

Broadly, business may be divided into two main divisions:

i) Industry and ii) Commerce and Trade

1.7 CLASSIFICATION OF INDUSTRIES

Industry is concerned with the making or manufacturing of goods. It is that constitute of production which is involved in changing the form of a good at any stage from raw material to the finished product, e.g. – weaving woollen yarn into cloth. Thus, industry imparts 'form utility' to goods. The goods produced may either be used by other enterprises as raw material for further production or as final products by consumers. When goods are used by other enterprises for further production, they are known as "producers' goods". The production of plant, machinery, equipment etc. are examples of producers' goods. When goods are finally used by consumers, they are known as "consumers' goods". The examples of such goods are cloth, bread, groceries, drugs, etc. An enterprise may produce materials, which will be further processed by yet another concern for converting them into finished goods. These goods are known as intermediate goods. The examples of this category are plastic, rubber, aluminium etc.

The industries may be classified as under:

1) **Primary and Genetic Industry:** Genetic industry is related to the re-producing and multiplying of species of animals and plant with the object of earning profits from their sale. Nurseries, cattle breeding, fish hatcheries, poultry farms are all covered under genetic industry. The plants are grown and birds and animals are reared and then sold on profit. No doubt, nature, climate and environment play an important part in these industries but human skill is also important.

2) **Extractive Industry:** The extractive industry is engaged in raising some form of wealth from the soil, climate, air, water or from beneath the surface of the earth. In these industries workers collect goods already existing. Mining, fishing and hunting is covered in this industry. The goods are to be produced by the application of the human skill i.e. agriculture and forestry. Extractive industries supply basic raw materials that are mostly the products of the soil. Products of these industries are usually transformed into many useful products by manufacturing industries.
3) **Construction Industries:** This industry is engaged in the creation of infra-structure for the smooth development of the economy. It is concerned with the construction, erection or fabrication of products. These industries are engaged in the construction of buildings, roads, dams, bridges and canals. These industries use the products of other industries such as cement, iron, bricks, and wood, etc.
4) **Manufacturing Industry:** This industry is engaged in the conversion of raw materials into semi-finished or finished goods. This industry creates form utility in goods by making them suitable for human use. Most of the goods which are used by consumers are produced by manufacturing industries. These industries supply machines, tools and other equipments to other industries as raw- materials. Manufacturing industry may be classified as follows-
   a) **Analytical Industry:** In this industry, one product is analysed and many products are received as final products. By processing of crude oil we get kerosene, petrol, gas, and diesel, etc.
   b) **Processing Industry:** In this industry a product passes through various processes to become a final product. The finished product of one process becomes the raw material of the receiving process and the final process produces the finished goods. In case of cotton textiles, cotton passes through ginning, weaving, and dying process to become cotton cloth. Sugar industry and paper industry are other example of processing industry.
   c) **Synthetic Industry:** In this industry many raw materials are brought together in manufacturing process to make a final

product. In manufacturing cement, rocks, gypsum, coal etc. are required. Soap making, plastics paints are other examples of synthetic industry.

1.8 COMMERCE AND ITS COMPONENTS

Commerce is concerned with the exchange of goods. It includes all those activities which are related to the transfer of goods from the place of production to the ultimate consumers. Generally, commerce and trade are taken as synonymous words. Whereas trade involves buying and selling of goods, commerce has a wide meaning. Commerce includes trade and aids to trade i.e. those activities which help the expansion of trade. The aids to trade include transport, banking, insurance, warehousing, advertising and salesmanship. Without the help of such agencies it is not possible to take goods from one place to another. The services of various agencies which facilitate transportation of goods, finance various activities, provide storing facilities, help in producing goods and undertake various risks are not only helpful; but necessary for the growth of commerce.

Even Thomas says, “Commercial occupations deal with the buying and selling of goods, the exchange of commodities and the distribution of finished products”. This definition deals with only the trading part of commerce and ignores aids to trade which are also very important. James Stephenson who has included both trade and ancillary services has given an exhaustive definition of commerce.

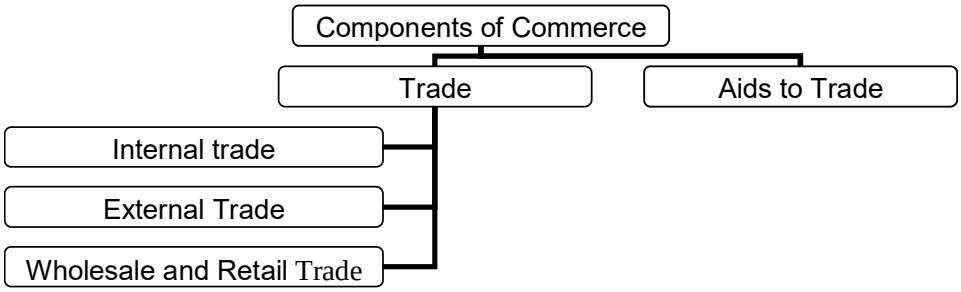
“Commerce embraces all those processes, which help to break the barriers between producers and consumers. It is the sum total of those processes, which are engaged in the removal of hindrance of persons(trade), place(transport and insurance) and time (ware-housing) in the exchange(banking) of commodities”

So it can be said that the activities which establish the relationship between producers and consumers are known as commerce.

Components of Commerce: Commerce can be classified into two categories–

A) Trade; and

B) Aids to trade



A) Trade: Trade is the process of taking goods from the source of production or place of production to the consumers. The producers cannot come into direct contact with consumers, so there should be some channel which will facilitate the transmission of goods from the producers to the consumers. The channel helps the exchange of goods is called trade.

Trade may be classified as follows:

i) Internal Trade

ii) External Trade

iii) Wholesale and Retail Trade

i) Internal Trade or Home Trade: The purchase and sale of goods inside the country is called internal trade. Goods can be taken to any place but within the boundaries of the country. Internal trade may be divided as such:

- **Local Trade:** When the demand for products is limited only to a particular place, it is called local trade. Goods are produced according to the local needs of the consumers. The producers and the consumer belong to the same place. The goods traded in local markets are generally goods of daily use and perishable goods. These goods are vegetables, milk, bread etc.
- **Provincial or State Trade:** These goods are of a durable nature and are sent throughout the state or province. The trade is limited to the boundaries of the state. Sometimes government puts some restrictions on the sale of goods outside of the state. Sometimes, goods are produced

according to the needs, requirements or custom, of a particular region of state, and then these goods are not required outside the boundaries of the state.

- **Inter-State Trade:** The trade conducted throughout the country but within the national boundaries is called inter-state trade. The goods traded are of durable nature and can be stocked for a longer period. The production of these goods is on a large-scale basis and they are sent to all parts of the country. Various kinds of textiles, kerosene, petrol, iron, steel etc. are traded on the inter-state basis.

ii) **External Trade or Foreign Trade:** When trade takes place between two countries, it is called foreign trade. Two countries are involved in foreign trade. The hindrances of place, time, risk, exchange are overcome with the help of various agencies. External trade generally requires permission from the respective agencies. External trade may be import trade or export trade. When goods are purchased from, outside countries, it is called import trade. On the other hand, when goods are sold to other countries, it is called export trade.

iii) **Wholesale and Retail Trade:** In wholesale trade, goods are purchased in large quantities and are sold to retailers. A wholesaler is the link between the producers and the retailers. This helps the producers in making bulk production and selling in large quantities to wholesalers. A wholesaler does not come into direct contact with the consumer.

Retail trade involves selling goods to the final consumers. The goods are sold in small quantities to the consumers. A retailer purchase goods from a wholesaler and sells them to the consumers. He provides a link between the wholesalers and consumers.

B) **Aids to Trade:** In the course of exchange of goods, various problems are encountered. These problems may be regarding transport of goods from the producers to the consumers, financing the trade

transactions, facing exchange problems, providing a cover for the loss of goods in transit and arranging the storing of goods. All these hindrances are overcome with the help of various agencies known as 'Aids to Trade'. The hindrances in the way of smooth trade are related to place, persons, finance, time, knowledge and risk.

a) **Hindrance of place (Transport):** The goods produced have to be taken to the place of consumption. With the help of transport facilities, we can create 'place utility' in goods. The place utility helps the producers to increase the production and earn a remunerative price. The consumer is also benefited by supplying him with the goods which otherwise might not have reached him. The various modes of transport i.e. road, rail, sea, air helped the growth of commerce and industries.

b) **Hindrance of Persons (Distribution):** The producers of goods may not be able to come into direct contact with the consumers. In present day world, the consumers are in millions and it is not possible for the producers to know the consumers. A chain of middlemen acts between the producers and consumers. The middlemen purchase goods from the producers and take them to the consumers. Both sides are relieved of their worries. The chain of wholesalers, retailers, brokers, agents etc. operates between the producer and the consumer and removes the hindrance of person.

c) **Hindrance of Finance (Banking):** There is always a time lag between the production and sale of goods. The traders purchase goods from the producers and then sell them to the consumers. It takes time to collect money after sale. There is a need to finance trade activities. The commercial banks provide finance to trade in the shape of overdraft, loans, or cash credit. The bank plays an important role in international trade where trading parties are not known to each other. The documents are sent through banks who release the documents after collecting the dues. So, banks help in overcoming financial problems.

d) **Hindrance of Time (Warehousing):** Goods are purchased in anticipation of demand. They may also be produced at a time when they are not needed. So, there is a need to store goods up to the time of sale. The hindrance of time is to overcome with the help of warehouses. The foreign trade needs the help of warehouses even because there is more time gap between production and consumption. Agricultural products are produced seasonally, but they are required throughout the year. So, there is a need to store them so that they may be supplied according to demand.

e) **Hindrance of knowledge (Advertisement and Salesmanship):** The consumer may not be aware of the availability of various goods in the market. The absence of information about goods is a great hindrance in the way of consumers buying them. The advertisement and salesmanship helps in informing the consumer about the availability and usefulness of various products in the market.

f) **Hindrance of Risk (Insurance):** There is risk involved in transporting the goods from one place to another. Risk may arise due to fire or theft. The fear of loss of goods due to any cause acts as an obstacle in the development of trade. The insurance companies provide coverage for all types losses of goods. The insurance coverage has given a fillip not only to the national trade but also to the international trade.

g) **Hindrance of Information (Communication):** The buyers and sellers at wholesale level and retail level need the services of various agencies, which communicate their messages among themselves. The producers intimate to their customers about the production of goods. The intending buyers send orders to the producers for supply of goods. The services of post office, telephones, telegraph office, telex, etc. are utilised for communication purpose.

CHECK YOUR PROGRESS

Q.3: Choose the correct answer for each question from the options given below–

i) Business is an activity undertaken for

a) Profit b) Production of more goods

c) Social service

ii) Industries relating to production of goods are called–

a) Extractive industries b) Primary industries

c) Manufacturing industries

iii) Commerce means–

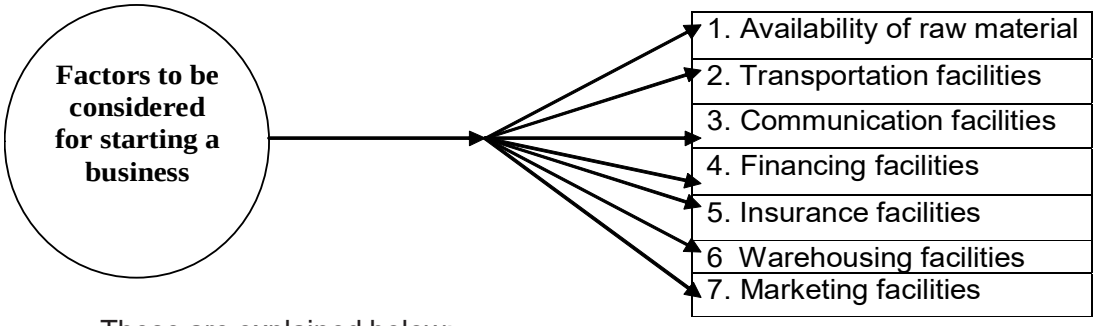
a) Production of goods b) Exchange of goods

c) Providing service

1.9 FACTORS TO BE CONSIDERED FOR STARTING A BUSINESS



fore starting business, following factors must be taken into ion:



These are explained below:

1) **Availability of Raw Material:** The first and the foremost requirement for starting the business is the availability of the raw material to be used in specific product being produced/ manufactured by the business. If it is a trading business the articles in which the business is dealing should be easily available.

2) **Transportation Facilities:** The business must satisfy itself about transportation facilities available for acquiring goods and sending

goods. In the absence of proper transportation facilities the business cannot grow properly. Transport facilities include road, rail, water and air transport.

3) **Communication Facilities:** In case of business there should be constant touch and proper link between the parties concerned. It means that Postal and Telephone Services must be available at the place of business. Communication is necessary for placing orders, discussing business deals, making complaints, payments and suggestions etc.

4) **Financing Facilities:** Finance is said to be the life blood of business. Finance is required for the commencement, running and growth of business. It means that banking and finance facilities should be available for smooth running of business.

5) **Insurance Facilities:** Future is always uncertain, so there is always risk of accident, damage, fire and even death of the businessman itself. Losses caused by these swallow the business itself, so there must be proper facilities of life, fire and accident insurance etc.

6) **Warehousing Facilities:** There is a time gap between manufacture and sale of goods in case of manufacturing enterprises. There is also time gap between purchase and sale of goods in case of trading concerns. There must be sufficient warehousing facilities for sale and intact storing of goods.

7) **Marketing:** The ultimate end of all the business activities is the sale of product. There will be no profit if there is no sale. No business can survive without sale. Therefore, the business must take into consideration the marketing prospects of the product.

In addition to the above factors, certain individual factors such as personal capabilities, physical construction, situational requirements, financial health, tradition, culture etc. play an important role for starting business.

1.10 SOURCES OF FINANCE

One of the biggest challenges faced by entrepreneurs looking to start their business is funding. A billion-dollar business idea may not be transformed into reality without funds. No one can start or run a business without adequate funds. Finance is required to start a business, to operate it, as well as for modernization and expansion. Funds are required by business firms for different purposes. Depending on the nature and purpose to be served, there may be three types of finance. They are:

- **Long Term Finance:** Funds that are required to be invested in the business for a long period (say more than five years) are known as long term finance or fixed capital. This type of finance is used for acquiring fixed assets, such as land, building, plant and machinery, etc.
- **Medium Term Finance:** Business firms often need medium term funds for a period exceeding one year and not more than five years for particular purposes. They may include expenses on modernization of plant and machinery, or introduction of a new product, adoption of new methods of production or distribution, or an advertisement campaign etc.
- **Short Term Finance:** This type of finance is required for a short period up to one year. It refers to funds needed to meet day-to-day requirements. Short term finance is often called working capital or short term capital, or circulating capital.

The sources of finance for entrepreneurs or businessmen can be broadly classified into two categories: external funding and owner's equity. A substantial amount of entrepreneurial external finance comes from loans. Owners' equity refers to the business funds that are provided by entrepreneurs themselves. However, this source can prove to be risky as the business owner puts his personal funds on the line. Sources of financing for small business or startup can be divided into two parts: equity financing and debt financing. Some common sources of financing business are:

1. **Personal Investment or Personal Savings:** The first source of

finance to start a business is own fund of the businessman in the form of cash or collateral of assets.

2. **Family and Friends:** Businessmen may raise some funding within the network of their family and friends. As they are usually not professional investors, it is a quick and cheap way of collecting cash.
3. **Venture Capital:** Venture capital is another source of funds for business. However, venture capital is not necessarily for all entrepreneurs. It is suitable for technology-driven businesses and companies with high-growth potential in sectors like information technology.
4. **Angel Investors/Business Angels:** Angel investors, sometimes known as business angels, are individuals who invest their personal finances in start-up businesses; normally in the early stages.
5. **Business Incubators:** Business incubators (or accelerators) generally focus on the high-tech sector by providing support for new businesses in various stages of development.
6. **Crowdfunding:** Modern technology has made it easier for people to share their problems on an interactive social platform. Crowdfunding platforms are basically set up for individuals to pitch their business ideas or challenges to a community of investors or people willing to support their ideas or cause.
7. **Assistance of Government:** Government agencies provide financing such as grants and subsidies that may be available to the business. Funding from government is usually substantial in size. Pradhan Mantri Mudra loan Yojana is one of the examples of government funding.
8. **Commercial Bank Loans and Overdraft:** Bank loans are the most commonly used source of funding for small and medium-sized businesses.
9. **Financial Bootstrapping:** The process of utilizing personal saved up funds or funding from friends and family is known as bootstrapping or self-funding.

10. **Buyouts:** This form of corporate finance can alter the form of a company's ownership. Buyout refers to an investment transaction where one party acquires control of a company, either through an outright purchase or by obtaining a controlling equity interest.
11. **Asset-based lending:** Asset-based lending is a form of asset finance that allows a business to release cash from its existing assets. This method is known as asset refinancing. Hire purchase and lease financing are other forms of asset finance.
12. Business accelerators: A business accelerator is a programme offering developing startups a small investment in exchange for equity, along with mentorship, office space and network access that will enable them to become sustainable and self-sufficient in the long-term.
13. **Invoice finance:** Invoice finance is a great way to improve cash flow and raise funding quickly, especially for service companies with long invoice payment terms of 30, 60 or 90 days.
14. **Merchant Cash Advance (MCA):** A merchant cash advance is a form of finance where companies can receive funding in exchange for a percentage of their daily credit card income.
15. **Tax reliefs: A**n indirect source of business funding comes in the way of tax relief. Reducing the tax bill opens up funds that one can use elsewhere in his/her business.
16. **P2P lending: T**he new-age lending model called Peer-to-Peer platforms (P2P) loans are a good option for stop-gap and working capital requirements with speedy approvals and disbursals. Peto-Peer platforms allow retail investors to lend money to peers or small businesses via a Fintech company's digital platform.



1.11 LET US SUM UP

In this we have discussed the following aspects:

- Business refers to all those activities that are related to the production and distribution of goods and services with a view to earn a profit.

- The main features of business are: There must be an entrepreneur, exchange of goods and services, risk and uncertainty etc.
- The components of business can be categorised as, activities related to:production of goods, rendering of services etc.
- Industry is concerned with the making or manufacturing of goods and services for example plastics, rubber, aluminium etc.
- Industry can be classified as: Primary and Genetic Industry, Extractive Industry, Construction Industry, and Manufacturing Industry.
- Commerce is concerned with the exchange of goods and services.
- The various factors that are required to be considered for starting a business, like, availability of raw- materials, transportation facilities, communication facilities, warehousing facilities etc.



1.12 FURTHER READING

1) Chhabra, T. N. and Chhabra, Sandhya; *Business Studies*; Karol Bagh, New Delhi: Arya Publication.
2) Gandhi, Poonam; *Business Studies*; Nai Sarak, Delhi: Dhanpat Rai & Co.
3) Pathak, R. K., Kalwar, M.C.; *Business Studies*; Ram Nagar, New Delhi: S. Chand & Company Ltd.
4) Robbins and Coulter; *Management*; Delhi: Prentice Hall.

1.13 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: 'Business' is an occupation. According to L.H, Haney, "Business may be defined as human activities directed towards providing or acquiring wealth through buying and selling goods". Wheeler defines business as "An institution organised and operated to provide goods and services to the society under the incentive of

private gain." According to M.C Naughton, 'The term business means the exchange of goods, money or services for mutual benefits'.

Ans. to Q. No. 2: To make goods and services available; to supply quality goods; to supply quality goods at reasonable prices; to establish the plant at no-industry place or at backward place.

Ans. to Q. No. 3: i) (a), ii) (c), iii) (b)



1.14 MODEL QUESTIONS

Q.1: What do you understand by business? Discuss its objectives.

Q.2: 'Profit earning is not the only objective of business.' Discuss.

Q.3: Discuss the various components of business.

Q.4: How will you classify various industries?

Q.5: What is commerce? What are its components? Discuss various hindrances and aids to trade.

Q.6: Explain the factors considered for starting a business.

Q.7: What is meant by social responsibility of business?

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UNIT 2: BUSINESS ORGANISATION : AN INTRODUCTION

UNIT STRUCTURE

2.1 Learning Objectives

2.2 Introduction

2.3 Meaning and Scope of Business Organisation

2.4 Internal Organisation of a Business

2.5 Meaning of Departmentation

2.6 Forms of Internal Organisation

2.7 External Organisation

2.8 Factors Influencing Choice of a Suitable Form of Business Organisation

2.9 Let Us Sum Up

2.10 Further Reading

2.11 Answers to Check Your Progress

2.12 Model Questions

2.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- explain the meaning and scope of business organisation
- understand the necessity of departmentation in the organisation of a business
- list out the different forms of business organisation
- describe the factors influencing the choice of a suitable form of organisation.

2.2 INTRODUCTION

By now you have understood the meaning of the terms ‘business’, ‘commerce’ and ‘trade’. You also have come to know that business is an occupation of conducting industrial and commercial activities to earn not

only profit, but also to discharge social responsibilities. This means that business is an organisation which organises the activities of a business enterprise for the purpose of maximising profits and discharging social responsibilities. Viewed from this angle, a business may be regarded as an art. It may be regarded as a science, when we try to analyse it as a branch of knowledge involving a logical and systemic study of the principles and techniques through which the various types of business activities are organised. The organisation of a business house is divided into two broad classes:

a) Internal Organisation
b) External Organisation.

2.3 MEANING AND SCOPE OF BUSINESS ORGANISATION

An entity formed for the purpose of carrying on commercial activities is called business organisation. Thus, a business organisation engages in some business or commercial activities. Business organization describes how businesses are structured to meet their goals i.e. generating profit. There are various forms of business organisation available from which one can choose the right one suitable to achieve his/her goals. Generally, there are four types of business organization namely -proprietorship, partnership, corporation and Limited Liability Company.

Business is the art of establishing effective cooperation between the various means of trade, commerce and industry. Thus, its scope is very large. The following activities are covered under the scope of business organisation:

a) Manufacturing Activities: These are the activities which are concerned with the conversion of raw materials into finished goods. Business organisation aims at manufacturing of right type, best quality goods at right times and at minimum possible costs.

b) Buying Activities: Buying is a vital function in all types of business and industrial units. Buying may be done for trading purpose or for manufacturing. Raw materials may be bought by stockists,

wholesalers and retailers. Buying activities are performed by Purchase Department in a big business house.

c) **Selling Activities:** Selling is the transfer of the ownership of the commodity from the seller to the buyer. The object of earning profit is realised through successful selling. An efficient sales organisation contributes largely to the success of a business. Selling activities include standardisation and grading, storage and warehousing, transportation, risk bearing, advertising, etc. Sales department looks after the selling activities of a business.

d) **Financial Activities:** Finance is viewed as the most important factor in every organisation. It is said to be the life blood for the business. Organisation of finance includes – determination of the capital requirements, adequate provision of finances, controlling and administering of the funds used in the business. In a big business concern, there is a separate finance department to perform such activities.

e) **Personnel Activities:** It is rightly said that 'all activities of any enterprise are initiated and determined by the persons who make up that institution'. It is very essential to manage human beings effectively so as to achieve the objectives of the business. Personnel activities include selection and training of employees, providing proper working conditions, job analysis, evaluation and merit rating, employee compensation etc. The personnel department performs all these activities in a large concern.

f) **Office Activities:** An office is said to be a nerve system of every enterprise. The existence of an office is necessary for every type of business. It helps in planning, co-ordinating of all business activities. Office activities include receiving, recording, arranging, analysing and communicating information and providing safety and record of assets.

g) **Accounting Activities:** Business organisation includes accounting activities. Every business have an accounting department to maintain proper records of accounts of the various transactions of the business so as to know the profitability of the business and its financial position on a particular date.



CHECK YOUR PROGRESS

Q.1: What types of activities are generally performed by the business organisations?

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2.4 INTERNAL ORGANISATION OF A BUSINESS

In the words of Wheeler, "Internal organisation is the structural framework of duties and responsibilities required of personnel in performing various functions within the company. It is essentially a blue print for action resulting in a mechanism for carrying out function to achieve the goals set up by company management". In short internal organisation means the organisation of a business house for internal matters. An entrepreneur organises various factors of production like land, labour, capital, and machinery etc. for channelising them into productive activities.

Business activities are divided into various functions / departments. These functions are assigned to different individuals. Various individual efforts must lead to the achievement of common business goals. Management tries to combine various business activities to accomplish pre-determined goals. The efficiency of the internal organisation of a business house depends upon– 1) proper division of work into departments, 2) proper functioning of each department and 3) proper co-ordination among the various departments.

2.5 MEANING OF DEPARTMENTATION

Departmentation is the process of dividing and grouping of activities into different units or departments. A department is a distinct section of the business establishment concerned with a particular group of business activities of like nature. The actual number of departments in which a business house can be divided depends upon the size of establishment

and its nature. A big business house will, usually, have more departments as compared to a small business house.



Scalar Principle: It is a classical management guide where subordinates at every level should follow the chain of command, and communicate with their seniors only through the immediate or intermediate senior.

The various advantages of departmentation can be summed up as:

1) It increases the efficiency of the enterprise since the various activities are grouped into workable units.
2) It makes the task of fixation of accountability for results very easy since activities are well defined and responsibilities are clearly laid.
3) It provides for fixation of standard for performance appraisal and thus ensures effective control.
4) It creates opportunities for the department heads to take initiatives and thus develops managerial facilities.

Methods or Basis of Departmentation: The following are the main methods of dividing responsibilities within an organisational structure:

1) Functional Departmentation
2) Product wise Departmentation
3) Territorial or Geographical Departmentation
4) Customer wise Departmentation
5) Process or equipment wise Departmentation
6) Combine or Composite form of Departmentation.

Functional departmentation refers to grouping the activities of an enterprise on the basis of functions such as production, sales, purchase, finance, personnel etc. In product wise departmentation the grouping of activities is done on the basis of type, popularity and price of product.

When several activities of an enterprise are geographically dispersed in different locations, territorial or geographical departmentation may be adopted. A business house may also be divided in a number of departments on the basis of customers it serves, viz. large and small customers; industrial and ultimate buyers; government and other customers etc. The peculiar advantage of customer wise departmentation is that it ensures full attention to different types of customers and their different needs, tastes and requirements can be met effectively.

An enterprise where production is carried on through different processes may adopt process-wise departmentation to enable continuous

flow of production. Similarly, where work is carried on the machines which are common, departments may be created on the basis of equipments, such as milling department, grinding departments, lathe department etc. The main advantage of this is that it avoids duplication of equipment in various activities. Moreover, specialised people can be engaged to work in on specialised equipments and departments. An enterprise may have to combine two or more of the methods of departmentation to make best use of all of them. Such a method is known as combined or composite method of departmentation.

CHECK YOUR PROGRESS

Q.2: What are the steps involved in the process of organising a business house?

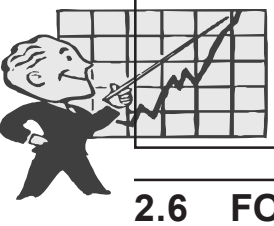
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2.6 FORMS OF INTERNAL ORGANISATION

An organisation co-ordinate and combines the efforts of individuals and groups in a business enterprise. The duties and responsibilities of every person are specified. An adequate delegation of powers is done so that the performance is ensured. The following are some of the important forms of internal organisation.

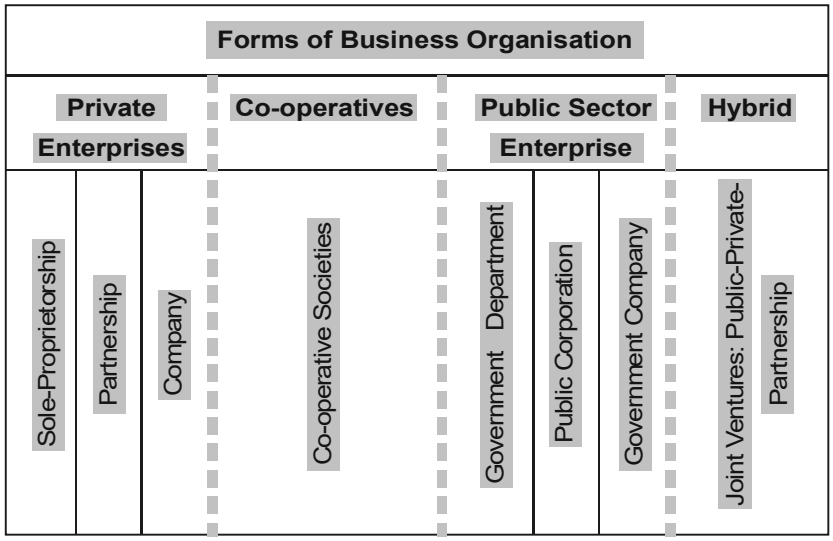
1) **Line Organisation:** It establishes the relationship among superior and subordinates. It is based on scalar principle. It forms a chain of command and contributes to production and distribution in the organisation.
2) **Staff Organisation:** It creates the counselling cadre in the organisation. The specialists may be called to give advice to the line managers. The staff organisation is only to advice and not to execute.

The responsibility for the lapses lies on the line managers because final execution is done by it.

3) **Functional Organisation:** This organisation is based on the principle of division of labour. Various functions are put under the charge of specialists in those areas. The related things are put in different departments and specialists or experts are assigned to do these jobs.
4) **Line and Staff Organisation:** This is a combination of line and staff organisations. The benefits of specialised knowledge as well as the advantages of unity of command are secured in this organisation.
5) **Project Organisation:** In this organisation, various specialists are put under a project manager. The experts in different fields are sent on the project to look after various activities. The project manager has the overall responsibility of executing various plans.
6) **Committee Organisation:** This organisation refers to group management. There are committees at different levels for supplementary internal organisation.
7) **Task Forces:** A task force is created to undertake a particular work. When the work is complete, then the persons are sent back. The persons from their regular posts are temporarily shifted to complete a particular assignment. This organisation is similar to that of committee organisation.

2.7 EXTERNAL ORGANISATION

External organisation means legal or ownership forms of organisation. The forms of business organisation may be classified as private enterprises, co-operative enterprises and public sector enterprises. These divisions may be shown as follows.



The development of different forms of business organisation is closely related to the growth of trade and industry. The forms of organisation developed according to the needs of the business. Those forms of organisation have been prevalent at different times, which could easily cope up with the demands of business sector. When business activities were small, then sole-proprietorship was the only form available. This is the primitive form of organisation and is as old as business. The need for more funds necessitated the development of partnership form of organisation, where more than one person starts business jointly.

The Industrial Revolution enabled the increase in economic activities. The improved methods of production, better technology, and expansion of transport, communication and banking facilities gave birth to large- scale enterprises. The demand for industrial product crossed national boundaries. The sole-proprietary and partnership forms of organisations could not cope with the needs of the enterprises. The joint stock company form of organisation is the outcome of increased industrial and trade activities. The company form of organisation enabled the participation of more persons in raising finances. The complexities of management is another factor for the wide use of this form of organisation and are suitable for both private and public enterprises.

The main emphasis of private enterprises has generally been on earning more and more profits. The consumers are the neglected class in

this type of business environment. To help the consumers and weaker section of the society, the co-operative form of organisation comes into existence. The motive of co- operatives is to provide service to the members and not to earn profit. The co-operatives may take the form of a co-operative society or store. These enterprises helps the members in getting cheaper goods and whatever profits are earned are spent back for their economic betterment.

The role of state as an entrepreneur has always been recognised. There are some industries of national importance, which are left to be developed by the state while there are others where private entrepreneur do not prefer to enter. The expansion of intra-structural facilities is also in the purview of the state. The public enterprise as a form of organisation has developed mostly in twentieth century. The main objective of these enterprises is the service of society instead of profit maximisation.

2.8 FACTORS INFLUENCING CHOICE OF A SUITABLE FORM OF BUSINESS ORGANISATION

The choice of a suitable form of organisation is an important problem which the entrepreneur has to deal with. The form of organisation determines the extent of ownership and responsibility of proprietors. Once a particular form of organisation is chosen then it is very difficult to change it. It will also influence the future programmes and plans of the enterprise. So the decision about the choice of a form of organisation should be a well thought one, otherwise it may seal the future of the unit.

No single form of organisation will be suitable for all types of businesses. Some important factors, which influence the choice of a suitable form of organisation, are discussed as follows:

1) **Requirement of Capital:** Capital is the most important factor considered in the choice of form of a business organisation. The need for capital will depend upon the nature of business and scale of operations. A manufacturing concern may require more capital as compared to a retail shop. On the other hand, if scale of operations

is large, then capital requirements will also be more. After determining the capital needs, the form of organisation should be selected. The form of organisation should be such that it is able to provide required funds. A sole trade business will be suitable if capital requirements are less. A partnership concern may be able to meet the capital needs of a medium size unit. A joint stock company will be suitable if capital requirements are large. A sole-trade concern and a partnership firm have limited capacities for raising funds. So, capital requirements will directly influence the choice of the form of organisation.

2) **Managerial and administrative requirements:** Managerial and administrative requirements also affect the decision about the form of organisation. When the concern is small and it caters to local needs only, the single person will be enough to manage the business. Sole- proprietorship form of organisation will be suitable for such a business. If the business spreads to other areas, then more persons will be needed to look after various business activities. Partnership form of organisation will be suitable for such enterprises. Then partners will be able to look various business functions. When a business is run on a large- scale basis, it will require the services of specialists to manage various departments. The company form of organisation will be most suitable for such concerns. Neither a sole-trade concern nor a partnership firm will afford to employ professionally qualified persons. Moreover, qualified persons will not like to join small scale concerns for lack of career opportunities.

3) **Liability:** In sole trade and partnership business the liability of owner partners is unlimited. Their liabilities are limited to the capital they have invested but their private property can also be assigned to meet business obligations. In case of companies the liability of shareholders is limited and they are liable to pay only the unpaid amount of shares they are having. The private property of shareholders is not liable for meeting business losses. When a

business involves more risks, then company form of organisation is most suitable. The units involving less risk may be started as sole-trade or partnership concerns. The risk bearing capacity of a sole-trader and partners are limited.

4) **Continuity:** This is another factor influencing a decision about the form of organisation. If the concern is stable and there is no fear of discontinuity, it attracts more investment, then company form of organisation will be suitable. The company form of organisations is only form which ensures stability and continuity. A sole-trade business may be closed after the death of its owner. Any type of physical and financial problem will force the closure of a business. A partnership firm too does not have a permanent life. It may be dissolved for a number of reasons. Only a company form of organisation will be unaffected by the personal life of its shareholders. A company form of organisation is suitable if stability of operations is essential.

5) **Tax Liability:** A join stock company has more tax liability as compared to a sole-trade business and a partnership firm. A joint stock company faces double taxation liability. A company is taxed as an individual first and profits distributed to shareholders are again liable for tax as income of the shareholders. A partnership concern and a sole – trade businesses are not separately taxed. A small scale concern is able to avoid higher tax liability.

6) **Government Regulations:** While deciding about the form of organisation, various kinds of rules and regulations affecting that form will also be considered. A number of formalities are required to be complied with while incorporating a company. A company is expected to provide large number of information to the government every year. It has to use the services of experts to meet statutory requirements. A sole-trade business is not expected to meet any legal requirement. Similarly, a partnership concern is also free from government regulations. Even the registration of a sole trade and partnership firm is not compulsory.

7) **Nature of Business Activities:** The nature of business is another important factor affecting the decision about the choice of form of organisation. If a concern deals with local market, a seasonal product or perishable goods, then sole-trade business will be suitable. The capital requirements of such a concern will be less and scale of operations will be small. On the other hand, if the concern caters to large markets and the scale of operation is large, then company form of organisation will be useful. If the primary aim of a concern is to serve its members, then a co-operative society will be most suitable.

8) **Relationship Between Ownership and Management:** There is a direct relationship between ownership and management in sole-trade concerns and partnership firms. In company form of organisation, management and ownership are in two different hands. The owners (shareholders) spread all over the country and they do not take active interest in the working of the enterprise. Moreover, shareholders cannot participate in the day to day activities of the concern. The management is in the hands of few persons known as Board of Directors. When the investors want to retain management in their own hands, then partnership or sole-trade form of organisation will be suitable. If the investors do not have much time for the business and they want to make investment only then company form of organisation will be suitable.

9) **Ease in Formation:** The nature and extent of formalities required at the time of establishing a concern also influences the decision about the form of organisation. A joint stock company requires the services of qualified persons for getting it registered. It involves a huge cost at the time of incorporation too. On the other hand, a sole-trade business can be started at any time without going through many formalities. If the promoters are not ready to go through various formalities they cannot start a company.

So, all the above mentioned factors influence the choice of different forms of organisation. This decision should be taken very carefully because

it will be very difficult to change the form of organisation later on. This decision should not be based on present consideration only but future possibilities should also be taken into account.



CHECK YOUR PROGRESS

Q.3: State three factors that influence the choice of a suitable form of business organisation.

i) .....

ii) .....

iii) .....



2.9 LET US SUM UP

In this unit, we have discussed the following aspects:

- Business is an organization under which various activities takes place for the purpose of making profit and discharging social responsibilities.
- The scope of business organization and the various activities covered under the scope of business organisation, for example manufacturing, selling, financial, personnel, etc.
- The efficiency of internal organization of a business house has also been studied in this unit.This efficiency depends on proper division of work into department as well as the proper functioning of each department.
- The advantages of departmentation and the methods of departmentation for example, functional, product, territorial, customer wise , process etc.
- The various forms of internal organization for example Line, Line and Staff, Functional, Project, Committee and Task Forces etc.
- Various factors are also being discussed which influence the choice of a suitable form of organization, for example capital, administrative

requirements,tax liability,govt.regulations,relationships between ownership and management.



2.10 FURTHER READING

1) Chhabra, T. N. and Chhabra, Sandhya; *Business Studies*; Karol Bagh, New Delhi: Arya Publication.
2) Gandhi, Poonam; *Business Studies*; Nai Sarak, Delhi: Dhanpat Rai & Co.
3) Pathak, R. K., Kalwar, M.C.; *Business Studies*; Ram Nagar, New Delhi: S. Chand & Company Ltd.
4) Robbins and Coulter; *Management*; Delhi: Prentice Hall.



2.11 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: Manufacturing Activities, Buying Activities, Financial Activities, Personnel Activities, Office Activities, and Accounting Activities.

Ans. to Q. No. 2: The steps in the process of organising a business house are– 1) determining of objectives, 2) defining of activities, 3) dividing and grouping of activities, 4) fitting individuals into functions, 5) assigning of authority and responsibilities, 6) establishment of structural relationship for overall control.

Ans. to Q. No. 3: i) Requirement of capital
ii) Managerial and administrative requirement
iii) Tax liability

2.12 MODEL QUESTIONS

Q.1: Discuss the scope of business organisation.

Q.2: What do you mean by departmentation? Mention its different advantages of departmentation.

Q.3: What are the different forms of internal organisation?

Q.4: Discuss the differences between internal and external organisation.

Q.5: Discuss the factors influencing the choice of a suitable form of organisation.

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UNIT 3 : PROPRIETORSHIP BUSINESS

UNIT STRUCTURE

3.1 Learning Objectives

3.2 Introduction

3.3 Meaning of Proprietorship Business

3.4 Features of Proprietorship Business

3.5 Starting a Proprietorship in India

3.6 Procedures to Set-Up of a Sole Proprietorship

3.7 Checklist Required for Sole Proprietorship Business

3.8 Advantages of Proprietorship Business

3.9 Disadvantages of Proprietorship Business

3.10 Let Us Sum Up

3.11 Further Reading

3.12 Answers to Check Your Progress

3.13 Model Questions

3.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- discuss the concept and features of Proprietorship business
- explain the advantages and disadvantages of Proprietorship Business.

3.2 INTRODUCTION

In this unit you will be able to know the meaning of proprietorship business. A business unit is said to be in the form of proprietorship if it is owned, managed and controlled by an individual. In this unit you will come to know about the different features of proprietorshiporgnisation and its advantages as well as disadvantages.

3.3 MEANING OF PROPRIETORSHIPBUSINESS

A business unit owned and managed by an individual is called proprietorship,sole- trade or individual proprietorship business. It represents the first stage in the evolution of the forms of organisation. It is the oldest, simplest and the most natural form of business organisation. The individual introduces his own capital, uses his own skill and intelligence in the management of his business. He is solely responsible for the results of its operations. When he cannot manage the entire business alone, he gets himself assisted by others, to whom he pays salary by way of remuneration. Usually this method of carrying on the business is confined to a small area because an individual alone finds it difficult to expand the business.

A proprietorship is a business owned by only one person with unlimited liability. It is also named as sole trader or sole proprietorship.A proprietorship is an unincorporated business. It is easy to set-up and is the least costly among all forms of ownership. The proprietorship form is usually adopted by small business entities. It is the simplest business form under which one can operate a business. A sole proprietorship can operate under the name of its owner or it can do business under a fictitious name, such as 'Mama's Dokan'. The fictitious name is simply a trade name and does not create a legal entity separate from the sole proprietor owner. A sole proprietor need to only register his or her name and secure local licenses, and the sole proprietor is ready for business. The owner of the sole proprietorship pays personal income tax on profits earned from the business.

A sole proprietorship is among the oldest and simplest business forms wherein, only one man heads the entire show. Some common examples of sole proprietorship business are grocery shop, chemist shops, beauty parlours, fabrication units and so on. In spite of various shortcomings, many businesspersons choose sole proprietorship business, especially start-up founders, due to its inherent benefits. Such business is appropriate where the market for the product is limited or when the customers demand personalised services. It also suits to the businesses where manual skills are required or where the capital required to start the business is relatively small and does not involve a high degree of risk.

3.4 FEATURES OF PROPRIETORSHIPBUSINESS

The features of proprietorshipbusiness organizations are discussed below–

1. **Single Ownership:** It is a type of business unit, in which a single person owns the entire business, i.e. all the assets and property belongs to the proprietor. Accordingly, he bears all the risk associated with the enterprise. Hence, the business ends up at his will or on his demise.
2. **Easy to Set-up:** A proprietorshipbusiness is easy to set-up and is the least costly among all forms of ownership. The legal requirements for formation, operation and closure of a sole proprietorship business is almost nil, even it does not need registration. Although for the purpose of business, it can be registered with local self-government, and obtain a certificate of registration.
3. **No Separate Legal Existence:** A proprietorship organization has no separate legal existence apart from its proprietor. His business is regarded as a kind of his personal property in the eyes of law. There is no legal distinction between the proprietor and business.
4. **No sharing of Profit and Loss:** Whatever income generated from the sole proprietorship business, it belongs to the sole proprietor only. Consequently, he alone bears all the losses incurred by the firm. There is no sharing of the business profits and losses.
5. **One man's capital:** The proprietor alone will have to make all the necessary arrangements for getting the entire capital. The capital required to start the business or to continue operations is arranged either from his personal resources or by borrowingfrom the bank, financial institutions, friends, relatives, etc.
6. **Unlimited Liability:** This is one of the major drawback of sole proprietorship business, i.e. the liabilities are unlimited. In the event of loss, the personal assets of the proprietor along with the business assets can be utilised to discharge the dues of business.
7. **Management and Control:** Sole proprietor uses his own skills, intelligence and expertise to operate the business. Workings of

proprietorshipbusiness completely depends upon proprietors own discretion and decision. He is the sole authority of everything in his business. He combines himself in various capacities as its promoter, financier and manager. It is not necessary for him to consult anybody while taking any decision or action in the conduct of his business.

8. **Stability:** Compared to other forms of business this form of business organisation has a short life, because in most of the cases, the business comes to an end by the death, insanity or permanent incapacity of the proprietor, particularly if he has been rendering any essential personal service.



CHECK YOUR PROGRESS

Q.1: State whether the following statements are True or False:

i) Proprietorshipbusinesses are stared by two persons.

ii) Proprietorshipbusiness has no legal existence.

iii) The liability of the proprietorship business is limited.

iv) A proprietorshipbusiness is managed by the owner.

3.5 STARTING A PROPRIETORSHIP IN INDIA

Starting a sole proprietorship, owned, managed and controlled by one person, requires no legal formalities or registration. However, business licenses as required by State / Central Government and tax registrations must be obtained. Moreover, Tax Registration and Trademark Registration are also required to be done depending upon forms of businesses.

Business Licenses: Business licenses are a must for any business, irrespective of the type of business entity. it is important to understand the regulatory framework surrounding the activity you wish to undertake in the proprietorship and obtain the relevant licenses from the respective Local, State and Central Governmental / Statutory authorities. Examples of relevant business licenses to be obtained by different businesses are:

- Businesses handling food items need Food Business Operator License

- Businesses acting as customs broker need Customs Broker License
- Businesses providing security services need Security Agency License
- Businesses operating shops and commercial establishments need Shop & Establishment License

Tax Registrations: The tax registrations must be obtained from the relevant tax authorities which are based on the type of activity to be performed by the Proprietorship. Some of the tax registrations that would be required for a proprietorship include:

- As per GST turnover limit based on the type of business requires GST Registration
- Businesses employing professionals require Professional Tax Registration
- Businesses having employees require ESI/PF Registration

Trademark Registration: There is no Registrar or Registry for Proprietorships in India. Therefore, a proprietorship can usually be operated under any name. However, the trademark registration is recommended, in case the name of the business is unique or a branded one. Moreover, if proposed to invest a significant amount of time and money in the proprietorship, or if the business name is to be used exclusively to identify goods and services originating from the business; then it is recommended to obtain a trademark registration.

3.6 PROCEDURES TO SET-UP OF A SOLE PROPRIETORSHIP

The procedure for setting up of a sole proprietorship firm is:

- Applying for PAN card if the proprietor has a PAN card
- After obtaining a PAN card the next step is to keep a name for the sole proprietorship business
- The next step is to open a bank account in the name of the business. All the transactions of the business will be through this bank account.
- Though no specific registration is required for starting a sole proprietorship firm, certain basic registrations as mentioned below

are required to be obtained by a sole proprietorship firm for doing business.

- The proprietor needs to obtain the Registration Certificate under the Shops and Establishment Act of the state in which the business is located
- The sole proprietorship should also register for GST if the business turnover exceeds Rs.20 lakh
- The sole proprietorship can also register as a Small and Medium Enterprise (SME) under MSME Act, though it is not mandatory, it is beneficial to be registered under the same

3.7 CHECKLIST REQUIRED FOR SOLE PROPRIETORSHIP BUSINESS

- PAN Card of the proprietor
- Aadhaar Card
- Name and address of the business
- Bank Account in the name of the business
- Registration under the Shop and Establishment Act of the respective state
- Registration under GST, if the business turnover exceeds Rs.20 lakhs

3.8 ADVANTAGES OF PROPRIETORSHIPBUSINESS

On a comparison with other forms, the following points can be listed as its unique advantages:

1) **Easy in Formation:** Formation of this type of business organisation does not involve much legal formalities. Therefore, it is easy to form.
2) **Simple to Work:** This form of business organisation is free from legal interference. It is extremely easy to go ahead with the day-to-day work of the business. Hence, it is regarded as the simplest form of business organisation.
3) **Maintaining Business Secrets:** One unique feature of this form of business organisation is that secrets can be perfectly (closely)

maintained. Therefore, competitors cannot easily take undue advantage of the peculiar or unique clues, ways or methods of the business developed by the special skill, knowledge, tact and foresight of the proprietor.

4) **Quick Decisions:** All business matters can be decided very quickly, because, the proprietor need not unnecessarily waste his time in consulting too many people. He can take the decisions very quickly and more efficiently, in order to take advantage of the opportunities of gain (profit) arising from the changing markets from time to time.

5) **Managerial Motivation:** The proprietor enjoys the entire profits all alone. Hence, there will be a natural urge of impetus to put in his best efforts. Thus, the existence of the direct relationship between the effort and the reward serves as a powerful incentive and makes the proprietor work very hard and manage his concern most efficiently.

6) **Close Business Links:** Since the size of the business is usually small, the proprietor can easily ascertain the nature of the tastes, habits and special aptitudes of his customers because of his intimate contacts with them. As a result of this, he can build up the goodwill and reputation of his concern.

7) **Healthy Relations with Employees:** It is very easy for the proprietor to maintain a cordial atmosphere in his business, because of his personal contact and intimate relation with his employees; he can quickly solve their grievances in an amicable way.

8) **Economy in Management:** The proprietorhimself supervises the entire business. Only in certain exceptional circumstances; he may take the assistance of his close friends and relatives and occasionally from one or more trusted paid assistance. Hence, the overhead costs of management will be relatively less in proprietorship.

9) **Unlimited Liability– A boon:** In fact, unlimited liability may act as a source of strength to the proprietor; because, it drives him to act with vigour, initiative and determination to avoid the adverse effects of business losses. Moreover, it is also claimed that unlimited liability

may create confidence in the creditors so as to enable the proprietor to borrow enough funds to run his business.

10) **Self-Employment:** The proprietorship organisation offers a way of life to secure a means of living to those persons who do not want to serve others. The individuals can easily earn their bread by starting a small-sized business unit as a proprietorship concern. That is why, the sole trading organisation are given importance from this social standpoint also.

3.9 DISADVANTAGES OF PROPRIETORSHIP BUSINESS

Most of the disadvantages with which this form of business organisation suffers, centres round the proprietor's limited resources-material as well as managerial limitation.Following are the disadvantages of proprietorship business:

1) **Limited Capital and Insufficiency of Resources:** The proprietor heavily depends upon his own savings, as it is very costly and difficult to borrow from the banks or other financial institutions. He may find it very difficult to expand his business, although the needs of changing time and situations warrant the same. As such, he cannot take the advantages of the economics arising out of an expansion in business.

2) **The Threat of Limited Liability:** The risk of losing his private property in the event of his business losses always haunts the proprietor. As a result, he tries to become over-cautious and too orthodox. In fact, he may not think of taking bold decisions to expand his business, even if there is a great need to do so.

3) **Limitations of Managerial Ability:** The modern business which is full of complications especially because of the ever changing nature of the market and the constant changes in the rules and regulations governing the day-to-day working of the business concerns. This calls for a great managerial ability. But, it is difficult to find all abilities in one man. This is so because the proprietor is always over-burdened with too many tasks i.e. financing, buying, selling, advertising,

corresponding, accounting and so on. One individual cannot be expected to be an expert in all these fields. He cannot manage everything efficiently and therefore; his decisions may sometimes prove to be unbalanced. Consequently, a proprietorshiporganisation suffers from the absence of division of labour and specialisation.

4) **Weak Bargaining Capacity:** Very often, the proprietor finds it difficult to exert any controlling influence over the market both as a buyer and as a seller, as his operations is very much limited in scale as well as scope. Hence, he may become a victim of even the slightest changes in the market conditions.

5) **Uncertainty of Decisions:**The proprietorship business suffers from the problem of instability. It cannot hope to exist for a long period. It may have to face an abrupt end with the lunacy, permanent physical incapacity or death of the proprietor. His heirs may not be interested in business. This will certainly disappoint his customers to a very great extent, jeopardise the goodwill and reputation built in the previous years and will ultimately lead to closure of business.

6) **Restricted Growth:** Because of limited capital and capacity of the proprietorship, the normal growth of his business is sure to get arrested. But, a business enterprise is bound to grow in size, as it is a living organism. Viewed from this angle, proprietorship, as a form of business organisation, is not at all suitable to run most of the business activities that are bound to grow.



CHECK YOUR PROGRESS

Q.2: Mention three advantages of proprietorship business.

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Q.3: Mention three disadvantages of proprietorshipbusiness.

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3.10 LET US SUM UP

In this unit we have discussed about the proprietorship Business. The main points discussed in this unit are:

- A business unit owned and managed by an individual is called proprietorshipor individual proprietorship.
- The features of proprietorship business organization are the business has no separate legal identity, capital is contributed by the owner and he himself manage the business. etc.
- Proprietorshipbusiness is easy to form, easy to maintain secrecy, easy to make decision.
- Starting a sole proprietorshiprequires no legal formalities or registration.
- Business licenses as required by State / Central Government and tax registrations must be obtained by a proprietorship business.



3.11 FURTHER READING

1) Chhabra, T. N. and Chhabra, Sandhya; *Business Studies*; Karol Bagh, New Delhi: Arya Publication.
2) Gandhi, Poonam; *Business Studies*; NaiSarak, Delhi: Dhanpat Rai & Co.
3) Pathak, R. K., Kalwar, M.C.; *Business Studies*; Ram Nagar, New Delhi: S. Chand & Company Ltd.
4) Robbins and Coulter; *Management*; Delhi: Prentice Hall.

3.12 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: i) False, ii) True, iii) False, iv) True

Ans. to Q. No. 2: i) Easy in formation, ii) Quick decisions, iii) Maintaining business secrets.

Ans. to Q. No. 3: i) Limited capital, ii) Unlimited liability, iii) Uncertainty of business.



3.13 MODEL QUESTIONS



Q.1: Write a note on proprietorship business.

Q.2: What are the merits of proprietorship business?

Q.3: Discuss theProcedures to set-up of a sole proprietorship businessin India.

Q.4: Mention the checklist required for sole proprietorship business.

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UNIT 4: PARTNERSHIP BUSINESS

UNIT STRUCTURE

4.1 Learning Objectives

4.2 Introduction

4.3 Meaning and Features of Partnership Business

4.4 Merits and Demerits of Partnership

4.5 Formation of Partnership Firm

4.5.1 Partnership Dead

4.5.2 Registration of Partnership

4.6 Limited Liability Partnership(LLP)

4.7 Distinctions between LLP and Partnership

4.8 Let Us Sum Up

4.9 Answers to Check Your Progress

4.10 Model Questions

4.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- define partnership business
- discuss the features of partnership
- outline the merits and demerits of partnership
- explain the partnership deed
- discuss the formation and registration of partnership firm
- discuss the concept of limited liability partnership
- outline the diferences between limited liability partnership and partnership

4.2 INTRODUCTION

In the earlier unit you get some idea on Proprietorship Business. Now, in this unit we are going to discuss the concepts of partnership

business. The partnership form of business was evolved to overcome the shortcomings of proprietorship and joint hindu family business. The partnership is formed by two or more persons to carry on business by pooling their financial and managerial skills and resources. It can be said that partnership is the extension of proprietorship. In 2008 The Limited Liability Partnership Act was enacted which pave the way of incorporating LLP in India.

In this unit, you will be able to gain knowledge on the various aspects of partnership and LLP like its features, merits and demerits, the differences between partnership and LLP.

4.3 MEANING AND FEATURES OF PARTNERSHIP BUSINSS

A partnership is a voluntary association of two or more persons who agree to carry on some business jointly and share its profit and losses. It is a form of organisation in which two or more persons willingly join and agree to run some lawful business and they invest capital, use their managerial ability and share profit and losses among themselves. The persons who entered into the partnership are individually called "partners" and collectively called "partnership firm".

The following are some of the definitions given by different scholars:

According to L.H Honey, "Partnership is the relation between persons competent to make contract, who agree to carry on a lawful business in common with a view to private gain"

According to the Indian Contract Act, "Partnership is the relation which subsists between persons who have agreed to combine their property, labour or skills in some business and to share the profits therefrom between them"

According to Kimball, "A partnership or firm, as it is often called, is a group of men who have joined capital or services for the prosecution of some enterprise".

Features of Partnership Business

The following are the features of partnership business :

Two or more persons: There should be at least two or more persons to form a partnership. The maximum number of partners is 10 in case of banking business and 20 in other types of business.

Only individual as a partner: One of the main features of partnership is that only an individual can become a partner and not any firm or institution.

Agreement: To form a partnership there should be an agreement between the partners. The agreement may be oral or written but it should satisfy all the essentials of valid contract.

Legal business: A partnership should be formed only for the purpose of business and not for any illegal acts such as theft, dacoity, smuggling etc. The business carried out by the partners should be lawful.

Profit motive and sharing of profit: Profit motive and sharing of profit is again a main feature of partnership business. The profits must be distributed among the partners in an agreed ratio. Similarly, losses should be shared among the partners.

Utmost good faith: Faith is again plays an important role in partnership business. The partners' should observe utmost good faith in business dealings. One must disclose all the information he possesses to the other partners and should be true to each other.

Restriction on transfer of interest: Partnership is a mutual faith and no partner can transfer his interest in the firm without the approval of all other partners.



CHECK YOUR PROGRESS

Q 1: Define partnership.

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Q 2: State any three features of partnership

a. .....

b. .....

c. .....

4.4 MERITS AND DEMERITS OF PARTNERSHIP

The following are the merits of partnership business:

Balanced Decision: In a partnership, there is a mixture of different people who has different qualities, so whatever decision is made is based on the conclusion made by the all the partners.

More Secrecy: In a partnership, the accounts are not revealed to the public, thus, maintaining a secrecy among themselves

More credit facility: As the partners have unlimited liabilities so it has become easier for the firm to obtain goods on credit and loan on easy terms.

Cooperation: There exists mutual cooperation and trust amongst the partners as the people work in common goal for the benefit of all.

Close Supervision: Unlimited liability makes the partners cautious and as a result they avoid a reckless dealing which leads to close supervision on the affairs of the business.

Larger Financial Resources: Due to more number of partners it becomes easier to collect large amount of capital for the business.

Scope for expansion: There are greater scope for expansion and growth of business. For better and smooth functioning of the business more partners can be taken for the requirement of the growing business.

Demerits of Partnership:

A partnership firm can be suffered due to the following limitations:

Uncertainty: A partnership business may suffer from instability and uncertainty. Insolvency, insanity, retirement and death of the partner may cause an abrupt end to the business.

Unlimited Liability: Every partner is fully liable for the debts of the business, so there may be a risk of losing personal property by the individual partners for business liabilities.

Conflicts: Lack of unity and harmony may lead to conflict between the partners. If the decisions of each individual are not accepted by all the partners, then there exists a conflict.

Blocking of Capital: If one of the partner wants to withdraw his share of capital, it becomes difficult for him to do so unless the other partners agree to it.

Lack of Public faith: Unlike the companies, a partnership business accounts are not revealed to the public, so the real position of the business does not become known to the public. The creditors hesitate to advance loan to the partnership because the actual position of the business is not known. Therefore, the general public regards it as a group of persons came together to earn easy money and quick profits.



CHECK YOUR PROGRESS

Q 3: State true or false

a. In a partnership business accounts are revealed to the public. (True/False)

b. A partnership firm doesn't face any uncertainty. (True/False)

c. Every partner is fully liable for the debts of the business. (True/False)

Q 4: State any two advantages of Partnership.

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4.5 FORMATION OF PARTNERSHIP FIRM

A partnership firm can only be formed through an agreement between two or more persons. As discussed earlier in the above section, the agreement can be in writing or oral. But an agreement is preferable in a written form because it serves as record for the future. A written document can help in resolving dispute that may arise because of some misunderstanding among the partners. So, partnership deed is made to avoid any confusion or misunderstanding.

4.5.1 Partnership Deed

A written agreement of partnership is called the partnership Deed. Partnership is an agreement which specifies the terms and conditions that govern the partnership. A partnership deed contains all the necessary conditions on which a partnership has been formed. A partnership deed is not a public document. The following are the details of the partnership deed:

Name and address of the Firm: The name and address of the firm should not be similar to that of other firm, otherwise it will make confusion.

Nature of the business: The partnership deed must specify the nature and scope of the business.

The principal place of the business: The principal place of the partnership business should be mentioned in the deed, if the firm is locally, nationally or internationally located.

Duration of partnership, if any: Whether the partnership is for a specific period or only for a project, it should be mentioned in the partnership deed.

Names and address of the partners: Full names and address of all the partners should be mentioned in the partnership deed.

Contribution of capital by each partner: The partners' contribution to the business should be mentioned in the deed and also it should be specified whether or not any interest and how much is to be paid to the partners on their capital.

Profit and loss ratio: The profit and loss sharing should be mentioned in the deed and it should be mentioned the proportion of the share in the basis of capital invested or partners skills or experiences.

Commission and salary of partners: The partnership deed should always define any commission and salary to be paid to the partners who contributes in terms of time and skills to the firm's business.

Drawings and interest: The limitations on drawings made by any partner should be specified and the interest on it should also be mentioned in the deed.

Audit of the books of accounts: The mode of auditing of the books of accounts and how the final accounts are prepared should be mentioned in the deed.

Rights, duties and liabilities of the partners: The partnership deed must define the limits of the rights, duties and liabilities of the partners.

Admission and retirement of the partners: The admission and retirement of the partners should be according to the provisions of the law which should be clearly specified in the deed.

Valuation of goodwill: The method of evaluation of the goodwill should be mentioned in the partnership deed.

Dissolution of partnership: The partnership firm should specify the conditions under which the firm gets dissolved.

Death of the partner and his succession: When there is death of any partner then the capital invested by him in the firm and the due amount under the final accounts are given to the deceased partner's successor or legal representative. If the investment is to be kept into the firm, then the successor has to be admitted as a partner. This clause should be clearly mentioned in the partnership deed. If the capital is to be paid in instalment to the representative, then the rate of interest should be clearly mentioned in the deed.

Violation of partnership rules: If any of the partners violate the rules, the steps taken against the erring partner should be mentioned in the partnership deed.

Arbitration clause: If in case there are any disputes or disagreement among the partners, then it will lead to arbitration and this should be mentioned in partnership deed and also the appointment of the arbitrators and his rights should be specified in the deed.

4.5.2 Registration of Partnership

According to the Partnership Act, 1932 it is not legally compulsory to register the firm for its formation. But if the registration is not done then there may arise some difficulties. So, it is always useful to get the firm registered. The Partnership Act, 1932 provides that if the partners so desire, may register their firm with the “Registrar of Firms” of the state in which the partnership firm is situated.

In order to get itself registered, a partnership firm must submit an application in a prescribed form along with the prescribed fee to the "Registrar of Firms". The application must contain the following details:

- Name of the firm
- The head office of the business
- Names of the other places where the firm has business
- Full names and addresses of the partners
- Date of entry of the partners in the firm
- Period of the firm, if any
- Signatures of every partner or his representatives.

When the Registrar of the Firm, after scrutiny, is satisfied with the statements, shall make entry of the firm in the register of firms and the firm gets registered and a certificate which is called "Certificate of Registration" is issued by the Registrar. After getting the certificate, the firm becomes a registered firm.



CHECK YOUR PROGRESS

Q 5: What is a Partnership Deed?

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Q 6: What is a "Certificate of Registration?"

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4.6 LIMITED LIABILITY PARTNERSHIP

A limited liability partnership (LLP) is a partnership in which some or all partners (depending on the jurisdiction) have limited liabilities. It exhibits elements of both partnership and corporation. In an LLP, each partner is not responsible or liable for another partner's misconduct or negligence. It is governed by Limited Liability Partnership Act, 2008.

LLP is an alternative forms of corporate business that gives the benefits of limited liability of a company and the flexibility of a partnership to its members. Partners have lower liabilities to any debt which may arise in future in running the business. It contains elements of both 'a corporate structure' as well as 'a partnership firm structure' and is called a hybrid between a company and a partnership. The LLP has a separate legal entity, is liable to the full extent of its assets but liability of the partners is limited to their agreed contribution in the LLP. The LLP can continue its existence irrespective of changes in partners. It is capable of entering into contracts and holding property in its own name. Further, no partner is liable on account of the independent or unauthorized actions of other partners, thus individual partners are shielded from joint liability created by another partner's wrongful business decisions or misconduct.

The LLP is a relatively recent legal institution. It has been widely received in most of the states in the United States of America. The sudden emergence of new limited liability partnerships suggests a revolution in the law of limited liability.

Features of LLP

Following are the features of LLP :

LLP is a body corporate: According to Section 3 of the Limited Liability Partnership Act 2008 (LLP Act), an LLP is a body corporate, formed and incorporated under the Act. It is a legal entity separate from its partners.

Perpetual Succession: The existence of a limited liability partnership continues even after the retirement, insanity, insolvency or even death of one or more partners. Further, it can enter into contracts and hold property in its name.

Separate Legal Entity: Just like a corporation or a company, it is a separate legal body. Further, it is completely liable for its assets. Also, the liability of the partners has certain limitations in their contribution to the LLP. Hence, the creditors of the LLP are not the creditors of individual partners.

LLP Agreement: It is an agreement between all partners to governs the rights and duties of all the partners. In absence of LPP agreement, The LPP Act governs the mutual rights and duties of all partners.

Artificial Legal Person: LLP is an artificial legal person created by law. A legal process creates it and has all the rights of an individual.

Common Seal: Though it is not mandatory, the LLP can have a common seal [Section 14(c)]. However, if the LLP decides to have a seal, then it is necessary that the seal remains under the custody of a responsible official. The common seal can be used only in the presence of at least two designated partners of the LLP.

Limited Liability: According to Section 26 of the Act, every partner is an agent of the LLP. However, he is not an agent of other partners. The liability of each partner has limitations to his agreed contribution to the LLP.

Minimum and Maximum Number of Partners in an LLP: Every LLP must have at least two partners and at least two individuals as designated partners. At any time, at least one designated partner should be resident in India. There is no maximum limit on the number of maximum partners in LLP.

Business Management and Business Structure: Though all the partners of the LLP can manage their business, only the designated partners are responsible for legal compliances.

Only for Profit: LLP cannot be formed for voluntary, charitable or non-profit purposes. LLP can be formed to carry on a lawful business with a view to earning a profit.

Designated partners –As per section 7 (1) Every limited liability partnership shall have at least two designated partners who are individuals and at least one of them shall be a resident in India. Provided that in case of a limited liability partnership in which all the partners are bodies corporate or in which one or more partners are individuals and bodies corporate, at least two individuals who are partners of such limited liability partnership or nominees of such bodies corporate shall act as designated partners.



CHECK YOUR PROGRESS

Q 7: What is meant by LLP?

.....

.....

.....

Q 8: What minimum number of partners an LLP must have?"

.....

.....

Advantages of Limited Liability Partnership

A limited liability partnership has the following advantages:

Separate legal entity: An LLP has a separate legal entity. The LLP can possesses assets in its own name and can sue and be sued. Furthermore, one partner is not responsible or liable for another partner's misconduct or negligence.

No owner/manager distinction: An LLP business is own and manage by the partners.

Flexible agreement: Keeping in mind the provisions of the Limited Liability Partnership Act-2008, the partners of the LLP are free to draft the agreement as they like, with regard to their rights and duties.

Limited liability: In partnership the liability of the partners is unlimited. However, under LLP, the liability of the partners is limited to the extent of his/her contribution to the LLP. Unless fraud has been detected, the personal assets of the partner are protected from any liability of the LLP.

Fewer compliance requirements: So far the legal compliance is concern an LLP is required to maintain just two compliances per year, i.e. filing of Annual Return of the LLP by 30th May every year and Filing of Solvency Statement by 30th October every year.

Easy to wind-up: Not only is it easy to start, but it's also easier to wind-up an LLP. It hardly takes two to three months to complete the closer process.

Disadvantages of Limited Liability Partnership

Running business in LLP form has following disadvantages :

Difficult to maintain Secrecy: Unlike partnership it is difficult to maintain secrecy for an LLP. The documents submitted through the MCA portal are public documents. Any person can get a copy of all such documents by paying a small fee of INR 50 except the LLP agreement.

Limited Funding Alternatives: LLPs have limited funding alternatives. LLPs can either borrow debt from financial institutions or via a loan from partners. venture capitalist unwilling to invest in an LLP structure. This is because all 'shareholders' in an LLP must be partners of the LLP, which have certain responsibilities toward the entity. No VC wants any of these responsibilities, Also, Foreign Direct Investment (FDI) in LLP is more restrictive

Penalty for non-compliance: Though the compliance requirements for an LLP is minimum, it is strictly important to adhere to them, else it can lead to heavy penalties. It is mandatory for LLP to submit Form 8 and Form 11 annually. In case of non-compliance, an additional fee of INR 100 per day, per form is levied.

Other Penalty: Improper use of the term "Limited Liability Partnership" is Punishable with fine which shall not be less than Rs. 50,000 but which may extend to Rs. 5,00,000. Penalty for filing false incorporation Document is Punishable with imprisonment for a term which may extend to 2years and with a fine which shall not be less than Rs. 10,000 but which may extend to Rs. 5,00,000.

Process of Registration of LLP

Registration of LLP in India involves the following process:

1. Name Reservation: The name of LLP is approved by the Ministry of Corporate Affairs(MCA) through RUN-LLP application. After login into the MCA account, one can apply for reservation of name by clicking on the RUN-LLP option. Following details are required to be mentioned in form:

- Entity type LLP
- LLPIN (LLPIN and it has to be entered only when an existing company wishes to change its name and is using RUN to reserve a new name)
- 2 Proposed names
- Main objects of the LLP
- Any other attachment, if required like NOC for the proposed name if it resembles any name of any existing company / LLP. After entering the aforementioned details in the form, we can submit the form at the portal and make the payment of the prescribed fee, i.e. Rs. 1,000.00 towards name reservation fee. The name once approved shall be valid for the period of 90 days from the date of approval of name.

2. Preparation of Incorporation documents: Once the MCA give approval of the name, following documents need to be compiled before filing of form for incorporation of LLP.

- Copy of Utility bill (Electricity bill / Telephone bill / any other utility) not older than 2 months.
- Address proof of the proposed registered office of LLP (Rent Agreement/ Conveyance deed / Lease deed)
- Subscriber Sheet duly signed by all partners and certified by a Practising Chartered Accountant or Company Secretary.
- Copy of PAN Card, Identity proof (Voter ID/Passport/Driving License), Address proof (Copy of Telephone or Electricity bill / Copy of Bank Statement- both not older than 2 months) for all partners.
- Details of other entities in which partners are already partners / directors duly self-certified by each partner.
- Digital Signature of all partners.

3. Filing of Incorporation Forms: The MCA has introduced a single window form called FiLLiP for incorporation of LLP. The details as required in the form along with above mentioned documents needs to be submitted to MCA for incorporation of LLP. This e-form also enables to apply for

Designated Partner Identification Number (DPIN) for partners. Under this e-form, one can also apply for name reservation. After successful submission of the form and verification of documents by MCA, the MCA issues the Certificate of Incorporation of LLP.

4. Filing of LLP Agreement: Upon receipt of Certificate of Incorporation of LLP, an LLP agreement needs to be executed on the stamp paper. The amount of Stamp duty shall be determined as per the State Stamp Duty Act.

4.7 DISTINCTIONS BETWEEN LIMITED LIABILITY PARTNERSHIP AND PARTNERSHIP

Following are some major differences between limited liability partnership and partnership:

Law	The Limited Liability Partnership Act, 2008 governs LLPs.	The Indian Partnership Act, 1932 governs partnership firms.
Registration	The registration of an LLP is mandatory.	The registration of a partnership firm under the Indian Partnership Act is voluntary.
Registering authority	An LLP should submit the registration form and all the subsequent e-forms with the Registrar of Companies.	The firm must submit the partnership firm registration form and other subsequent forms with the Registrar of Firms.
Creation	An LLP is created by law.	A partnership firm is created by contract.



4.8 LET US SUM UP

In this unit we have discussed the following:

- A partnership is a voluntary association of two or more persons who agree to carry on some business jointly and share its profit and losses.
- The features of Partnership are (a)Two or more Persons, (b) Only individual as a Partner, (c) Agreement, (d)Legal Business, (e)Profit motive and sharing of Profit, (f)Utmost Good faith, (g)Restriction on transfer of Interest
- A written agreement of partnership is called the partnership deed. Partnership is an agreement which specifies the terms and conditions that govern the partnership.
- According to the Partnership Act, 1932 it is not legally compulsory to register the firm for its formation.

- A limited liability partnership (LLP) is a partnership in which some or all partners (depending on the jurisdiction) have limited liabilities.
- An LLP has a separate legal entity.
- The MCA has introduced a single window form called FiLLiP for incorporation of LLP.



4.9 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: A partnership is a voluntary association of two or more persons who agree to carry on some business jointly and share its profit and losses.

Ans to Q No 2: The features of partnership:

(a) Two or more Persons

(b) Only individual as a Partner

(c) Utmost Good faith

Ans to Q No 3: (i) False (ii) False (iii) True

Ans to Q No 4: (a) Balanced Decision (b) More credit facility

Ans to Q No 5: A written agreement of partnership is called the partnership deed

Ans to Q No 6: After registration of the partnership firm the Registrar make entry of the firm in the register of firms and the firm gets registered and the certificate is called “Certificate of Registration” which is issued by the Registrar.

Ans to Q No 7: A limited liability partnership (LLP) is a partnership in which some or all partners (depending on the jurisdiction) have limited liabilities. In an LLP, each partner is not responsible or liable for another partner’s misconduct or negligence.

Ans to Q No 8: Two



4.10 MODEL QUESTIONS

Q 1: Define Partnership

Q 2: What do you understand by Cooperative Organisation?

Q 3: What is the minimum and maximum number of partners in partnership firm?

Q 4: Is Registration of Partnership is necessary?

Q 5: Explain any four features of Partnership.

Q 6: Write the merits and demerits of Partnership.

Q 7: Outline the procedure for registration of partnership and LLP.

Q 8: Mention the features of LLP

Q 9: What are the advantages and disadvantages of LLP?

Q 10: Explain the differences between LLP and Partnership.

UNIT 5 : JOINT HINDU FAMILY BUSINESS

UNIT STRUCTURE

5.1 Learning Objectives

5.2 Introduction

5.3 Concept of Joint Hindu Family Business

5.4 Systems used in a Joint Hindu Family Business

5.5 Membership of Joint Hindu Family Business

5.6 Formation of Joint Hindu Family Business

5.7 Liabilities under Joint Hindu Family Business

5.8 Karta as a General Partner in HUF Business

5.9 Characteristics of Joint Hindu Family Business

5.10 Examples of Joint Hindu Family Business

5.11 Merits of Joint Hindu Family Business

5.12 Demerits of Joint Hindu Family Business

5.13 Let Us Sum Up

5.14 Further Reading

5.15 Answers to Check Your Progress

5.16 Model Questions

5.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- describe the concept of Joint Hindu Family business
- explain the characteristics of Joint Hindu Family business
- evaluate the merits and demerits of Joint Hindu Family business.

5.2 INTRODUCTION

In this unit you will be able to know the meaning of Joint Hindu Family business. When a business is run by a Joint Hindu Family where all family members participate, such form of business is known as Joint Hindu Family Business. In this unit you will come to know about the different features, advantages and disadvantages of Joint Hindu Family Business.

5.3 CONCEPT OF JOINT HINDU FAMILY BUSINESS

Joint Hindu Family (JHF) business also known as Hindu Undivided Family (HUF) business is a precise kind of business structure found only in India. This is one of the classical methods of business structure in the nation. It is administered by the Hindu Law [Hindu Law (Succession) Act, 1956]. In this form of business organisation all members of a Hindu family are engaged in business. The source of membership in the business is birth in a family.Three consecutive generations can be members of the business. The business and property of the family is managing and controlled by the eldest male member, who is known as *Karta.* **Karta** is the head of the family, and the entire business is controlled by the him, and his decisions are binding on all the members. All members of the family have equal rights over property of ancestors. Members are known as *coparcenary*. Three generation next to the holder of property in unbroken male line constitute a coparcenary i.e. property inherited by a member from father, grandfather and great grandfather. Joint Hindu Family business is recognised by Income Tax Act, 1961 and governed by Hindu Law (Succession) Act, 1956.

5.4 SYSTEMS USED IN A JOINT HINDU FAMILY BUSINESS

There are two systems or schools governing membership of Joint Hindu Family business. One is the Dayabhaga system and another is Mitakshara system.

(1) **Dayabhaga System:** Dayabhaga system is applicable in West Bengal and Assam. Dayabhaga is the more traditional school of Hindu law.It allows both male and female to be coparceners. The Hindu Succession (Amendment) Act, 2005 gave Hindu women the right to be coparceners or joint legal heirs in the same way a male heir does. According to Mitakshara law, a son has a natural right to inherit the property of his joint family if he is born into it. It means that when a son is born into a family, he automatically becomes a co-owner of the property that the

family owns together. However, under Dayabhaga system a son gets right in the ancestral property only after the death of his father.

(2) **Mitakashara System:** Mitakshara system is applicable rest of the India which allows only male members to be coparceners. In case of Mitakshara system coparcenary arises during life time of father and the son has right by birth.There are four sub-schools namely Benares, Mithila, Maharashtra or Bombay, and Dravida or Madras school.

5.5 MEMBERSHIP OF JOINT HINDU FAMILY BUSINESS

A Joint Hindu Family Business is administered by the Hindu Law. The source of membership in the business is by birth and the membership can only be taken by the birth in the family only. The three consecutive generations can be the members of the Hindu undivided family business. The business is managed by the head of the family (eldest member) and he is called Karta.

5.6 FORMATION OF JOINT HINDU FAMILY BUSINESS

Joint Hindu Family Business are form under different conditions.They are:

- The members of joint family should have inherited the ancestral property;
- There should be at least two male members in the business;
- The members of the business should have equal share in the property;
- A child is taking birth in the joint Hindu family become the member of the HUF business;
- No agreement is required to become a member of the business. Taking birth in the family is enough.

5.7 LIABILITIES UNDER JOINT HINDU FAMILY BUSINESS

The Karta of the Hindu undivided family is the general partner of the HUF business. As the general partners in a partnership business have unlimited liabilities in the partnership firm, the Karta has also unlimited liabilities. The rest members or coparceners in the business have limited liabilities. But the Karta of the family has unlimited liability towards the business of HUF only. However, the Karta and the other members of the family have equal rights and shares in the property of the HUF business.

5.8 KARTA AS A GENERAL PARTNER IN HUF BUSINESS

The Karta of a Joint Hindu Family business has all the rights to take necessary decisions in the business. He will have full control over the business of the family. However, he can take the advice from all the members, but he will not be bound by law to accept their decisions or opinions related to the business.

5.9 CHARACTERISTICS OF JOINT HINDU FAMILY BUSINESS

There are some unique characteristics of Joint Hindu Family business that distinct it from other forms of business. The main characteristics of Joint Hindu Family business are:

1) **Formation:** To form a Joint Hindu Family business there should be at least two members in the family and they must inherent some ancestral property. It does not require any agreement among the members. It is governed by Hindu Law (Succession) Act, 1956. All of the members enjoy this property and have an equal share in that property.
2) **Membership:** In JHF business only male members (except Dayabhaga system)of one Hindu undivided family become coparcener

by birth. This means, in this form of business only male can participate. Even minors are members of the JHF business. Any child taking birth in that family becomes a member of the HUF. There is no requirement for an agreement to become a member.

3) **Minor Members:** The person who has taken birth in Hindu undivided family can be a member of the family business.Therefore, a minor can also be a member of the business.

4) **Liability:** The liability of all the members or coparceners in the Hindu Undivided Family business is limited to their share in the business. The Karta being the head of the family has unlimited liability.Even his personal property can be used for discharging business dues. All the coparceners have equal rights and shares in the property of Hindu Undivided Family business

5) **Continuity:** Death of any member or Karta does not affect continuity of the business. If the Karta is deceased, the very next eldest member takes up the position of Karta in Hindu Undivided Family business. The legal heirs are entitled for the deceased share and in case of death of the Karta next eldest member of the family becomes Karta of the business.

6) **Dissolve of JHF Business:** A HUF business can be divided and ended up by the mutual consent of the members. The business can be dissolve either through mutual agreement or by partition suit in court.

7) **Management and Control:** Karta being the head of the HUF business has full control and authority over the business and he can manage the business as per his own will. Other members have no right to interfere in the management of the business.However, Karta can take advice from all the members but he is not bound to accept their decisions.

8) **Profit Sharing:** All coparceners have equal shares in the profit of the business.

9) **Registration:** Registration of HUF business is not mandatory.

5.10 EXAMPLES OFJOINT HINDU FAMILY BUSINESS

- **Reliance Industries Limited:** Reliance Industries Limited, headquartered at Mumbai, is an example of Joint Hindu Family business. It was founded by Dhirubhai Ambani. Mukesh Ambani,the eldest son of Dhirubhai Ambani, is the present Karta of the company. Their children are also members of business.
- **Tata Sons Private Limited:** Tata Sons Private Limited is another example of joint Hindu family business which is headquartered in Mumbai. It was founded in 1868 by Jamsetji Tata. His generations are today managing the business and they are the major stakeholders in the company.
- **Mahindra & Mahindra Limited:** Mahindra & Mahindra Limited, established in 1945, is a car manufacturing business headquartered at Mumbai. Initially, its name was Muhammad & Mahindra. Anand Mahindra, the grandson of one of the founder Jagdish Chandra Mahindra, is the chairman of Mahindra group. Today generations of its founders are managing the business.
- **Haldiram's Private Limited:** Another example of Joint Hindu family business is Haldiram's Private Limited. It was founded in Bikaner, Rajasthan and it has its headquarter in Nagpur, Maharashtra. It was founded by Shri Ganga Bhishen Agarwal in 1937. Rajendra Agarwal is the present chief executive officer of haldiram. Today generations of its founders are the major stakeholders of the company.

5.11 MERITS OF JOINT HINDU FAMILY BUSINESS

The merits of Joint Hindu Family Business can be discussed as follows:

- **Effective Control:** The Karta has full control over the JHF business activities. He takes a decision quickly. Every member is bound to accept his decision. No one can interfere in the decision of Karta. Hence, it avoids clashes among the members.

- **Quick Decision:** Since Karta has the full right to manage the HUF business, it enables him to take quick decision without any interference.
- **Limited Liability:** Except Karta all other coparceners have limited liability to the extent of their share in business. This enables the members to run the business freely. In case of dissolution of the business, Karta's personal assets and his share will only be liable.
- **Stability:** Compared to sole proprietorship and partnership business, a JHF business is more stable since death of any members or Karta has no effect on its existence. After the death of Karta, the next eldest member takes up his position. So, it does not affect the activities of the business. All the business activities are done smoothly, continuously without any threat.
- **Secrecy:** Karta can take any decision related to HUF business without consulting any member. Hence, there is a very little chance of leakage of information related to business.
- **Free from legal Formalities:** JHF business can be started without much legal formalities. Registration of JHF business is not mandatory.
- **Expanded Loyalty and Cooperation:** All the business operations are carried on by the members of a family jointly. It increases loyalty and cooperation with each other without any hindrance. All the targets of the business can be achieved by the cooperation among the members and the Karta.

5.12 DEMERITS OF JOINT HINDU FAMILY BUSINESS

Though JHF business has many merits it suffers from the following limitations:

i) **Limited Resources:** JHF business has limited scope for raising funds. Their investment is limited to the ancestral property inherited by them. In most of the cases members do not invest their personal capital in the business.

ii) **Limited Managerial Capacity:** Management of JHF business is fully in the hands of Karta, who may not be efficient in all the areas of

business. In such a case there is a possibility of failure or loss in the business.

iii) **Unlimited Liability of Karta:** In JHF business Karta is personally liable for the debt of the business. Due to this reason Karta hesitate to take decision which affects growth of the business.

iv) **No Relationship between Responsibility and Reward:** The Karta of a JHF business manage the business, take all risk and responsibility. He is personally liable for the debt of the business. But, for all these he is not paid any extra amount. He gets only his share of profit like other coparceners.

v) **Scope of Misuse of Power:** JHF business is absolutely control and managed by the Karta, in such a case he may misuse his power. Again. Such activity my lead to conflict among the coparceners.



CHECK YOUR PROGRESS

Q.1: State three Characteristics of JHF business.

i) .....

ii) .....

iii) .....

Q.2: State three disadvantages of JHF business.

i) .....

ii) .....

iii) .....



5.13 LET US SUM UP

In this unit we have discussed about the Joint Hindu Family Business. The main points discussed in this unit are:

- Joint Hindu Family (JHF) business is a precise kind of business structure found only in India.
- Joint Hindu Family (JHF) business is administered by the Hindu Law.

- In Joint Hindu Family (JHF) Business all members of a Hindu family are engaged in business and it prevails only in India.
- The business and property of the family is managing and controlled by the eldest male member, who is known as *Karta.*
- In JHF Business all members of the family have equal rights over property of ancestors and are known as *coparcenary*.
- Joint Hindu Family business is recognised by Income Tax Act, 1961 and governed by Hindu Law (Succession) Act, 1956.



5.14 FURTHER READING

1) Chhabra, T. N. and Chhabra, Sandhya; *Business Studies*; Karol Bagh, New Delhi: Arya Publication.
2) Gandhi, Poonam; *Business Studies*; NaiSarak, Delhi: Dhanpat Rai & Co.
3) Pathak, R. K., Kalwar, M.C.; *Business Studies*; Ram Nagar, New Delhi: S. Chand & Company Ltd.
4) Robbins and Coulter; *Management*; Delhi: Prentice Hall.

5.15 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1:

i) Only male members of the undivided family become coparcener by birth.
ii) The Karta being the head of the family has unlimited liability, even his personal property can be used for discharging business dues.
iii) Death of any member or Karta does not affect continuity of the business.

Ans. to Q. No. 2:

i) JHF business has limited scope for raising funds.

ii) Liability of Karta is unlimited.

iii) JHF business is absolutely control and managed by the Karta, in such a case he may misuse his power.



5.16 MODEL QUESTIONS

Q. 1: Explain the concept and features of a Joint Hindu Family business.

Q. 2: What are the systems used in Joint Hindu Family business?

Q. 3: Discuss about the management of a Joint Hindu Family business.

Q. 4: Write a note on membership of Joint Hindu Family Business.

Q. 5: Discuss the process of formation of Joint Hindu Family Business.

Q. 6: Describe the liabilities pattern under Joint Hindu Family Business.

Q. 7: Enumerate the characteristics of Joint Hindu Family Business.

Q. 8: Explain the merits and limitations of JHF business.

*** ***** ***

UNIT 6 : CO-OPERATIVE SOCIETIES

UNIT STRUCTURE

6.1 Learning Objectives

6.2 Introduction

6.3 Meaning and Definition of Co-operative Societies

6.4 Characteristics of Co-operative Society

6.5 Formation of Co-operative Society

6.6 Disposal of Surplus/Profit

6.7 Types of Co-operative Societies

6.8 Merits and Demerits of Co-operative Organisations

6.9 Let Us Sum Up

6.10 Further Reading

6.11 Answers to Check Your Progress

6.12 Model Questions

6.1 LEARNING OBJECTIVES

After going through this unit, the learners will be able to:

- explain the meaning of co-operative societies
- discuss the characteristics of co-operative societies
- outline the various types of co-operative societies
- explain the merits and demerits of co-operative societies.

6.2 INTRODUCTION

Co-operative Societies were promoted by the British government in India in the beginning of the 20th century to fight rural indebtedness. Since then, the Co-operatives in India have taken a major role in the development of the country. The experiences are mixed.In this unit we will discuss various aspects of Co-operative Societies.

6.3 MEANING AND DEFINITION OF CO-OPERATIVE SOCIETIES

Ramu is a farmer in a remote village of Assam. He has a flock of duck and gets twenty eggs every day. After consumption by his family every day he finds fifteen eggs surplus. Now, what can he do with these fifteen eggs? He may want to sell the eggs but may not find a customer in the village. Or, he may go to nearby town to sell the eggs but he will find it difficult as he does not have money to go to the town. So, he is in problem. Suddenly, one day he met a learner of KKHSOU who had earlier read this unit. The learner comes to know about the problem faced by the villagers and the learner told him that there are other persons in the village who is facing the same problem. Then he advises the villager to collect all the eggs every morning in a specific place and send some one or two to nearby town to sell it. Again in the evening they can sit and distribute the money according to their contribution of eggs after deducting the expenses. The villager shares the idea with the other villagers. All the villagers agreed to the idea and they form an egg producer's society. They start collecting eggs in the morning and selling the egg in the nearby town. Now, they are not facing any difficulty in selling their surplus product.

In the above example, all the egg producers of the village come together, collect the surplus eggs, sell them in the nearby town and start generating income. This was possible because they came together and formed a Co-operative Society. In the same way people can form co-operative of different types for different purposes.

In general, by cooperation we mean working collectively. A co-operative society is a voluntary association of person, who join together with the motive of welfare of the members. It is based on the principles of self-help, equality, democracy and freedom.

The following are some of the definitions of Co-operative Society:

According to H.C. Calvart, "Cooperation is form of organisation, wherein person voluntarily associates together as human beings on a basis of equality for the promotion of the economic interest of themselves."

According to the Indian Co-operative Societies Act, 1912, "Co-operative Society is a society which has its objectives for the promotion of economic interest of its members in accordance with Co-operative principles."

6.4 CHARACTERISTICS OF CO-OPERATIVE SOCIETY

The following are the features of Co-operative form of organisation:

- **It is Voluntary Association:** It is essentially a voluntary association with a common interest of improving the economic status of its member through joint action. A member can join the society as and when he likes and leave the society at his will.
- **Compulsory Registration:** Registration of Co-operative Society is compulsory and the registration is done by the "Registrar of the Co-operative Societies".
- **Legal Status:** A Co-operative organisation should register itself under the "Co-operative Societies Act, 1912". After registration, the Co-operative Society becomes a distinct entity of its members. It becomes an autonomous and self-governing organisation. It can sue and be sued in its own name. Death, insolvency or lunacy of a member does not affect the existence of a society. It can enter in to agreement with others and can purchase or sell properties in its own name.
- **Limited Liability:** The liability of the members in the Co-operative Society is limited.
- **State Control:** The government of the concerned state exercises regulation and control over Co-operative Societies through registration to protect the interest of the members.
- **Open and Voluntary Membership:** Membership of Co-operative Society is open to all those who have a common interest. Anybody who is willing to take responsibility of membership can become a member without any restriction or any social, religious or political discrimination. As per the provisions of The Co-operative Societies Act, a minimum of ten members are required to form a Co-operative Society and maximum numbers of members is unlimited.

- **Service Motive:** The main purpose of Co-operative Society is not to earn profit but to provide service to its members. For example, a Co-operative Credit Society accepts deposit from its members and grants them loans at a reasonable rate of interest.
- **Sources of Finance:** In a Co-operative Society capital is contributed by its members. However, a Co-operative Society can raise loans and secure grants from the government after its registration.
- **Democratic Management:** Co-operative Societies are democratic organization. The society is run and managed by an elected group of people known as board of directors. Each member of the society has single voting right, irrespective of the numbers of shares he holds.
- **Self-help Through Mutual Cooperation:** Co-operative Societies are organizations of financially weaker section of the society and thrive on the principle of self-help and mutual co-operation. The basic philosophy of Co-operative Society is "Each for all and all for each". Co-operative Society with the principle of self-help and mutual co-operation convert the weakness of members into strength.

6.5 FORMATION OF CO-OPERATIVE SOCIETY

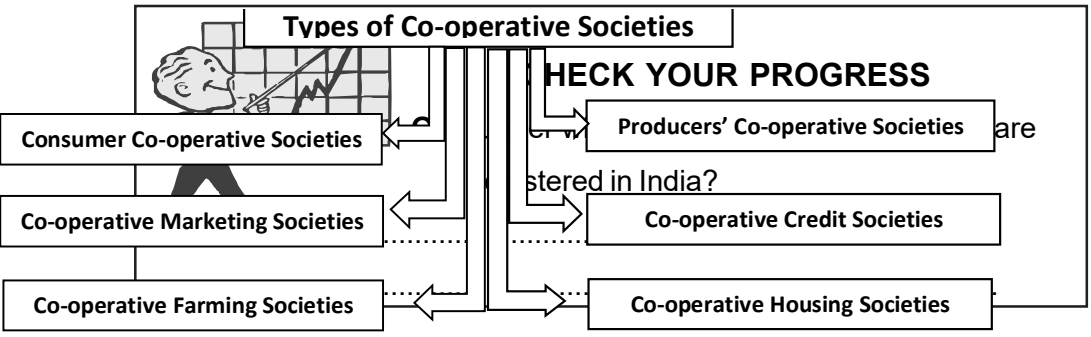
A Co-operative Society can be formed under the Co-operative Societies Registration Act,1912. A minimum of ten members are required to form a Co-operative Society and maximum numbers of members is unlimited. A duly fill up application form in proper format containing the details about the society, has to be submitted to the Registrar of Co-operative Societies of the concerned state. Following documents are to be attached with the application form:

a) List of promoter members
b) Bank Certificate (as proof of having bank account)
c) Detail explanation of working of the society
d) Four copies of proposed bye-laws of the society
e) Proof of payment of registration charges
f) Other documents like affidavits, indemnity bonds, any documents specified by the Registrar also have to be submitted

The Registrar will enter the particulars in register of application maintained in Form "B" and give serial number and issue receipt in acknowledgement of the same. On registration, the Registrar will notify the registration of the Society in the Official Gazette and issue Registration Certificate.

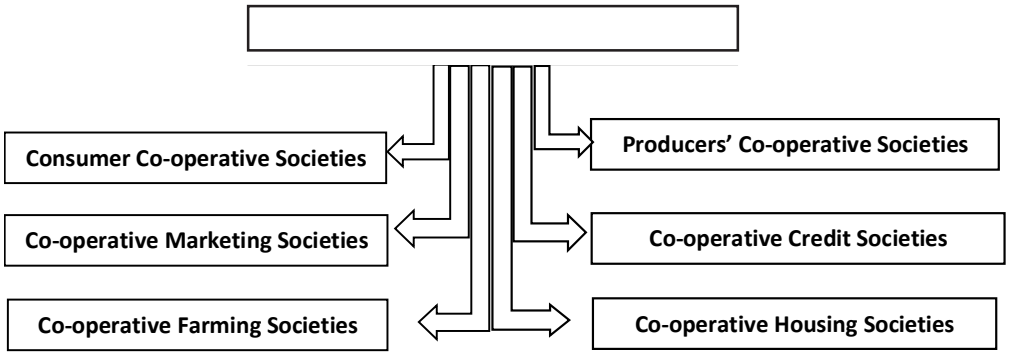
6.6 DISPOSAL OF SURPLUS/PROFIT

Every Co-operative Society in addition to providing service to its members also generates some profit while conducting business. However, the term profit is rarely used by co-operatives because it does not sit easily with co-operative, instead, the term surplus is used. Surpluses can be distributed among the members in proportion to their shares with the co-operative and on the basis of members' participation in the business of the society. A major portion of the profit is transferred to general reserve as per law.



6.7 TYPES OF CO-OPERATIVE SOCIETIES

Co-operative Societies can be categorised on the basis of the nature of work. The following are some of the types of Co-operative Societies.



- **Consumer Co-operative Societies:** This type of society is formed by the consumers who want to get rid of traders and brokers exploitation. The Consumer Co-operative Societies seeks to eliminate the middlemen by establishing a direct link between the consumer and the producers. The main objective of this type of society is to ensure constant supply of goods and availability of high quality goods at a reasonable price. The functions of this type of society are of purchasing goods in bulk from the producers or the wholesalers and selling good to the members. The non-members can also buy the goods. The members are given priority in case of shortage of goods. Members are given bonus and share in profit in proportion of their purchase and investment respectively.
- **Producers' Co-operative Society:** It is organised by the small-scale producers to face competition and to increase the production. It is helpful for the small producers in obtaining raw material, in improving the quality of products and in securing the economics of large scale production.
- **Co-operative Marketing Societies:** It is voluntary association of artisans and small producers. It is formed to enable the members to secure remunerative prices for their products. It helps in improving the bargaining power and competitive position of its members. It helps in making arrangement for various functions like transportation, packaging, grading and marketing research for the benefit of the members. This type of society takes care of the malpractices during trade deals like checking fraud in accounts and using false weights and etc.Gujarat Co-operative Milk Marketing Federation that sells Amul Milk products is an example of co-operative marketing society.
- **Co-operative Credit Societies:** This type of society is formed by the general persons who have limited financial resources. This type of society helps its members to encourage the habit of saving and thrift among them. It may be formed by artisans, industrial workers, agriculturists or salary earners. It helps its members from exploitation by the moneylenders. They provide loan at a very low rate of interest.The

Assam Co-operative Apex Bank Ltd., The Co-operative City Bank Ltd. are the examples of co-operative credit society.

- **Co-operative Farming Societies:** These types of societies are formed by the small farmers who are incapable of doing farming economically. Their aim is to achieve economies of scale and highest productivity in agriculture. Its main objective is to encourage the Co-operative farming and providing modern agricultural equipments, high quality seeds and fertilizers.
- **Co-operative Housing Societies:** This society is formed by the general persons who want to have residential house either in ownership basis or at fair rents. They are organised by poor and middle class people in big cities where housing is a problem. A housing Co-operative Society buys land from the municipal authority and constructs flat which are allotted to the members. These societies provide all the modern facilities in their houses and grant loan at lesser rate of interest.

6.8 MERITS AND DEMERITS OF CO-OPERATIVE ORGANISATIONS

Merits of Co-operative Society: The following are the merits of Co-operative Society–

- **Easy Formation:** The formation of a Co-operative Society is very simple as compared to the formation of any other form of business organizations. Any ten persons can join together and form a Co-operative Society.
- **No obstruction for Membership:** The membership of Co-operative Society is open to everybody. Nobody is obstructed to join on the basis of religion, caste, creed and sex etc.
- **Limited Liability:** In most cases, the liabilities of the members of the society are limited to the extent of capital contributed by them. Hence, they are relaxed from the fear of attachment of their private property, in case if the society suffers from financial losses.
- **Service Motive:** In Co-operative Society, members are provided with

better goods and services at reasonable prices. The society also provides financial help to its members.

- **Democratic Management:** The Co-operative Society is managed by the elected members from and among themselves. Every member has equal rights through its single vote but can take active part in the formulation of the policies of the society. Thus all members are equally important for the society.
- **Stability and Continuity:** A Co-operative Society cannot be dissolved by the death, insolvency, lunacy, and permanent incapability of the members. Therefore, it has stable life and continues to exist for a longer period.
- **Economic Operations:** The operation carried on by the Co-operative Society is economical due to the eliminations of middlemen. The services of middlemen are provided by the members of the society with the minimum cost.
- **Tax Advantage:** Co-operative Societies get exemption in income tax on their earnings.
- **State Patronage:** Government provides special assistance to the societies to enable them to achieve their objectives successfully.

Despite many advantages, the Co-operative Society suffer from certain disadvantages. **Some of these disadvantages are as follows:**

- **Limited Resources:** Co-operative Societies financial strength depend on the capital contributed by its members and loan raising capacity from state Co-operative banks. The membership fee is limited for which they are unable to raise large amount of resources as their members belong to the lower and middle class.
- **Inefficient Management:** A Co-operative Society is managed by the members only and it may happen that they may not possess any managerial and special skills. This is considered as major drawback of this sector
- **Lack of Secrecy:** The Co-operative Society does not maintain any secrecy in business because the affairs of the society are openly discussed in the meetings.

- **Cash trading:** The Co-operative Societies sell their products to outsiders only in cash. But, they are usually from the poor sections. These persons require to avail credit facilities which is not possible in the case of Co-operatives.
- **Excessive Government Interference:** Government put their nominee in the Board of Management of Co-operative Society and they influence the decision of the Board which may or may not be favorable for the interest of the society.
- **Absence of Motivation:** The members may not feel enthusiastic because the law governing the Co-operatives put some restriction on the rate of return. Absence of relationship between work and reward discourage the members to put their maximum effort in the society.
- **Disputes and Differences:** The management of the society constitutes the various types of personnel from different social, economic and academic background. Many a times they strongly differ from each other on many important issues. This becomes detrimental to the interest of the society. The different opinions and disputes may paralyses the effectiveness of the management.



CHECK YOUR PROGRESS

Q.2: What are the different types of Co-operative Society.

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Q.3: State any two disadvantages of Co-operative Society.

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6.9 LET US SUM UP

In this unit we have discussed the following:

- A Co-operative Society is a form of organisation wherein the persons associate together voluntarily and on equal basis to further their common interest.
- Characteristics of Co-operative of organisation– (a) It is voluntary association, (b) Compulsory Registration, (c) Legal Status, (d) Limited Liability, (e) State Control, (f) Disposal of Surplus/Profit.
- Co-operative Societies can be categorised as– (a) Consumer Co-operative Societies, (b) Producers Co-operative Society, (c) Co-operative marketing Societies, (d) Co-operative Credit Societies, (e) Co-operative Farming Societies, (f) Co-operative Housing Societies.



6.10 FURTHER READING

1) Chhabra, T. N. and Chhabra, Sandhya; *Business Studies*; Karol Bagh, New Delhi: Arya Publication.
2) Gandhi, Poonam; *Business Studies*; Nai Sarak, Delhi: Dhanpat Rai & Co.
3) Pathak, R. K., Kalwar, M.C.; *Business Studies*; Ram Nagar, New Delhi: S. Chand & Company Ltd.
4) Robbins and Coulter; *Management*; Delhi: Prentice Hall.

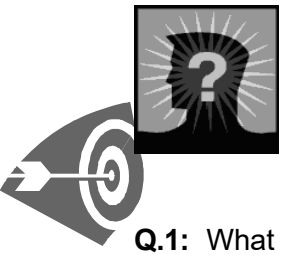
6.11 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q No 1: H

Ans. to Q. No. 1: i) Co-operative Societies Act 1912,

Ans. to Q. No. 2: a) Consumer Co-operative Societies, b) Producers Co-operative Society, c) Co-operative Marketing Societies, d) Co-operative Credit Societies, e) Co-operative Farming Societies, f) Co-operative Housing Societies

Ans. to Q. No. 3: a) Limited resources, b) Inefficient management



6.12 MODEL QUESTIONS

Q.1: What is meant by Co-operative Organisation?

Q.2: What is Consumer's Co-operative?

Q.3: How the profits of the Co-operative Societies are distributed?

Q.4: Write down the limitations and advantages of Co-operative organisation.

Q.5: Outline the differences between Co-operative Society and partnership.

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UNIT 7 : PUBLIC SECTOR ENTERPRISES

UNIT STRUCTURE

7.1 Learning Objectives

7.2 Introduction

7.3 Concept of Public Sector Enterprises

7.4 Characteristics of Public Sector Enterprises

7.5 Examples of Public Sector Enterprises

7.6 Forms of Public Sector Enterprises

7.7 Contribution of Public Sector Enterprises

7.8 Problems of Public Sector Enterprises

7.9 Privatisation of Public Sector Enterprises

- 7.9.1 Objectives of Privatisation
- 7.9.2 Ways of Privatisation
- 7.9.3 Advantages of Privatization
- 7.9.4 Disadvantages of Privatisation

7.10 Let Us Sum Up

7.11 Further Reading

7.12 Answers to Check Your Progress

7.13 Model Questions

7.1 LEARNING OBJECTIVES

After going through this unit, the learners will be able to:

- define public sector enterprise
- expalin the characteristics and forms of Public sector enterprise
- discuss the Contribution of Indian Public Sector
- explain the problems of the public enterprises
- expalin the meaning and objectives of privatisation of public sector enterprises
- discuss the advantages and disadvantages of privatisation of public sector enterprises.

7.2 INTRODUCTION

Public Sector Enterprises (PSEs)are a significant part of the Indian economy.They play an important role in promoting industry and commerce and in building infrastructure in the country. An organisation owned by the government is called a public sector enterprise. They may be a corporation, statutory corporation or a nationalised bank. The people that work in these organisations are government employees.In this unit we will discuss various aspects of public sector enterprises.

7.3 CONCEPT OF PUBLIC SECTOR ENTERPRISES

Government owned enterprises are termed as public sector undertakings (PSUs) or Public Sector Enterprises (PSEs) in India. A public sector enterprise is one where 51% or more of the paid up share capital is held by central government or by any state government or partly by central government or partly by one or more state governments.

Public Sector Enterprises (PSEs) have laid a strong foundation for the industrial development of the country. The public sector is less concerned with making profits. Hence, they play a key role in nation building activities, which take the economy in the right direction.

According to A. H. Hanson, “Public Sector enterprises means state ownership and operation of industrial, financial and commercial undertakings”

Prof. Hansen observed that “Developing countries are bound to rely on public sector enterprises because without these enterprises, the economy cannot become dynamic.”

Thus, public sector enterprises include all state owned enterprises. These are owned and managed by government and its objective is to promote social welfare along with earning profits.

7.4 CHARACTERISTICS OF PUBLIC SECTOR ENTERPRISES

The following are the characteristics of Public Sector Enterprises.

a) **State Ownership:** The ownership of public sector enterprises rest with the State. It could be central government or any state government or partly by central government or partly by one or more state governments.

b) **State Control:** Public sector Enterprises are controlled by the Government both in its management and functioning. The Government has the direct responsibility to manage the affairs of the enterprise. Government exercises control over Public Sector Enterprises through various agencies.

c) **Public Accountability:** Public sector Enterprises owe accountability to people as they are funded through public money. This accountability is realised through legislature and its committees, ministers, audit institutions and other specialized agencies.

d) **Coverage:** The public enterprise covers all areas and activities. There is hardly any field of activity, which is not covered by the operations of public enterprises.

e) **Financial Freedom:** All the financial need of public sector enterprises is met through the investment of capital by the government.

f) **Harmonious Industrial Relations:** The attitudes towards the employees in public enterprises are more liberal in comparison to that of the private sector enterprises. These enterprises adopt the policies and rules and regulations which are beneficial to their employees, consumers and to the society.

g) **Monopoly:** Public sector enterprises have monopolies in some sectors. For example, Railways, posts are the examples of public sector enterprises.

7.5 EXAMPLES OF PUBLIC SECTOR ENTERPRISES

Following are the examples of some of the Public Sector Companies in India:

- ONGC,
- State Bank of India,
- Indian Oil Corporation,
- Bank of Baroda,
- Hindustan Copper,
- Teal Authority of India Limited (SAIL),
- Bharat Petroleum,
- Power Grid corporation of India etc.

7.6 FORMS OF PUBLIC SECTOR ENTERPRISES

Public sector organization provides the framework that shapes interrelationships amongst the public enterprises as well as the government. The following are the major organizational forms of the public enterprises.

a) **Departmental Organization:** Under this form of organization a public sector enterprise is run as a department of the government**.** For example, Posts is a department in the Ministry of Information and Communications. Similarly, the Chittranjan Locomotive Works and the Integral Coach Factory are parts of the Ministry of Railways. The Ordnance Factory, Gun Carriage Factory, Delhi Milk Scheme, Tarapur Atomic Energy Plant, All India Radio, Doordarshan, Government Printing Press and Mint are other examples of departmental undertakings.

b) **Statutory Corporations:** Statutory Corporations are autonomous form of Public sector enterprise. It is formed by passing a special Act either at the Legislature Assembly or at the Parliament. The “Statue” clearly defines the rules and regulations, plans & policies, rights & powers, limits & scope for working of the corporation. Though primarily they are governed under a special Act, still provisions of the Companies

Act, 2013 are applicable to them. Statutory Corporations are formed with service motive only. State Bank of India, Life Insurance Corporation, Unit Trust of India, etc. are some examples of statutory corporations.

c) **Government Company:** It refers to the public sector enterprise which is registered under the Companies Act and has a minimum 51% of the paid-up capital in the name of Central/State Government.

d) **Joint Enterprise:** Joint Enterprise is a type of enterprise in which public sector participates with the private sector that has led to the creation of a specific type of organization.



CHECK YOUR PROGRESS

Q.1: Define Public Sector Enterprises.

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Q.2: Give three examples of Public Sector Enterprises

a) .....

b) .....

c) .....

Q.3: What are the different forms of Public Sector Enterprises?

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7.7 CONTRIBUTION OF INDIAN PUBLIC SECTOR

The public sector of the country has got a significant contribution to the development of Indian economy. Being a powerful instrument of economic growth, this sector has got the following contributions towards the growth of the nation's economy:

- **Development of Infrastructures:** Good infrastructures are the

precondition of economic development. For agricultural development sufficient expansion of irrigation facility, power and energy supply is very important. Similarly, without proper transport and communication, fuel and energy and banking facilities rapid growth of trade, commerce and industrialization cannot be expected. At the time of independence India inherited a very poor infrastructure from British. At that time private sector in India was not in a position to take lead of the economy. The only sector which was capable of developing the infrastructure and heavy industry in the country was the public sector i.e. the government. Public sector in India has contributed a lot for the development of infrastructure in the country and enables the economy to grow fast.

- **Balancing Regional Development:** Public sector has even reached those regions of India that lacked the primary civic as well as industrial facilities like water supply, electricity, township etc. For example, the steel plants of Durgapur, Bhilai and Rourkela, set up in the backward sates have contributed towards the growth of these regions.
- **Contribution towards National Exchequer:** According to the Indian Chamber of Commerce, the sector is responsible for more than 20 % of tax collections (Both direct taxes and indirect taxes). Thus, in turn, this sector mobilizes financial funds for the requirement of the nation's planned development.
- **Employment:** Millions of employment opportunities were being created by this public sector that minimized the problem of unemployment in the nation.
- **Filling the Space in Capital Goods:** During independence, there was a notable gap in India's industrial structure in terms of steel, oil refining, fertilizers, chemicals and many more, which was filled up by the rapid industrialization in the country.
- **Foreign Earnings and Export Promotion:** Over the years, the earnings of foreign exchange have increased remarkably. Apart from that, public owned companies like State Trading Corporation (S.T.C.), Hindustan Steel Limited, Bharat Electronics Limited (B.E.L.), Minerals

and Metals Trading Corporation (M.M.T.C.) etc. have worked well for the promotion of export in India.

- **Import Substitution:** Public sector companies like Oil and Natural Gas Commission (O.N.G.C.), Bharat Electronics Limited (B.E.L.), Indian Oil Corporation Limited etc. were started solely for the production of goods, which earlier needed to be imported from foreign countries that involved huge expenses.
- **Enhanced Research and Development:** Since majority of the public sector enterprises are involved in heavy industrial as well as high technological work, which necessitate the undertaking of programs related to research and development. The public sector in India has enhanced the quality and amount of research and development.

7.8 PROBLEMS OF PUBLIC SECTOR ENTERPRISES

The principal problems of the public enterprises are discussed in detail as follows.

1. **Underutilization of Capacity:** Most of the public sector enterprises suffer from the general problem of underutilization of capacity which leads to low level of profitability. In view of the paucity of investible resources and widespread shortages prevalent in the economy, capacity utilization becomes an important criterion to judge the performance of an enterprise. It is found that in most of the cases, a major part of the installed capa-city of manufacturing units in the public sector remains unutilized. When the capacity utilization in the public sector steel plants is even below 70 per cent, we are importing two million tons of steel from abroad, at a price two and a half times the local rate.
2. **Undesirable Bureaucratic Interference:** While launching the public sector as part of national economic planning, Government had empha-sized the need for evolving a system that would ensure adequate checks as well as enough freedom for an enterprise to function quickly and efficiently. But gradually all public enterprises have

come to be treated as if they were all departmental undertakings. The public sector is slowly graduating into civil service culture.

3. **Stagnation in Production:** In certain vital public sector under-takings production has been more or less stagnant. For instance, in spite of huge investment, subsequent to nationalization, the persistent stag-nation in the coal industry is evident. This led to a coal crisis. Due to coal scarcity power generation and industrial production also fall.

4. **Political Interference:** Interference of political leaders in the functioning and decision making of public sector under-takings has become a tradition in India. Most of the top appointment in public sector under-takings are not made on the basis of professional competency and administrative ability but are determine by various political consideration. This is done at the cost of wellbeing of the public sector under-takings.

7.9 PRIVATISATION OF PUBLIC SECTOR ENTERPRISES

India has a mixed economy in which both Private and Public Sectors exist especially in many areas like Education, Healthcare, Banking, Road Transport, Telecom, Manufacturing etc. However, there are many public sector enterprises that are making losses. It is the responsibility of the government to give full support to those enterprises.Therefore, many of these have to be supported by taxpayer's money. But in today's era it is neither necessary nor has it been possible. So, the government feels that privatization is the need of the hour. Following the trend of privatization across the world, the Indian government also took the privatisation policy in the 1990s.

Privatisation of any organisation generally refers to transferring the power of authority from government to the private hands.Thus, transferring of ownership, management, and control of the public sector enterprises to the private sector is termed as privatisation.The transferring process takes

place by the issue and sale or outright distribution of shares to the general public. Privatization is a way of altering the relationship between the state and the private sector to enhance the role of the private sector in the functioning of the national economy as a whole.

7.9.1 Objectives of Privatisation

Privatization refers to the transfer of government services or assets to the private sector.Privatisation aims to accomplish several goals including enhancing economic efficiency. Privatisation generally includes the following objectives:

- Privatisation aims at reducing the huge amount of public debt and interest burden;
- Another primary objective of privatization is a one-time revenue generation for the government;
- Transferring the commercial risk to the private sector so that the funds are invested in able projects;
- Freeing the enterprises from government control and introduction of corporate governance;
- Privatisation aims at providing a strong base for the inflow of FDI;
- Improving efficiency of PSUs by giving them the autonomy to make decisions which will result in quicker economic growth and development;
- Boosting the importance of the private sector in the economy by generating jobs and economic growth;
- Providing free resources for use in vital areas, such as education, health, housing, transportation, and other infrastructure development projects; and
- Improving the public sector financial health by minimizing the burden of subsidy.

7.9.2 Ways of Privatisation

Government companies are transformed into private companies in the following ways.

1. **Transfer of ownership:** Government enterprises can be converted into private enterprises through transfer of ownership in the following ways:
   - By the withdrawal of the government from the ownership and management of public sector enterprises
   - By the outright sale of public sector enterprises
2. **Disinvestment:** Privatisation of the public sector undertakings by selling off parts of the equity of public companies to the private sector is known as disinvestment. The purpose of the sale is mainly to improve financial discipline and facilitate modernisation.
3. **Sale of Shares:** Equity shares of a public sector enterprises can be sold through stock exchanges for privatization. The state hands over complete authority of an organization's economic activities through a public sale of shares.
4. **Public Auction:** Shares or long-term assets of a public enterprise can be auctioned. Public auctions are held with the motive of raising the highest amount for a government-owned property.
5. **Public Tender:** Public tender refers to a contract issued to attract offers from interested procurers. It is essentially like an auction where the bidder with the most profitable offer procures it.
6. **Direct Negotiations:** Under direct negotiation process the government enters into dealings with specific private bodies for carrying out the privatization of state-owned property. Direct negotiations are potentially more beneficial for participating bodies.

7. **Lease with a Right to Purchase:** Under this method, a private company only assumes possession and usage of a state-run enterprise by meeting certain criteria. The private company can later choose to exercise the option to convert the lease of a property to ownership by paying the necessary sum and following certain conditions.

7.9.3 Advantages of Privatization

- **Improves Efficiency:** Public sector enterprises are predominantly influenced by political intentions rather than economic well-being. It hampers the efficiency of public sector companies and prevents growth. Privatization discourages government influence and aids economic growth as the private bodies do not have political agenda. They focus more on encouraging growth and efficiency.
- **Better Customer Service:** As private enterprises are profit-driven and function in a competitive market. Their primary focus rests on efficient customer service. Therefore, customer service is enhanced in privatization due to the elimination of unnecessary bureaucratic hassle.
- **Improves Management:** Privatization enhances management of an enterprise. The managers of a privately-owned enterprise are accountable to the owners of the enterprises. It becomes their responsibility to ensure efficient management.
- **Increases Competition:** State-run enterprises enjoy a monopoly and remain undisturbed by competition in the market. Private sector enterprises engage more actively and encourages competition and in turn, it accelerates overall industrial and economic growth and protect the market against monopolistic lethargy.

- **Promotes Market Dynamism:** Privatization frees the economy from state control. Lack of government interference resulting in becoming the market more dynamic. They gain more responses from the customers and generate higher revenues.
- **Helps in Revenue Generation:** Privatisation may be a quick way to generate cash if the government needs money to spend on a project or social program.Privatization helps in generating one-time revenue from sale of an enterprise for the government. Several governments have previously resorted to privatization when facing a fiscal crisis.
- **Increases Productivity:** Private businesses prioritize profits; they can boost efficiency. A privately owned and operated enterprise has more profit-focused management.
- **No Political Intrusion:**Privatisation of a government-owned enterprise eliminates political interfering on it.

7.9.4 Disadvantages of Privatisation

- **Natural Monopoly:** Privatisation may result in the monopoly of a single private company. Due to its monopoly over an industry, a company is free to lower its quality standards, set higher prices, etc., to generate significant profits.
- **Decline in Public Interest:** Private businesses are more profit-driven than welfare-driven. The public interest may be declined in the public welfare areas like health and education under private ownership.
- **Lack of Regulations:** Privatisation transfers the control of the government over financial and managerial choices to the private sector. The government has little or no influence on the decision making process of such enterprises and can also not impose significant regulations on its operating policies.

- **Effect on Accountability:** Privatization has a bad effect on accountability because Investors retain full authority to do anything.
- **Unassured Success:** Privatization is unassured in terms of the success rates of any individual unit, due to which many private sector companies suffer huge losses.



CHECK YOUR PROGRESS

Q.4: Fill in the blank:

i) Privatisation of the public sector undertakings by selling off parts of the equity of PSUs to the private sector is known as _____.

ii) _____ means the transfer of ownership, management, and control of public sector enterprises to the private sector.



7.10 LET US SUM UP

In this unit we have discussed the following:

- A public sector enterprise is one where 51% or more of the paid up share capital is held by central government or by any state government or partly by central government or partly by one or more state governments.
- Public sector Enterprises owe accountability to people as they are funded through public money.
- The public sector of the country has got a significant contribution to the development of Indian economy.
- The principal problems of the public sector enterprises are underutilization of capacity, undesirable bureaucratic interference, stagnation in production, political interference.

- Privatisation of any organisation generally refers to transferring the power of authority from government to the private hands.
- Transferring of ownership, management, and control of the public sector enterprises to the private sector is termed as privatisation.



7.11 FURTHER READING

1) Chhabra, T. N. and Chhabra, Sandhya; *Business Studies*; Karol Bagh, New Delhi: Arya Publication.
2) Gandhi, Poonam; *Business Studies*; NaiSarak, Delhi: Dhanpat Rai & Co.
3) Pathak, R. K., Kalwar, M.C.; *Business Studies*; Ram Nagar, New Delhi: S. Chand & Company Ltd.
4) Robbins and Coulter; *Management*; Delhi: Prentice Hall.



7.12 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: A public sector enterprise is one where 51% or more of the paid up share capital is held by central government or by any state government or partly by central government or partly by one or more state governments.

Ans. to Q. No. 2: Three examples of Public Sector Enterprises are ONGC, GAIL and SAIL.

Ans. to Q. No. 3: Different forms of public sector enterprises are departmental organization,public corporation,government company and joint enterprise.

Ans. to Q. No. 4: (i) Disinvestment (ii) Privatisation

7.13 MODEL QUESTIONS

Q. 1: What do you understand by public sector enterprise?

Q. 2: Describe the characteristics and forms of public sector enterprise.

Q. 3: Discuss the contribution made by Indian public sectorin Indian economy.

Q. 4: Explain the problems faced by the public enterprises in India.

Q. 5: State the meaning and objectives of privatisation of public sector enterprises.

Q. 6: Discuss the advantages and disadvantages of privatisation of public sector enterprises.

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UNIT 8: COMPANY FORM OF ORGANISATION

UNIT STRUCTURE

8.1 Learning Objectives

8.2 Introduction

8.3 The Company Organisation

8.4 Features of a Joint Stock Company

8.5 Type of Companies

8.6 Merits of a Joint Stock Company

8.7 Demerits of a Joint Stock Company

8.8 One Person Company

8.9 Suitability of Different Forms of Business Organisations

8.10 Let Us Sum Up

8.11 Further Reading

8.12 Answers to Check Your Progress

8.13 Model Questions

8.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- define the meaning of the company form of organisation
- explain the features of joint stock companies
- describe the different types of companies
- evaluate the advantages and disadvantages of joint stock companies.

8.2 INTRODUCTION

In unit 2, we have discussed about the scope of business organisation and the various methods of departmentation as well as different forms of external organisation. We have also discussed the sole-trading and Joint Hindu Family form of organisations in unit 3. In this unit, we are going to discuss about joint stock company.

8.3 THE COMPANY ORGANISATION

A company is a voluntary association of persons formed for some common purpose, with capital divisible into parts called shares and with limited liability. It is regarded by law as a person but, it has no natural personality (no physical existence), it is only an artificial person with a perpetual succession and a common seal.

Hence, it can be simply defined as an incorporated association which is an artificial persons created by law having a common seal and perpetual succession. Lord Justice Lindley, defines a company as "An association of many persons who contribute money or money's worth to a common stock , and employ it in some common trade or business (i.e. for a common purpose) and who share the profit or loss(as the case may be) arising therefrom. The common stock so contributed is denoted in money and is the capital of the company. The persons who contribute are the members. The proportion of capital to which each member is entitled is his share. Shares are always transferable, although the right to transfer them is often more or less restricted." Thus, perhaps this definition given by L. J. Lindey attempts to give a clearer description of a company.

According to the Section 3 (i) and (ii) of the Indian Companies Act, 1986, a company is "A company formed and registered under this Act or an existing company. An 'existing company' means a company formed and registered under any of the former Companies Acts.''

A joint stock company is an artificial person, created by law with a fixed capital, divisible into transferable shares, with perpetual succession and common seal. The company has a separate legal entity. It must be registered. The company is owned by shareholders, who subscribe to its shares. On the other hand, it is managed by the board of directors, who are elected representatives of the shareholders. In this way, the management and ownership rests with two groups of people. The company has a permanent life which is not at all affected by the death, insolvency or lunacy of its shareholders. The liability of the shareholders is limited to the face value of shares held by a particular shareholder.

Definition of Company: According to Haney, "A joint stock company is a voluntary association whose capital is divided into transferable shares and ownership is required for its membership." In the opinion of Kimbal and Kimbel "Corporation by nature is an artificial person, which is created by law for specific purpose as authorised."

8.4 FEATURES OF A JOINT STOCK COMPANY

Joint Stock Company has the following important features:

- **Artificial Person:** A company has a separate legal entity. It purchases and sells goods in its own name. It incurs expenses and receives income in its own name. It sues others and is sued by others in its name. As such, the company behaves like human being but it is actually not a natural person, so it is called an artificial person.
- **Created by Law:** The company is formed, carried on and even wound up by observing legal formalities. The company has to be registered with the Registrar of Companies of the state with various documents like, Memorandum of Association, Articles of Association and Prospectus etc. to get the certificate of incorporation. After filling certain other documents, certificate to commence the business is received.
- **Fixed Capital:** The capital of the company is fixed and mentioned in the Memorandum of Association. This capital is divided into transferable shares. It is the authorised capital, which the company has been authorised to obtain at any stage of its life.
- **Limited Liability:** The most important feature of the joint stock company is that the liability of its shareholders is limited to the face value of shares allotted to them. For example, if a shareholder has been allotted 10 shares of Rs. 10 each, his liability will be limited to Rs.100 only, even if the company suffers losses worth crores of rupees.
- **Perpetual Succession (Permanent Life):** The company has got permanent life. It goes on continuing inspite of the death, incapability,

lunacy and insolvency of its shareholders. The company has a distinct legal identity and existence, separate from its shareholders. There is divorce between the ownership and management of the company. The company is owned by shareholders and managed by the board of directors, the elected representatives of shareholders.

- **Democratic Management:** A company is managed in a democratic way. A company is established by shareholders and they elect the board of directors. The day to day affairs of the company is managed by the board of directors who are responsible to the shareholders.
- **Common Seal:** Every company has a common seal. The name of the company is engraved on the common seal. Every document of the company bears this seal. The company is an artificial person, so the common seal as the symbol of company's signature holds importance. Any one acting on behalf of the company must affix the seal of the company together with his signature.



CHECK YOUR PROGRESS

Q.1: Mention five important features of a Joint Stock Company.

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8.5 TYPE OF COMPANIES

1) On the basis of incorporation, joint stock companies are classified as:
   a) Chartered Companies
   b) Statutory Companies
   c) Registered Companies
2) On the basis of liability, companies can be classified as under:
   a) Unlimited liability companies
   b) Limited liability companies

i) Companies limited by shares

ii) Companies limited by guarantee.

3) On the basis of ownership, companies can be classified as under:

a) Public company and

b) Private company

In this unit we will discuss public and private companies.

a) **Public Company:** Its main features are:

- Minimum number of members is 7 and there is no limit regarding maximum number of members.
- There is no restriction on the transferability of shares
- There is complete freedom to issue prospectus and invite application for shares and debentures.

Examples of Public Companies: Bajaj Auto Ltd., Associate Cement Companies Ltd, Oswal Agro Limited etc.

b) **Private Company:** Its main features are:

- Restricts the right to transfer its shares, if any
- Limits the maximum number of its members (excluding its presents or past employees) to 50
- Prohibits any invitation to the public to subscribe for shares or debentures of the company.
- It is mixed form of partnership and public company. Under the Indian Companies Act it is necessary for the private companies to use the word 'Private Limited' after its name.

According to Section 3(i) (iv) of the Indian Companies Act. "A public company is one which is not a private company". The provision restricting the number of shareholders, transferability of shares and issuing prospectus applicable in case of private companies does not apply to public companies.

8.6 MERITS OF A JOINT STOCK COMPANY

A joint stock company form of business organisation is blessed with the following advantages:

- **Permanent Existence:** The life of the company is permanent. It is not affected by the death, incapability, lunacy and insolvency of the

shareholders. It has a separate legal entity. The ownership and the management of the company may change without the dissolution of the company.

- **Limited Liability:** The maximum liability of the shareholders of the company is limited to the face value of shares held by them. The personal assets of the shareholders cannot be attached, even if the company is unable to meet the claims of outsiders.
- **Availability of Large-Capital:** The capital of the company is contributed by its shareholders, whose number is unlimited, in case of public companies. The face value of shares being nominal and liability of shareholders being limited, these shares are easily sold, and the required capital is collected.
- **Transferability of Shares:** The shares of a public company are easily transferable. Whenever the shareholder wants the money back, he can obtain it by selling his shares. This special feature also ensures that the company will not be required to refund the capital. The shares of the company are purchased and sold in the stock exchange.
- **Economies of Large-Scale:** The company form of business organisation assumes very large size because of huge share capital and professional management. This is why the company enjoys internal and external economies of large-scale operation.
- **Tax Relief:** Tax laws offer certain development rebates and concession on certain commodities for export promotion and for the establishment of industries in backward regions. The company is charged income tax at flat rate. As such the tax liability on higher income is comparatively lower.
- **Diffused Risk:** The risk of business is shared by innumerable shareholders, so every shareholder has to bear nominal risk. This is not the case in sole proprietorship and partnership, where the loss has to be borne by the individual proprietor and limited number of partners of a firm individually or collectively.



CHECK YOUR PROGRESS

Q.2: Mention five advantages of a Joint Stock Company.

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8.7 DEMERITS OF A JOINT STOCK COMPANY

The demerits of a joint stock company are:

- **Excessive Legal Formalities:** Formation of company requires many legal formalities and filling up of several documents. It is time consuming and expensive. Delay in filling up of reports invites legal punishment. All these formalities make the formation of company difficult.
- **Fraud by Promoters:** Sometimes promoters of companies play fraud in the formation of the company. They conceal material facts and cheat the shareholders. They may manipulate the books of accounts in their favour.
- **Speculation in Shares:** The shares of the company are purchased and sold in the stock market. This practice encourages speculation.
- **Lack of Secrecy:** It is very difficult to maintain secrecy in the company. Every matter has to be discussed in the meetings. There is clash of interest between the management and workers. Consequently, strikes and lockouts are the common features.

8.8 ONE PERSON COMPANY

One Person Company (OPC) is a hybrid of a proprietorship business and a company. The Companies Act 2013, introduced the concept of this One Person Company. Under this concept a sole proprietor gets opportunity to establish a company with a separate legal entity status. Governed under the Companies Act, 2013, an OPC bears the features of both Sole proprietorship and Private Limited Company. It is considered as a private

company with limited liability. It must conduct at least one board meeting in each half of the year.

Advantages of OPC

- It is easy to incorporate OPC since only one member, and one nominee exists.
- Being a private company, it is easy to raise capital/funds.
- The member's liability is limited to his/her shares and not personally liable for the company's loss.
- OPC has fewer compliances as compared to private limited companies or LLPs.
- The OPC has perpetual succession even when only a single member exists.
- OPC has credibility as a business since it is established under the Companies Act, 2013.

Disadvantages of OPC

- The maximum number of members of an OPC is one, hence, it is suitable only for a small business structures.
- Since the sole member can be the company director, there is no clear distinction between company ownership and management.
- While the sole owner enjoys all the profits, they also have to bear all the loses.
- Banks and other lenders are hesitant to invest in this type of business, therefore, hard to get funding or loans.

One Person Company Vs Proprietorship

A One Person Company and a Sole Proprietorship seems to be similar but they function separately. It is clear that there are differences between them. Though an OPC and sole proprietorship have only one person/member, their functioning is different. An OPC has the features of a company, while the sole proprietorship does not have. Moreover, the sole proprietor has unlimited liability. The major differences between OPC and sole proprietorship can be shown as follows:

Sl. No.	Particulars	OPC	Proprietorship
1	Registration	Should be registered under MCA and the Companies Act, 2013	No compulsory registration
2	Members liability	Member has limited liability	Sole proprietor has unlimited liability
3	Legal status	Has a separate legal entity	Does not have a separate legal entity
4	Directors	Minimum of one director is required	No directors required
5	Nominee	Requires a minimum of one nominee to establish an OPC	Does not require a nominee
6	Transferability	Can be transferred to the nominee	Cannot be transferred
7	Survival	Existence is independent of member since the nominee or director will continue OPC upon the member's death	Comes to end upon the death or retirement of the sole proprietor
8	Taxation	Tax rate is 30% on profits plus cess and surcharge	Taxed as an Individual
9	Annual filings	Filings with the Registrar of Companies (ROC) as per the Companies Act, 2013 and Income Tax Act	Filing of only income tax returns

Joint Stock Company Vs Partnership

Sl. No.	Particulars	Joint Stock Company	Partnership
1	Minimum number of members	Minimum number is two in a private company and seven in a public company	Minimum number of members is two
2	Maximum number of members	Maximum number of members is 50 in a private company and no maximum limit in public company	Maximum number of members is 20 in general business and 10 in banking business
3	Registration	Registration is compulsory	Registration is not compulsory
4	Separate legal existence	Joint stock company is an artificial person created by law, it has separate legal existence	Partnership firm and partners are the same, it has no separate legal existence
5	Legislation	Regulated under the Companies Act, 1956	Regulated under the Partnership Act, 1932

8.9 SUITABILITY OF DIFFERENT FORMS OF BUSINESS ORGANISATIONS

A number of factors have to be kept in mind while selecting a particular form of organisation. The suitability of different forms of organisation can be studied as under.

- **Sole Proprietorship:** This form is suitable under the following conditions. When–
  - The business is small.
  - The requirements for finance are limited.
  - Business requires secrecy of trade practices.
  - The managerial needs are limited.
  - The area of operations is limited.
- **Partnership Firm:** This form of business organisation is suitable when–
  - When scale of operations is medium.
  - The requirements of funds are more.
  - The risk and liability needs to be shared with others.
  - The managerial needs are more.
  - Secrecy of business practices is important.
- **Joint Stock Company:** This form of business organisation is suitable when–

- When the scale of operations is large.
- The liability of members is to be limited.
- The requirements of finance are more.
- Separation of ownership and management is essential.
- Risk involved is more.

- **Cooperative Organisation:** This form of business organisation is suitable when–
  - The service to members is important than earning of profits.
  - Middlemen between the producers and the consumers are to be eliminated.
  - Welfare and economic upliftment of the weaker section of the society is involved.
- **Public Enterprise:** This form of business organisation is suitable when–
  - The strategic fields like defence, energy etc, are involved,
  - The investment requirements are huge and the private sector is not forthcoming,



When monopoly of private sector is to be avoided,
The basic objective is to provide service to the society than the maximisation of profit,
  - When infra-structural facilities like roads, railways, communication, banking insurance etc. are required for the growth of industrial sector, then public enterprise are essential.

CHECK YOUR PROGRESS

Q.3: State whether the following statements are True or False:

i) Joint stock companies are formed without profit motive.

ii) In case of a joint stock company, the liability of shareholders is limited.

iii) Joint stock companies donot have separate legal existence.

iv) Joint Stock Company is suitable when scale of operation is small.



8.10 LET US SUM UP

In this unit, we have discussed the following aspects:

- A company is a voluntary association of persons formed for some common purpose with capital divisible into parts called shares.
- A company is an artificial person. It has a perpetual succession and a common seal.
- The features of a joint stock company like, limited liability, democratic management, common seal etc.
- Companies can be classified on the basis of incorporation, liability, ownership etc.
- The merits of a joint stock company are– permanent capital, limited liability, availibility of large capital etc.
- The demerits of joint stock company are– excessive legal formalities, lack of secrecy, speculation in shares etc.
- The suitability of different forms of business organisations.



8.11 FURTHER READING

1) Chhabra, T. N. and Chhabra, Sandhya; *Business Studies*; Karol Bagh, New Delhi: Arya Publication.

2) Gandhi, Poonam; *Business Studies*; Nai Sarak, Delhi: Dhanpat Rai & Co.

3) Pathak, R. K., Kalwar, M.C.; *Business Studies*; Ram Nagar, New Delhi: S. Chand & Company Ltd.

4) Robbins and Coulter; *Management*; Delhi: Prentice Hall.

8.12 ANSWERS TO CHECK YOUR PROGRESS

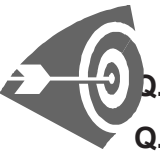
Ans. to Q. No. 1: Artificial person created by law, Limited liability, Perpetual succession (Permanent life), Democratic Management, Common seal.

Ans. to Q. No. 2: Permanent existence, Limited liability, Availability of large capital, Transferability of shares, Economy of large scale, Tax relief, Diffused risk.

Ans. to Q. No. 3: i) False, ii) True, iii) False, iv) False



8.13 MODEL QUESTIONS



Q.1: Mention the minimum and maximum number of members in a private and public company.

Q.2: Name the different type of companies based on ownership.

Q.3: Define a private company.

Q.4: What is public company?

Q.8: Classify the companies based on liability.

Q.6: What are three special features of a private limited company?

Q.7: Discuss the position of a joint stock company as an artificial person.

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UNIT 9: MULTINATIONAL CORPORATIONS

UNIT STRUCTURE

9.1 Learning Objectives

9.2 Introduction

9.3 Concept of MNCs

9.4 Structure of MNCs

9.5 Types of MNCs

9.6 Objectives of Multinational Corporations

9.7 Characteristics of Multinational Corporations

9.8 Reasons for Growth of Multinational Corporations

9.9 Arguments in Favour of Multinational Corporations

9.10 Arguments Against Multinational Corporations

9.11 MNCs in India

9.12 Let Us Sum Up

9.13 Further Reading

9.14 Answers to Check Your Progress

9.15 Model Questions

9.1 LEARNING OBJECTIVES

After going through this unit, you will able to:

- explain the concept of a Multinational Corporation
- discuss the characteristics of Multinational Corporations
- discuss the various arguments in favour of and against the Multinational Corporations
- explain the reasons for growth of Multinational Corporations.

9.2 INTRODUCTION

You might have heard or seen many companies run business in India, like Philips, Siemens, Hyundai, LG, Ford, Nestle, Coca Cola, Sony, McDonald's, Citi Bank, Good Air, etc. Those companies are not operating

only in India rather if you go to different parts of the world you will find them in many countries. Such companies are called Multinational Corporations. Multinational Corporations as a subject of study is now attracting attention from business firms, companies, institutions and even from countries. In this unit we are going to study the characteristics of a Multinational Corporation along with the various advantages and disadvantages associated with it and other aspects associated with MNCs.

9.3 CONCEPT OF MULTINATIONAL CORPORATIONS

Multinational Corporations (MNCs) have different names. They are also known as Transnational Corporations (TNCs), Super National Enterprises, Global companies, cosmocorps and so on. The concept of multinational business operation is not new. The British East India Company, Hudson's Bay Corporation and Royal Africa Companies are examples of MNCs.

According to Prof. John H. Dunning, "A multinational enterprise is one which undertakes foreign direct investment, i.e., which owns or controls income gathering assets in more than one country and in doing so produces goods or services outside its country of origin, i.e., engages in international production."

According to the International Labour Organization (ILO), "The essential nature of the multinational enterprise lies in the fact that its managerial headquarters are located in one country, while the enterprise carries out operations in a number of other countries as well."

In simple words an MNC is a corporation that has its management headquarters in one country, known as the home country, and operates in several other countries, known as host countries.

In today's date, especially in international economic affairs these multinational companies constitute the most important institutions. There are basically four participants in the area of multinationals. Firstly, the MNCs themselves, then comes the host countries, after that the home countries and lastly the international environment.

9.4 STRUCTURE OF MNCs

MNC has the following three structures:

a) **Horizontally integrated MNCs:** This type of MNCs manage production establishments located in different countries to produce the same or similar products. For example– Dominos, McDonald's.

b) **Vertically integrated MNCs:** Vertically integrated MNCs manage production centers in certain country/countries to produce products that serve as input to its production centers in other country/ countries.

c) **Diversified MNCs:** Diversified MNCs manage production establishments located in different countries that are neither horizontally nor vertically integrated.

9.5 TYPES OF MNCs

Depending upon nature of operation MNCs are classified into following types:

a) **Ethnocentric:** This type of MNCs has strong orientation towards home country. People from home country are considered as superior and allocated all key post.

b) **Polycentric:** Polycentric type of MNCs has strong orientation towards host countries. They appoint a few people from home countries and remaining are appointed from the host country.

c) **Geocentric:** This type of MNCs seeks total integration of global operations by operating without 'home country' prejudice. They make major decisions for global perspective. Make selection for best employees from different countries.

9.6 OBJECTIVES OF MULTINATIONAL CORPORATIONS

Following are the objectives of MNCs:

- To earn huge profit by expanding the business beyond the boundaries of the home country.

- Producing goods in those countries where cost of production is minimum.
- Achieve greater efficiency in production in local markets and then exporting the products.
- Create an international corporate image.
- Capture lucrative international market.
- Make best use of technological advancement.

9.7 CHARACTERISTICS OF MULTINATIONAL CORPORATIONS

Multinational Corporations have certain characteristics which are discussed below:

1) **Big Size:** The most important feature of Multinational Corporations is their huge size. MNCs have huge assets and sales that run into billions of rupees. According to one definition an MNC is one with a sales turnover of 100 million. MNCs are very powerful organizations. In 1971 out of the top ninety producers of wealth, 29 of them were MNCs, and the rest were nations.
2) **International Operation:** One of the basic features of a Multinational Corporation is that their operation extends to two or more countries. They establish parent office in one country and extend branches, subsidiary and affiliation to other countries. For example the Pepsi Cola Company of the U.S operates in 114 countries. If it is a branch, it acts for the parent corporation without any local capital or management assistance. If it is a subsidiary, the majority control is still put forward by the foreign parent company, although it is incorporated in the host country.
3) **Advance Technology:** Multinational Companies invest huge amount of money in research and development. They do research on developing latest technology of production and developing new product. Such new technologies are transferred to developing countries through their subsidiaries and branches.

4) **High Efficiency:** Multinational companies use superior technology, which bring efficiency in the operation. They also use huge amount for training and development of their employee to bring their efficiency at par with the changing technological environment. This also improves overall efficiency of the organization.
5) **Oligopolistic Market Structure:** An oligopoly is a market structure where only a few firm dominate. MNCs are oligopolistic in nature. They create a separate brand name and capture a huge market. Sometimes they capture a market through trade mark and patent right.
6) **Quality Conscious:** MNCs are managed by professionals and experts. They are also quality and cost conscious. MNCs believe in total quality management. They constantly carry on research on product development and quality management.
7) **Origin:** Though the concept of MNC is very old their real growth started after the Second World War. Majority of the MNCs are formed in develop countries like USA, UK, Japan, Germany etc. Now a days company from developing countries like India, China, Korea etc. are operating in the world market.
8) **Management:** The parent company works like a holding company. The subsidiary companies are to operate under control and guidance of parent company.

9.8 REASONS FOR GROWTH OF MULTINATIONAL CORPORATIONS

With huge financial resources, latest technological know-how, large scale of operation and worldwide operation- MNCs are diversifying their market throughout the world, particularly in the developing countries. Following are the reasons behind the growth for MNCs:

MNCs extend their market and production territories beyond the geographical boundaries of one country. Market for the products of MNC is expanding due to rapid economic growth of the developing and under-develop nations. Due to expansion of market the size and spread of MNCs are expanding.

Marketing superiorities arising out of its worldwide network, product reputation, market reputation, effective marketing and sales promotional strategy and warehousing facility.

Use of superior technology by the MNCs over the national companies of the developing nations. This results in to production of superior quality product. MNCs carry out constant research on product innovation to meet the requirements of all categories of customers.

Huge financial resources which makes every big task possible for the MNCs. Availability of huge financial resources with the MNCs helps them to transform business environment and circumstances in their favour. All these factors together contribute towards the success of MNCs.



CHECK YOUR PROGRESS

Q.1: Define Multinational Corporations.

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Q.2: Mention three characteristics of Multinational Corporations.

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9.9 ARGUMENTS IN FAVOUR OF MULTINATIONAL CORPORATIONS

- **Advantages of Multinational Corporation for the Host Country:**
  1) The investment level, employment level, and income level of the host country rises due to the operation of MNCs.
  2) MNCs bring with them the most sophisticated technology for production process while transferring modern machinery and equipments to the developing countries. Such transfer of technology is assumed to be desirable and productive for the host country.

3) The MNCs bring entrepreneurial abilities, management experience, skills and techniques to the host country specially to the developing countries and make human capital of the host country skillful and efficient.
4) The business volume of domestic traders and market intermediaries of the host country increased due to operation of MNCs.
5) MNCs create competition among domestic companies and thus increase their competitiveness and quality.
6) The host country can lessen imports and increase exports due to goods produced by MNCs in the host country. This lead to increase in the foreign exchange reserve of the host country.
7) Level of industrial and economic development increases due to the growth of MNCs in the host country.
8) By paying duties and taxes MNCs contribute towards the national exchequer of the host country and fill the gap between targeted government tax revenues and locally raised taxes.
9) MNCs help to improve the standard of living in their host countries.
10) MNCs pay high dividend's, motivating resource mobilization among investors in the host countries.

- **Advantages of Multinational Corporation for the Home Country:**
  1) MNCs create opportunities for marketing the products produced in the home country throughout the world.
  2) They create employment opportunities to the people of home country both at home and abroad.
  3) It gives uplift to the industrial responsibilities of home country.
  4) MNCs help to maintain favourable balance of payment of the home country by transferring income in the forms of profit, royalty and management contract from host countries.
  5) Home country can also get help of foreign culture as well as communication brought by MNCs.

9.10 ARGUMENTS AGAINST MULTINATIONAL CORPORATIONS

Though MNCs bring many advantages there are many arguments against the MNCs. Following are the reasons due to which MNCs are said to be disadvantageous or harmful.

- **Disadvantages of MNCs for the Host Country:**
  1) MNC's may relocate the technology which has become obsolete in the home country.
  2) MNCs harm employment in those countries where supply of labour is excessive by using capital intensive technology and make the employment problem more serious.
  3) The tremendous power of MNCs may pose threat to the sovereignty of the host country. The greatest example in this regard is the East India Company, which came to India to do business and later on rule India for more than 200 years.
  4) MNCs may destroy the domestic industry by monopolizing the host country's market and reduce competition.
  5) The main objectives of MNCs are profit maximization and not the development of the host country.
  6) MNCs interfere directly or indirectly in the political and administrative system of the host country.
  7) In order to gain more money, MNCs may use non-renewable natural resources of the host country in a large extent.
  8) A big amount of money moves to foreign countries in terms of payments towards profits, dividends and royalty which create unfavourable balance of payment position.

- **Disadvantages of MNCs for the Home Country**
  1) MNCs shift huge capital from the home country to various host countries causing undesirable balance of payment.
  2) MNCs may not create employment opportunities to the people of home country if it takes the geocentric approach.

3) As investments in foreign countries is more approving and hence MNCs may avoid the home countries' industrial or economic development.
4) They prefer to participate in the production of mass consumption and non-essential items.

9.11 MNCs IN INDIA

India is a favourable destination for MNCs. Long time back world's leading MNC like Microsoft Corporation, Nestle, Procter and Gamble, Pepsi co, Sony Corporation, Coca Cola entered in Indian market. The first MNC to started business in India was the East India Company, which later on start ruling India. After independence, for a quit long time India had a restrictive policy in terms of foreign investment. Due to this reason there was lesser numbers of foreign companies in India. But the scenario changed after adopting the Liberalization Privatization and Globalization (LPG) policy in 1991. The Indian economy experienced many changes after 1991 and many foreign companies start their operation in India. As on 31st December, 2014, there were 4170 registered foreign companies in India. There are many reasons why the MNCs are coming to India. Some of them are discuss bellow:

- **Large Market Potentiality:** With its 1.2 billion people, India's population is second only to china. But till now a huge section of Indian population is deprive from basic needs of life like electricity, education, health care, housing, nutrition etc. So, there is a huge market potentiality in every sector in Indian economy.
- **High Growth and Increasing Purchasing Power:** India is a fast developing nation and ranked second among the developing nations of the world. India's growth rate is more than 7% per annum. The income level of Indian middle class is increasing and at the same time the percentage of middle income group population in India is also increasing. It is estimated that India's middle class population will increase to 90% of its total population by 2040. This will create a

lot of demand for essential / luxury goods and services in India and that is why all major companies of the world is eying at India.

- **Competitive Human Resources:** India is a vast country with more than 1.2 billion population. About 50% of Indian population are below the age of 28 years which is a major work force of the world. Many of these workforce will be English-speaking, educated and skilled. Beside these factors in India labour is cheap compared to develop nations. This will be a big advantage to the MNCs and there is huge scope for India to become a production hub of the world.
- **Government Support:** Realizing the needs of foreign investment in India government of India has taken many supportive policy decisions to attract all kinds of foreign investment including MNCs. Some of those policies are:
  - Both revenue and capital expenditure on R & D are 100% deductible from taxable income under the Income Tax Act.
  - A company whose principal objective is research and development is exempt from income tax for ten years from its inception. Accelerated depreciation is allowed for investment in plant and machinery made on the basis of indigenous technology.
  - Customs and excise duty exemptions for capital equipments and consumables required for R & D.
  - Most of the sectors including manufacturing activities permitted 100% FDI under automatic route. This play a major role in attracting MNCs in India.
  - Convention on Avoidance of Double Taxation with 71 countries.



CHECK YOUR PROGRESS

Q.3: Give any two arguments in favour of Multinational Corporations for the host country.

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Q.4: Give two arguments against Multinational Corporations for the home country.

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9.12 LET US SUM UP

In this unit we have discussed the following:

- MNC is a corporation that has its management headquarters in one country, known as the home country, and operates in several other countries, known as host countries.
- MNCs have the following three structures- horizontally integrated MNCs, vertically integrated MNCs and diversified MNCs.
- Depending upon nature of operation, MNCs are classified in to Ethnocentric, Polycentric and Geocentric.
- With huge financial resources, latest technological know-how, large scale of operation and worldwide operation MNCs are diversifying their market throughout the world, particularly in the developing countries.
- MNCs have many advantages and disadvantages to both home and the host country.



9.13 FURTHER READING

1) Saleem, Shaikh; *Business Environment*; Pearson.
2) Lekhi, R. K.; *The Economic Development and Planing*; Kalyani Publishers.

9.14 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: A Multinational Corporation is one which undertakes foreign direct investment, i.e., which owns or controls income

gathering assets in more than one country and in doing so produces goods or services outside its country of origin, i.e., engages in international production.

Ans. to Q. No. 2: The three characteristics of a MNC are:

1) International Operation
2) Big Size
3) Collective Transfer of Resources

Ans. to Q. No. 3: Two arguments in favour of host country are as follows:

- The investment level, employment level, and income level of the host country rises due to the operation of MNCs.
- MNCs create competition among domestic companies and thus increase their competitiveness and quality.

Ans. to Q. No. 4: ● Two arguments against home country are as follows: MNC's may relocate the technology which has become obsolete in the home country.

- MNCs harm employment in those countries where supply of labour is excessive by using capital intensive technology and make the employment problem more serious.



9.15 MODEL QUESTIONS

Q.1: Define Multinational Corporation.

Q.2: What are the characteristics of a Multinational Corporation? Explain in detail.

Q.3: Discuss the reason for growth of Multinational Corporations.

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UNIT 10 MICRO, SMALL AND MEDIUM ENTERPRISES (MSMEs)

UNIT STRUCTURE

10.1 Learning Objectives

10.2 Introduction

10.3 Meaning and Classification of MSMEs

10.4 Role of MSMEs

10.5 Registration of MSMEs

- 10.5.1 MSME Registration Process
- 10.5.2 Documents Required for MSME Registration
- 10.5.3 Points to be Remember while Filling up the Online Form for Registration

10.6 Benefits of MSME Registration

10.7 Challenges Faced by MSMEs

10.8 Government Schemes for Promotion of MSMEs in India

- 10.8.1 Credit and Financial Assistance Schemes
- 10.8.2 Entrepreneurship-cum - Skill Development - Programmes
- 10.8.3 Infrastructure Support Schemes
- 10.8.4 Technology Up-gradation Schemes
- 10.8.5 Procurement and Marketing Support Scheme

10.9 Let Us Sum Up

10.10 Further Reading

10.11 Answers to Check Your Progress

10.12 Model Questions

10.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- explain the meaning and importance of MSMEs
- explain the registration process of MSMEs

- discuss the benefits of registration of MSMEs
- discuss the schemes undertaken by Government of India for promotion of MSMEs
- explain the challenges faced by MSMEs in India

10.2 INTRODUCTION

The Micro, Small and Medium Enterprises has played a very significant role in the socio-economic development of India. Planners recognized the importance of this sector soon after Independence and accordingly the sector was given an important position in the country's industrial policy. MSMEs are the nursery where small existing businesses have the potential to become Global Enterprises.

Over the last five decades the Micro, Small and Medium Enterprises sector has emerged as a dynamic and vibrant sector of the Indian economy. MSMEs are contributing enormously to the socio-economic development of the country. It is the biggest employer after agriculture in the Country providing employment to nearly 70 million people through 30 million units all over the country. World over, MSMEs are the main vehicles for job creation. As per the Ministry of MSME, Government of India, the share of MSMEs in the Country's GDP is around 30%. MSMEs also contribute nearly 50% of the total exports from India (2022).

The primary responsibility of promotion and development of MSMEs is of the State Governments. However, the Government of India, supplements the efforts of the State Governments through various initiatives.

In this unit we will discuss the meaning of MSME, registration process of MSME, benefits of registration of MSME, importance of MSMEs and some government schemes for promotion of MSMEs.

10.3 MEANING AND CLASSIFICATION OF MSMEs

The definition of MSME or small scale industry and its classification has undergone several changes over the year. MSME units have been categorised as micro, small and medium enterprise. These units can either

be manufacturing or service rendering unit. Most of the MSMEs are labour intensive however some of them use technologically advanced methods of production.

In 2006 Government of India enacted Micro, Small and Medium Enterprises Development (MSMED) Act and give new definition of MSME under the MSMED Act. According to the Act, MSME have been broadly classified in two categories:

1. Enterprises engaged in the manufacturing and production of goods pertaining to any industry;

2. Enterprises engaged in providing or rendering services:

(a) Manufacturing Enterprises: The enterprises engaged in the manufacture or production of goods pertaining to any industry specified in the first schedule to the industries (Development and Regulation) Act, 1951 and are defined in terms of investment in Plant & Machinery.

(b) Service Enterprises: The enterprises engaged in providing or rendering of services and are defined in terms of investment in equipment.

Accordingly, the Section 7 of the Act, the ceiling on investment to be classified as micro, small or medium enterprises is as under:

Ceiling on investment in Plant & Machinery or Equipment and Turnover

Classification

Micro

Small

Medium

Investment Type

ManufacturingSector Up to Rs.25lakh

Above Rs.25 lakh- up to Rs.5 crore Above Rs.5 crore up to Rs.10 crore Investment in plant & machinery

Service Sector Up to Rs.10lakh Above Rs.10 lakhs up to Rs.2 crore

Above Rs.2 crore- up to Rs.5 crore Investmentin equipment

10.4 ROLE OF MSMEs

The MSMEs are playing a crucial role in socio economic development of India. It is one of the important component of Indian economy. The role/ importance/functions of MSME in Indian economy can be summarised as bellow: -

1. **Employment Generation:** MSMEs are one of the country's major employers. As per the National Sample Survey (NSS) 73rd round, conducted by National Sample Survey Office during the period 2015-16, MSME sector has created 11.10 crore jobs in the rural and the urban areas across the country.
2. **Contribution to GDP:** Contribution of MSME sector to Indian economy is very huge. Over 63 million MSMEs of India contributed 35.5% to India's GDP in 2019 and 30% in 2020.
3. **Export Promotion:** Indian MSMEs made huge contribution to India's export earnings. MSME products are accounted for more than 40% of India's total export. MSME product exports accounted for 49.5% of India's total exports in 2021. Textiles, garments, different types of shoes, rice and castor oil are among the major products exported by the Indian MSME sector.
4. **Improving Standard of living:** By providing employment to huge section of population in different parts of the country, MSME sector in India plays a key role in lifting people out of poverty and improving their standard of living.
5. **Promote Balance Regional Development:** As per the MSME annual report of 2021-22, the **total number of MSMEs in India are 6,33,88,000** out of which 3,24,88,000 MSMEs (51.25%) are in rural area and 3,09,00,000 lakh MSMEs (48.75%) are in the urban areas. Out of total employment in MSME 45% are from rural area. These contributes to balance regional development in the country.
6. **Mobilisation of Capital and Promote Entrepreneurship:** MSMEs are spread throughout the country. They can better mobilise untapped and unused savings of the people. They can also effectively use the

skills of a large number of small entrepreneurs. These industries promote competitiveness and the spirit of entrepreneurship.

7. **Support to Large- scale Industries:** A large number of MSMEs are ancillary units producing products that are used by large scale industries specially the manufacturing units. The MSME sector constantly supply components, spare parts, intermediate goods and support systems like processing and maintenance to the large scale industries.
8. **Support to Agricultural Sector:** MSME sector provide support to agriculture sector by procuring agricultural product which the MSME uses as its raw materials. They also help in curbing the problem of seasonal unemployment by providing employment to the agricultural labourer during slack season.
9. **Connecting Remote Areas to Rest of the Country: MSMEs supply raw materials or other equipment's and parts to large industries situated in big cities in different parts of the world. Thereby** MSMEs of remote and backward areas help connect these areas with the rest of the country and the world.
10. **Promoting Financial Inclusion:** MSMEs help in creating opportunities for people to use banking services and products, which can amount to the final inclusion of the contribution of MSMEs for the economy.



CHECK YOUR PROGRESS 1

Q.1. Define micro enterprise.

Q.2. Mention two areas of Indian economy where MSMEs are contributing.

10.5 REGISTRATION OF MSMEs

MSME unit can make online application for registration through Udyam Registration Portal. All types of MSME units irrespective of their business scale or type can apply for MSME registration. Though, registration

of MSME is not mandatory. It is under sole discretion of the business owner or head of the business to apply for registration under MSME Act. However, there are many benefits of registering MSME. Registration of MSME is free of cost and based on self-declaration. It requires no separate documents, certificate or proof to be uploaded as per the latest notification issued by the MSME ministry.

10.5.1 MSME Registration Process

MSME Registration Process involves the following simple steps:

Step 1: Visit the MSME Registration portal website(https://eudyogaadhaar.org/).

Step 2: Fill in all the required details on MSME Registration Form. Make sure to enter all the details correctly.

Step 3: After entering the details make the online payment for your MSME registration Application.

Step 4: One of the registration executives will process your MSME registration process application.

Step 5: In 1-2 hr you will receive your MSME registration certificate at your registered email address.

10.5.2 Documents Required for MSME Registration

To register under MSME one should have these documents

1. Aadhaar Number
2. PAN Number
3. In case of a company or a Limited Liability Partnership GSTIN

10.5.3 Points to be Remember while Filling up the Online Form for Registration

Applicant Name: Applicant should fill their name.

Mobile Number: Give correct mobile number of the applicant avoiding country code.

Email id: Fill correct e-mail id of the applicant, as certificate & acknowledgement are send to registered mail id.

Office Address: Applicant should fill his/her proper office address with state and PIN code.

Social Category: Applicant can choose social categories from the given options.

Pan Card Number: Applicant are required to mention their pan card number. (in case of proprietorship owner's pan number).

Bank Account Number: Fill the applicants bank account number as mentioned on passbook.

IFSC Code: Fill the applicant bank IFSC code as mentioned on passbook.

Date of Commencement of Business: Fill in the date of your company's incorporation or registration, which will be printed on udyam certificate.

Type of Organization: Select the type of organization from the given options, as it will get printed on the certificate.

Main Business Activity of Enterprise: Select the main business activity from the given options.

Additional Details About Business: If you want you can fill more details about your business you can mentioned here.

Number of Employees: Enter the number of active employees in your organization.

Investment in Plant & Machinery / Equipment: Enter the applicant's total investment in plant, machinery, and equipment, etc. To start his/her business.

Submit Application: Once the applicant clicks the submit button all of the uploaded details and documents are submitted.

10.6 BENEFITS OF MSME REGISTRATION

Though registration of MSME is not mandatory, but for availing various benefits of banks and governments registration of MSME is important. A registered MSME unit can avail the following benefits:

Benefits from State Government: For promotion of the MSME sector

state governments announces various schemes like subsidy on electricity, transport subsidy, land at concessional rate, exemption in sales tax, credit linked capital subsidy for technology
upgradation, market development assistance, purchase preference for the MSME products etc. For availing benefits of these schemes, the MSME unit must be a registered one.

Benefits from Central Government: Not only ministry of MSME but also many other ministry of government of India Like Ministry of Skill Development and Entrepreneurship, Ministry of Labour and Employment Schemes, Ministry of Development of North Eastern Region Schemes etc. take various schemes for promotion and growth of MSME sector. A registered MSME unit can take benefits of such schemes.

Benefits from Bank: MSME comes under the priority sector. So while lending banks need to give priority to MSME. In order to promote MSME lending banks announces some schemes from time to time. Registered MSME can take befits of such schemes.

Raw Material Assistance: The scheme aims at helping MSMEs by way of financing the purchase of raw material (both indigenous & imported). Under this scheme registered MSMEs can apply for financial assistance for procurement of raw material up to 90 days.

ISO Certification Reimbursement: Registered MSMEs are eligible for reimbursement of ISO certification charges. The scheme envisages reimbursement of charges for acquiring ISO-9000/ISO-14001/HACCP certification to the extent of 75% of expenditure subject to a maximum of Rs. 75,000 in each case.

Financial Support for Patent and GI: Registered Indian MSMEs are eligible for one-time financial support limited up to Rs. 25,000 on grant of domestic patent and Rs.2 lakhs for foreign patent. Financial reimbursement is available for technology start-up units for filing international patents up to 50% of total patent cost by reimbursement, with Rs.15 lakh limit. For registering under Geographical Indications (GI) of Goods Act, one-time financial support limited up to Rs.1 lakh.

10.7 CHALLENGES FACED BY MSMEs

Despite the facts that the MSMEs are contributing immensely towards the growth and development of the economy and the governments are taking many initiatives for promotion of MSMEs, the Indian MSME sector is facing various challenges. Some of the major challenges faced by Indian MSMEs are:

1. **Poor Ease of Doing Business:** We have a very poor business environment. To start a business one need to take permission and clearance from many departments. This is majorly due to numerous regulations, complex procedures, and bureaucratic red-tapism. This is one of the major challenges faced by MSMEs in India.
2. **Use of Outdated Technology:** Most of the Indian MSMEs are still using outdated technology. They cannot afford latest technology primarily due to lack of fund. Introduce new-age technology and implement technology transfer across the sector is the need of the hour. By using modern and latest technology Indian MSME can increase its efficiency and compete with the global environment.
3. **Poor Infrastructures:** For any business to success infrastructure like road, transport, warehouse, banking etc. is must. But in India still basic infrastructure is a major issue to start a business. Though in some parts of the country some infrastructure facilities are available it is not sufficient for desired growth of the MSMEs as Indian MSMEs are spread in every nook and corner of the country.
4. **Lack of Fund:** Indian MSME sector is facing the problem of fund. Due to lack of access to finance at the time of need, most MSMEs resort to moneylenders. Debt trap is one of the biggest problems of MSMEs in India. Moreover; lack of timely finance also hampers timely purchase of raw material, acquisition of skilled manpower, and access to advanced technological tools.

On the other hand, financial literacy among the Indian MSME is very low. Most of the time they are not aware of the schemes and loan availability. The problem of low level of awareness and low penetration of banks is more acute in rural areas.

Further, Indian MSME are typically less creditworthy as MSMEs have no assets to surrender as collateral.

5. **Lack of Skilled Manpower:** Indian labour force is an unskilled and semi-skilled workforce. Most of them have little or no formal training. According to the Human Development Report (HDR) 2020 barely one in five Indians in the labour force is skilled. This impacts the growth prospects of MSME sector.
6. **Marketing Challenges:** Growth of Indian MSME sector is hampered by absence of strategy for marketing of MSME products. Marketing is one of the critical areas where MSMEs face problems including product differentiation, brand building, customized tailor-made services, clientele building, after sales servicing etc. Many entrepreneurs are not entering in the field of exports due to lack of market knowledge.
7. **Lack of Coordination:** In India there are many central and state agencies and financial institutions working for promotion and growth of MSMEs. Lack of coordination among the various organizations involved in the promotion of MSMEs and poor linkages with the institutional stakeholders in the private sector is hampering the growth of MSMEs. There is also duplication of programmes run by various Ministries for the same target group.
8. **Non availability of Reliable Data:** Lack of reliable and updated data base to help in monitoring the development initiatives and formulation of appropriate schemes to meet the differential needs of the heterogeneous beneficiaries.



CHECK YOUR PROGRESS

Q.3. Mention two benefits of registration of MSME unit.

Q.4. Mention two problems faced by Indian MSMEs.

10.8 GOVERNMENT SCHEMES FOR PROMOTION OF MSMEs IN INDIA

Keeping in view the importance of MSMEs in Indian economy, the government of India is taking various measures for growth and promotion of the sector. Government is announcing various schemes from time to time for providing various facilities to the MSME sector.

10.8.1 Credit and Financial Assistance Schemes

1. **Prime Minister's Employment Generation Programme (PMEGP**): This scheme aims to generate employment opportunities in rural and urban areas of the country through setting up of new self- employment projects / micro enterprises in non-farm sector. The maximum cost of the project/unit eligible: Rs 25 lakhs in case of manufacturing sector and Rs 10 lakhs in case of business/service sector. Subsidy under PMEGP (of project cost)//General category 15% (Urban), 25% (Rural) / Special Category (including SC/ ST/ OBC/ Minorities/Women, Ex- servicemen, physically handicapped, NER, Hill and Border areas, etc.) 25% (Urban), 35% (Rural).
2. **Credit Linked Capital Subsidy for Technology Upgradation (CLCSS):** To facilitate technology to MSEs through institutional finance for induction of well-established and proven technologies in the specific and approved 51 sub sector/products. Both upgradation projects (with or without expansion) and new projects are eligible. Under this scheme upfront capital subsidy

of 15 per cent (on institutional finance of upto Rs 1 crore availed by them) for induction of well-established and improved technology in the specified 51 sub-sectors/products approved (i.e. subsidy cap of Rs. 15.00 lakh).

3. **Credit Guarantee Fund Trust for Micro and Small Enterprises (CGTMSE):** The Credit Guarantee Scheme for Micro and Small Enterprises (CGS) was launched by the Government of India to make available collateral-free credit to the micro and small enterprise sector. Both the existing and the new enterprises are eligible to loans and/or working capital are collateral free.
4. **2% Interest Subvention Scheme:** This scheme was launched to Encourage both manufacturing and service enterprises to increase productivity and provide incentives to MSMEs for on-boarding on GST platform which helps in formalization of economy, while reducing the cost of credit.

10.8.2 Entrepreneurship-cum-Skill Development Programmes

1. **Entrepreneurship and Skill Development Programme (ESDP):** This schemes aims to promote new enterprises, capacity building of existing MSMEs and inculcating entrepreneurial culture in the country by motivate young persons representing different sections of the society. Under this programme financial assistance provided to/for MSMEs for holding Industrial Motivational Campaign (IMC), Entrepreneurship Awareness Programmes (EAPs), Management Development Programmes (MDP) and mega event, Entrepreneurship-cum-skill Development Programmes (ESDP) etc.
2. **Technology Centres (Tool Rooms & Technology Development Centres):** The Technology Centres (TCs) have been set up to aid integrated development of MSMEs by providing

quality Tool, Industry ready manpower, consultancy in tooling & related areas and Processes & Products development.

10.8.3 Infrastructure Support Schemes

1. **Scheme of Fund for Regeneration of Traditional Industries (SFURTI):** Objective of this scheme is to organize the traditional industries and artisans into clusters in order to make them competitive and provide support for their long- term sustainability. The GoI assistance for various clusters: Regular Clusters (up to 500 artisans) – up to 2.50 cr. per cluster; Major Clusters (more than 500 artisans) – up to 5.00 cr. per cluster.
2. **A Scheme for Promotion of Innovation, Rural Industry and Entrepreneurship (ASPIRE):** Objective of this scheme is to set up a network of Livelihood Business Incubators (LBIs) and Technology Business Incubators (TBIs) with an aim to create jobs and reduce unemployment by promoting culture of entrepreneurship and innovation in the Agro-rural sector. National Small Industries Corporation (NSIC), Khadi and Village Industries Commission (KVIC), Coir Board or any other agency of GoI/State Govt. can set up LBI. Private partner institutions and entities can also set up LBIs under PPP mode with aforesaid institutions or any other Institution /agency of GoI/State Govt.
3. **Micro & Small Enterprises Cluster Development (MSE-CDP):** This scheme aims to support the sustainability and growth of MSEs by addressing common issues such as improvement of technology, skills & quality, market access, etc. and to build capacity of MSEs for common supportive action through formation of self-help groups, consortia, upgradation of associations, etc. It also aims to create/upgrade infrastructural facilities in the new/existing Industrial Areas/ Clusters of MSEs and also set up Common Facility Centres (for testing, training,

raw material depot, effluent treatment, complementing production processes, etc.).

4. **Technology Centres (Tool Rooms & Technology Development Centres):** The Technology Centres (TCs) have been set up to aid integrated development of MSMEs by providing quality tool, industry ready manpower, consultancy in tooling & related areas and Processes & Products development. TCs serve in Tooling, Mould, Dies, Foundry & Forging, Electronics, Electrical Measuring Instruments, Fragrance & Flavour, Glass, Sport Goods and Footwear designing sectors across the country.

5. **Promotion of MSMEs in NER and Sikkim**

In order to promote MSMEs in North Eastern Region including Sikkim, the Government of India is adopting various schemes from time to time few of them are:

- **Setting up of new and modernization of existing mini technology centers:** The quantum of assistance will be equal to 90% of the cost of machinery/ equipment/ buildings, not exceeding Rs 10 crore.
- **Development of new and existing Industrial estates:** 80% of the cost of infrastructure facilities not exceeding Rs 8.00 crore will be sanctioned for development of new and existing industrial estates. The infrastructure facilities will include power distribution system, water, telecommunication, drainage & pollution control facilities, roads, banks, storage, marketing outlets etc.
- **Capacity Building of Officers:** The expenditure towards training (domestic and International) fee and the boarding/lodging expenses would be borne by the Government of India under this scheme and will be paid directly to the training institutions. Expenditure limit is Rs 1.5 Lakh per participant.

10.8.4 Technology Up-gradation Schemes

1. **Design Expertise to Manufacturing MSME Sector:** This scheme aims to bring Indian manufacturing sector and Design expertise/ Design fraternity on to a common platform and to provide expert advice and cost effective solution on real time design problems, resulting in new product development, continuous improvement and value addition for existing products including new products. Under this scheme Financial assistance to the MSMEs for engagement of design consultants for design intervention (GoI contribution @ 75% for micro, 60% for SMEs for the project range Rs. 15 lakh to Rs. 40 lakh).
2. **Lean Manufacturing Competitiveness Scheme (LMCS):** The objectives of this Scheme is to enhance the manufacturing competitiveness of MSMEs through the application of various Lean Manufacturing (LM) techniques by Reducing waste; Increasing productivity; Introducing innovative practices for improving overall competitiveness, inculcating good management systems; and imbibing a culture of continuous improvement.
3. **Digital MSME Scheme:** The main objective of scheme is to make MSMEs digitally empowered and motivate them to adopt ICT tools and applications in their production & business processes with a view to improve their competitiveness in national and international market.
4. **ZED Certification Scheme:** The scheme envisages promotion of Zero Defect and Zero Effect (ZED) manufacturing amongst MSMEs and ZED Assessment for their certification so as to:
   a) Encourage and Enable MSMEs for manufacturing of quality products using latest technology tools & to constantly upgrade their processes for achievement of high productivity and high quality with the least effect on the environment.

b) Develop an Ecosystem for Zero Defect Zero Effect Manufacturing in MSMEs, for enhancing competitiveness and enabling exports.

c) Increase public awareness on demanding Zero Defect and Zero Effect Products through the ZED Rating.

Under this scheme MSME can avail Reimbursement of 80% for Micro, 60 % for Small and 50% for Medium for ZED Certification.

5. Building awareness on Intellectual Property Rights (IPR):

The objectives of this scheme is to:

a) To enhance the awareness of Intellectual Property Rights (IPRs) amongst the MSMEs to encourage creative intellectual endeavour in Indian economy;

b) To take suitable measures for the protection of ideas, technological innovation and knowledge-driven business strategies developed by the MSMEs for;

c) To provide appropriate facilities and support for protection and commercialization of Intellectual Property (IP) for the benefit of MSME sector;

Under this scheme Reimbursement is available for Patent /GI Registration/Trademarks, for setting up of IP facilitation centers, interactive seminars workshops/exhibitions and awareness programmes.

10.8.5 Procurement and Marketing Support Scheme

1. Procurement and Marketing Support to MSMEs

Objective of this scheme is to-

a) To enhance the marketability of products and services in the MSME sector.

b) To promote new market access initiatives, create awareness and educate the MSMEs about various marketing relevant topics

c) To create more awareness about trade fairs, digital advertising, e-marketing, GST, GeM portal, public procurement policy and other related topics etc.

Under this scheme financial assistance is available to MSMEs for Participation in domestic trade fairs/exhibition, Organizing/ Participation in trade fairs/exhibitions (Regional/ National/ International) by the Ministry/ Office of DC (MSME)/Government organizations, Capacity building of MSMEs in modern packaging techniques, Development of Marketing Haats, Vendor Development Programmes etc.

2. Public Procurement Policy (PPP) for MSEs Order, 2012

To provide marketing support to Micro and Small Enterprises (MSEs), Ministry of MSME has notified the Public Procurement Policy for Micro and Small Enterprises (MSEs), Order, 2012 under the MSMED Act, 2006 which is effective from 1st April 2012 and has become mandatory w.e.f. April 2015. The policy mandates 25% annual procurement from MSEs by Central Ministries, Departments/Central Public Sector Enterprises (CPSEs) including 4% from MSEs owned by SC/ST and 3% from MSEs owned by Women entrepreneurs.

Under this policy all registered MSEs are given the following benefits: -

a) Exemption from the payment of Earnest Money Deposit
b) Tender set free of cost.
c) 358 items reserved for exclusive procurement from MSEs etc.



10.9 LET US SUM UP

In this unit we have discussed the following points–

- MSMEs contributing enormously to the socio-economic development of the country by giving employment, increasing GDP, increasing export etc.

- MSME units have been categorised as micro, small and medium enterprise.
- MSME unit can make online application for registration through Udyam Registration Portal.
- Registration of MSME is not mandatory.
- For availing various benefits of banks and governments, registration of MSME is important.
- The Indian MSME sector is facing various challenges like lack of fund, inadequate infrastructure, outdated technology etc.
- Keeping in view the importance of MSMEs in Indian economy, Government is announcing various schemes from time to time for providing various facilities to the MSME sector



10.10 FURTHER READINGS

Taxmann, Micro, Small and Medium Enterprises (MSMEs), Published by Indian Institute of Banking & Finance, Edition April 2022

10.11 ANSWERS TO CHECK YOUR PROGRESS

Ans to Q. No.1. A manufacturing unit having investment Up to Rs.25 lakhs in plant and machinery and a service sector unit is having investment Up to Rs.10 lakhs in equipment will be termed as micro enterprise.

Ans to Q. No.2. Employment generation and export promotion.

Ans to Q. No.3. To avail various benefits from banks and central/ state governments.

Ans to Q. No.4. Poor Infrastructures and use of outdated technology



10.12 MODEL QUESTIONS

Q.No.1: What are the various classification of MSMEs made under the MSME Act, 2006?

Q.No.2: Discuss the importance of MSME sector in the Indian context.

Q.No.3: Explain the registration process of MSME unit.

Q.No.4: Why registration of MSME unit is important? Discuss

Q.No.5: Discuss the challenges faced by Indian MSMEs.

*** ***** ***

UNIT 11 : ENTREPRENEURSHIP

UNIT STRUCTURE

11.1 Learning Objectives

11.2 Introduction

11.3 Meaning of Entrepreneur

11.4 Characteristics of an Entrepreneur

11.5 Concept of Entrepreneurship

11.6 Emergence of Entrepreneurial Class

11.7 Theories of Entrepreneurship

- 11.7.1 Economic Theory
- 11.7.2 Sociological Theory
- 11.7.3 Dynamic Entrepreneurship Innovation Theory
- 11.7.4 Leibenstein's X- efficiency theory
- 11.7.5 Theory of profit

11.8 Role of Entrepreneurs in Economic Growth

11.9 Entrepreneurial Process

11.10 Sources of Business Ideas

11.11 Let Us Sum Up

11.12 Further Reading

11.12 Answer To Check Your Progress

11.13 Model Questions

11.1 LEARNING OBJECTIVES

After going through this unit we will be able to:

- explain the meaning of entrepreneur and entrepreneurship
- discuss the various characteristics of an entrepreneur
- explain the emergence of entrepreneurial class
- explain different theories of entrepreneurship
- explain the steps in entrepreneurial process
- describe the role of entrepreneur in economic growth.

11.2 INTRODUCTION

Alfred North Whitehead once said, “The greatest invention of all is the invention of inventing inventions”. Commenting on this statement, Joseph R. Marcuso writes, “If this is the case the person, who introduces an invention to the world- the entrepreneur, must share that greatness. An entrepreneur is a person who creates an ongoing business enterprise from nothing.” In fact, entrepreneurs are the builders of a nation and creators of humanity by their innovative vision, dynamic leadership and creative decision behaviour. Entrepreneur is the central figure of economic activity and motivator of development.

In this unit, we will discuss the meaning of entrepreneur. Then, the characteristics of an entrepreneur will be discussed. The unit will also cover the discussion on emergence of entrepreneurial class.

There are various theories of entrepreneurship which may be explained from the viewpoints of economists, sociologists and psychologists. In this unit, we will discuss about different theories of entrepreneurship.

An entrepreneur is the builder of economic growth. At the end of this unit we will discuss the role of an entrepreneur in economic growth.

11.3 MEANING OF ENTREPRENEUR

The term ‘entrepreneur’ has been defined as one who detects and evaluates a new situation in the environment and directs the making of such adjustment in the economic systems as seems necessary. He/She conceives an idea of an enterprise for the purpose, displays considerable initiative and determination in bringing his project into reality, and in this process, performs one or more of the following:

- Perceives opportunities for profitable investments.
- Explores the prospects of starting an enterprise.
- Obtains necessary industrial licenses.
- Arranges initial capital.
- Provides personal guarantees to the financial institutions.

- Promises to meet the shortfalls in the capital.
- Supplies technical know-how.

Therefore, an entrepreneur is the person who bears risk, combines various factors of production, to exploit the perceived opportunities in order to evolve demand, create wealth and employment.

11.4 CHARACTERISTICS OF AN ENTREPRENEUR

An entrepreneur is highly achievement oriented, enthusiastic and energetic individual, who has following characteristics.

- **Mental Ability:** An entrepreneur should be sufficiently intelligent and must have creative thinking. He should have the ability to visualise the likely changes to take place in market, consumer attitude, technological developments, government policy etc. and take timely actions accordingly.
- **Clear Objectives:** Before starting any venture, the entrepreneur should set clear objectives of his/her all activities to be undertaken. Without clear objectives he/she may not be able to set the organizational goal.
- **Secrecy:** An entrepreneur must have the ability to maintain business secrecy. Leakage of business secrets will be an opportunity for competitors and will create problems for him.
- **Human Relations Approach:** To get the required co-operation and co-ordination for the all-round development, he must maintain good relations with all the concerned people.
- **Communication Ability:** An entrepreneur who can effectively communicate with customers, employees, suppliers and creditors will be more likely to succeed than the entrepreneur who does not.
- **Technical Knowledge:** He/She should have adequate level of technical knowledge in their respective field.
- **Hard Work:** An entrepreneur works hard from the very inception and the same becomes the habit of his/her life. He with his tedious, sweatfilled hours and perseverance revive their business even from the stage of failure.

- **Innovative:** He believes in new ideas. He initiates innovative activities keeping in view the possible changes in near future.



CHECK YOUR PROGRESS 1

A) Mention two characteristics of an entrepreneur.

i) .....

ii) .....

B) Mention three functions performed by an entrepreneur in bringing his project into reality

i) .....

ii) .....

iii) .....

11.5 CONCEPT OF ENTREPRENEURSHIP

After discussing the different characteristics of entrepreneur, we will concentrate on the term 'entrepreneurship'. However, there is no consensus on the meaning of 'entrepreneur' and 'entrepreneurship'. We can have an understanding about the characteristics that entrepreneurs possess. Based on that, they perform certain distinctive functions, which can broadly be termed as entrepreneurial activities or entrepreneurship.

The entrepreneurship is a dynamic concept and evolved over time and it will, continue to evolve in future. Some experts emphasises on the **risk bearing** element in entrepreneurship while some other experts focus on the **innovation** aspect of entrepreneurship.

Schumpeter considered entrepreneurship as a force of "creative destruction" (learn.saylor.org).

Entrepreneurship, most commonly, is concerned with the process of creating the new business venture, referred to as start- up company. Another dimension of the term 'entrepreneurship' is that it is not only restricted to profit- making business enterprise. It is extended to include the entrepreneurial activities which are concerned with solving social problems through innovation. They are called 'social entrepreneurs'.

11.6 EMERGENCE OF ENTREPRENEURIAL CLASS

The emergence of entrepreneurial class can be studied under two headings:

A) Theoretical perspectives for the analysis of entrepreneurial growth in different societies.

B) Entrepreneurial scene in India.

A) Theoretical Perspectives

The historical development of entrepreneurship in different communities and societies was governed by various factors. This is discussed in the following way:

- **Impact of Ethical System of Entrepreneurial Growth :** Max Weber was first to point out the entrepreneurial growth was governed by the ethical value system of the society concerned. He said that the spirit of rapid industrial growth depends on a rationalised technology, acquisition of money and its rational use for productivity and multiplication of money. These elements depend upon a specific value orientation of individuals. Weber found a relationship between protestant ethic and the spirit of capitalism. According to him, this tendency also existed in other communities like Hindu, Jain and Juda. He held that Protestants made progress fast in bringing capitalism because their ethical value system provided them with rational economic attitude. Robert Kennedy and Yale also held the view that entrepreneurship developed rapidly in those societies where ethical values provided independent capacity of decision-making. No doubt, this view has some truths but it was not accepted universally.
- **Impact of Minority Group on Entrepreneurial Growth:** Hagen (1962) was of the view that the disadvantaged minority group is mostly the source of entrepreneurship. Several other scholars like Frayer etc. also tried to explain the morale. Similarly, Park (1950) and Stonequist (1937) have indicated that technological innovations are caused more by the culturally marginal person than others. Similarly, McClelland (1971) also held that Jains were

more commercialized because of their consciousness of minority group and superior group which motivated high degree of need achievement in them.

- **Impact of need for Achievement Motivation on Entrepreneurial Growth :** McClelland assumes that achievement motivation is the immediate cause of the origin of entrepreneurship. He explained entrepreneurial growth in terms of need for achievement motivation. Thus, he found high correlation between need for achievement and successful economic activities.
- **Impact of Exposure to New Ideas and Opportunities on Entrepreneurial Growth :** Some studies propound that it is the exposure to new ideas and opportunities which leads to entry in manufacturing and industrial activities. Tripathy, in his study of entrepreneurial growth in India observed that "not religion, but exposure to new ideas and values was the real factor which led Parsi and Hindu entrepreneurs to manufacturing activities".
- **Impact of Political System on Entrepreneurial Growth :** Some researchers felt that the growth of entrepreneurship cannot be explained fully unless the political set-up of a country is taken into consideration. Boulding held that political structure was the deciding factor in entrepreneurial growth of France and Russia. Similarly, Hoselitz argued that France lagged behind economically because her social structure did not provide sufficient incentives and security to entrepreneurs. Medhora also concluded that the entrepreneurial growth in India was delayed not because of lack of entrepreneurial motivation but due to non-commitment of the political structure. A.K. Sharma and Mishra also explored the impact of public policies on entrepreneurial growth in India.
- **Impact of Regional Industrial Climate on the Growth of Entrepreneurship :** Many studies have pointed out that Gujarat and Marwari Vaisyas had dominated, after Parsian businessmen, the entrepreneurial activities in India and the reasons for their

success were seen as religious values and certain group characteristics. But a researcher, Pandit (1957) challenged this thesis and held that the real reason of industrial dominance of Gujarat and Marwari Vaisyas were regional factors, i.e., industrial climate in these regions. She pointed out that Gujarat had a climate favourable to business and industry. According to her argument, even the Parsis showed higher entrepreneurship because they belonged to Gujarat. Thus, the industrial climate may have a very significant impact on the repose of entrepreneurs. However, the group factors, as emphasised by various studies, can not be ignored altogether.

B) Emergence of Entrepreneurial Class in India

In ancient India, some kind of entrepreneurship was found among the artisans in the cities like Banaras, Allahabad, Gaya, Puri and Mirzapur. These towns were established on the bank of rivers which facilitated transportation system. But artisan entrepreneurs could not progress properly due to lack of initiative from the colonial political power and the infrastructural problems.

Business entrepreneurs were also in abundance in ancient India. But large number of traders and money lenders migrated to various countries such as Burma, Malaysia, Singapore and Kenya with the object of trading. These traders made extensive trade relations with China and Hong Kong. The entrepreneurship did not grow early in India. The reasons for this slow progress were:

- lack of capital;
- lack of political unity;
- network of custom barriers;
- existence of innumerable system of currency;
- regional markets;
- taxation policies;
- low prestige of businessmen.

Manufacturing entrepreneurship was emerged in India with the arrival of East India Company. It promoted Indian businessmen in the field of international trade. The company particularly influenced the Parsis who

moved the various trades and commercial occupations connected with the operations of the East India Company. Parsis made good rapport with the British. They worked as brokers, suppliers of commodities, and craftsmen in ship building industry. The Agency Houses also contributed towards Indian entrepreneurial growth in the last decade of the 18th century in Calcutta, Mumbai and Chennai. These houses provided entrepreneurial ability and capital. These houses entered business, trade, banking and steam shipping after the East India Company lost its monopoly in 1813. In the wake of industrial revolution these houses promoted other entrepreneurial activities like indigo, leather manufacturing and steel making. According to Brimmer, the managing agents working in the Agency Houses were the real entrepreneurs in India. They introduced new methods of production, new sources of raw materials and new products and markets. The Indian Agency Houses controlled the companies under them with a view to obtaining maximum profit.

Entrepreneurship was also initialized by the British people as far as plantation of tea, coffee, etc., were concerned. The British entrepreneurs were not interested in cotton textile and steel. The modern factory system was introduced in India from 1850 onwards. Out of 96 mills, existing in 1915, 41 were built by Parsis, 23 by Hindus, 10 by Muslims and 22 by British citizens. Parsis took leadership not only in textile but also in iron and steel. It can be noted that Parsis dominated the Indian entrepreneurial scene in the beginning. But Brahmins also entered manufacturing activities.

The second phase of entrepreneurial growth began during and after the First World War. During this period, cement and sugar industries made fast progress. The relative importance of Parsis gave lead in initiating manufacturing. Marwaris gave lead in spreading it almost all over India. Moreover, a group of self-made entrepreneurs also emerged who earned high profit by ploughing back their money. The innovating entrepreneurship was not properly emerged. The process of entrepreneurial growth got more impetus during the Second World War. Since then, the Indian economy has been undergoing a rapid change. During the war, the entrepreneurs got many incentives for setting up new industries.

There were three major effects of rapid industrial growth

- A few entrepreneurs belonging to particular social strata like Parsis and Vaisyas dominated Indian industrial scene.
- Industrial growth was localized in a few industrial centres like Mumbai, Ahmedabad, kolkata and Kanpur.
- Only those industries grew fast which met the needs of the war. With the result, the over all industrial growth was restricted.

After the Independence, the Govt. of India tried to promote balanced growth of industries through mixed economy. To achieve this purpose, three measures were taken:

- to encourage a proper distribution of income among various sectors;
- to promote industrialization by spreading entrepreneurship;
- to spread entrepreneurship to a large number of people having industrial potential.

To achieve these objectives, the government promoted the growth of small scale units in cities, towns and villages. Under the five year plans the government started to provide capital, technical know-how, markets and land to potential entrepreneurs. Several institutions were also established by the government to motivate new entrepreneurs. As a result, small scale units emerged rapidly in India. In India, the modern entrepreneurship has reached the present position after passing through the various changes of trade, commerce and industrialisation. It has the advantages of rapidly expanding trade and industry. It was found that once the roots of industrialisation were laid, the enterprising units permeate among people from other occupations also.

11.7 THEORIES OF ENTREPRENEURSHIP

There are various theories of entrepreneurship which may be explained from the viewpoints of economists, sociologists and psychologists. These theories have been propounded by various thinkers over a period of more than two and half centuries. We shall now discuss some major theories of entrepreneurship.

11.7.1 Economic Theory

According to economists, entrepreneurship and economic growth will take place in those situations where particular economic conditions are most favourable. G.F. Papanek and J.R.Harris are the main who advocates of this theory. According to them, economic incentives are the main drive for the entrepreneurial activities. In some cases, it is not so evident, but the persons' inner drives have always been associated with economic gain. When an individual recognises that the market for a product or services is out of equilibrium, he may purchase or produce at the prevailing price and sell to those who are prepared to buy at the highest price.

11.7.2 Sociological Theory

Sociologists argue that entrepreneurship is most likely to emerge under a specific social culture. According to them cultural values and role expectations are responsible for the emergence of entrepreneurship. According to Cochran- the entrepreneur represents model personality of the society. His performance depends upon his own attitudes towards his occupations, the role expectations of sanctioning groups and the occupational requirements of the job. The social values are the most important determinant of attitudes and role expectations. According to Weber, religious beliefs produce intensive exertion in occupational pursuits, the systematic ordering of means to end and the accumulation of assets. These are beliefs which generate a drive for entrepreneurial growth. In several countries, entrepreneurs have emerged from a particular socio-economic class.

According to Stokes, socio-cultural values channel economic action. He suggests that individual and social opportunity and the presence of the requisite psychological distributions may be seen as conditions for an individual's movement into industrial entrepreneurship.

11.7.3 Dynamic Entrepreneurship Innovation Theory

This theory was developed during 1949 by Schumpeter who considered entrepreneurship was the catalyst that disrupts the stationary circular flow of the economy and thereby initiates and sustains the process of development. Embarking upon 'new combinations' of the factors of production which he succinctly terms innovation, the entrepreneur can activate the economy to a new level of development. The concept of innovation covers functions:

1. Introduction of a new product/service or improved modified product/service.
2. Finding out and introducing new technique of production.
3. Introducing the product/service in new markets or segments.
4. Finding out new source of supply of raw materials and
5. Carrying out of a new organisation of any industry.

Schumpeter's concept of innovation covers the element of risk taking, superintendence and co-ordination.

11.7.4 Leibenstein's X-efficiency Theory

X-efficiency theory is the degree of inefficiency in the use of resources within the firm, it measures the extent to which the firms fails o realise its productive potential. X-efficiency arises either because the resources are not used in proper manner or because they are wasted, that is, not used at all.

Leibenstein identifies two main roles for the entrepreneur. The first role is making available inputs that improve the efficiency of existing production methods to facilitate the introduction of new ones. It may also cover the flow of information within enterprise if it improves the efficiency.

The second role, gap filling, is closely asking to the arbitrage function emphasised by Kirzner. Leibenstein provided a very vivid description of gap filling, visualising the economy as a net made up of nodes and path ways. Originally, this theory was developed for

another purpose, has recently been applied to analyse the role of the entrepreneur.

11.7.5 Theory of Profit

Knight considers the entrepreneur as a recipient of pure profit. Pure profit, he means profit for bearing the costs of uncertainty. He explains uncertainty with a situation where the probabilities of alternative outcome can not be determined either by a priori reasoning or by statistical inference. A priori reasoning is simply irrelevant to economic situation involving a unique event. Knight mentioned that business uncertainty can be reduced through 'consolidation'. Consolidation is a method of reducing total uncertainty by pooling individual instances. The level of self-confidence is the most important dominant of the amount of profit and the number of entrepreneurs.

11.8 ROLE OF ENTREPRENEURS IN ECONOMIC GROWTH

Every country is very keen in promoting its economic development. The entrepreneurs really play a significant role in the economic growth. The role played by entrepreneurs in the economic development of a country can be studied under the following heads:

- **Coordinating Role :** The essential function of an entrepreneur is to coordinate the various factors of production. Coordination involves selection of the right type of factors, employment of each factor in the right quantity, use of the best technology, division of labour etc. He must also see the best combination of factors is made available for the production process. Schumpeter feels that economic development will be a reality if new combinations of factors of production are undertaken. In absence of this coordinating role the factors of production will remain idle in the country.

- **Agents Role :** Entrepreneurs are called 'Agents of change'. Entrepreneurs act as catalyst or agent of economic growth by perceiving opportunities and putting them into action.
- **Role of Innovation :** Innovation is a key to entrepreneurship. Innovation implies the commercial application of an invention. Innovative entrepreneurship can alter the production function of nations and bring about rapid development.
- **Risk Assumption Role :** The most important function of an entrepreneur is the assumption of risk. The economic reward for risk bearing is profit. Entrepreneurs promote economic development by coming forward to assume risks of productive ventures.
- **Capital Formation Role :** Entrepreneurs promote capital formation by mobilising the idle savings of the public. Again, the profits they earn lead to saving of wealth which ultimately goes to capital formation. Without capital formation, economic growth would remain static.
- **Employment Generation Role :** Entrepreneurs with high achievement motivation come forward to establish business and industrial ventures which provide immediate large-scale employment.
- **Export Promotion Role :** Entrepreneurs also promote a country's export trade which is an important ingredient to economic growth.
- **Imitating Role :** Entrepreneurs in developing countries take the role of "imitators" who generally copy the innovations introduced by the "innovative" entrepreneurs of the developed countries. Imitative entrepreneurship seems to be the best medicine for underdeveloped countries to overcome their entrepreneurial ills and bring about substantial economic development.

Thus, the entrepreneur is always on the lookout of making the economic system at its dynamic best. They stimulate progress by means of their entrepreneurial activities and act as mainspring of economic growth. They have the potential of transforming their underdeveloped economies into developed economies.



CHECK YOUR PROGRESS 2

Answer in 50 words:

A) Explain the role of entrepreneurs in economic growth of a country.

……

……

……



ACTIVITY 1

As an entrepreneur what type of enterprise you like to start and why?

……

……

……

……

11.9 ENTREPRENEURIAL PROCESS

In this section, we will discuss the entrepreneurial process. It refers to the steps generally taken by an entrepreneur to take up any entrepreneurial activity. Any entrepreneurial activity is concerned with thinking and preparing for the future. You are aware that business is full of risks and uncertainties and works in such an environment which changes very frequently. Assuming future uncertainties, an entrepreneur need to make business plan. The business plan may be for the existing business or for a start-up. The entrepreneur need to forecast the likely future happenings related to business environment. Some of the factors in business environment may be controlled by the entrepreneur, like organisational policies, physical resources and financial resources at his/ her disposal etc. However, economic, political, legal, social factors etc. are beyond the control of an individual entrepreneur. These factors change rapidly and the entrepreneur need to frame business plans by foresee the likely changes in these factors.

Dealing with the business environment and making business plans are the challenges for the entrepreneurs. In this context, let us discuss the steps in entrepreneurial process -

- **Idea Generation**: It is concerned with understanding, collection, analysis of data in respect of current trends in economy, society, culture etc. to identify business opportunities. The entrepreneurs identify the innovative business ideas which are goods in terms of newness, profitability and socially desirable.
- **Environmental scanning**: With idea generation, the entrepreneurs scan the business environment related to the ideas generated to have a deeper understanding of the different aspects of these ideas. This help the entrepreneur to ascertain the factors which he/ she can control and which factors are beyond control. This results in selecting some ideas for further evaluation and rejecting the others.
- **Feasibility Study of business ideas**: The entrepreneur may generate various ideas, however, all these ideas need to evaluate rigorously before finalising specific idea(s). Evaluation of selected ideas are evaluated in terms of
  - **Investment size:** The amount of money that an entrepreneur can arrange for a particular business idea for its proper implementation. The ideas which are beyond the financial capacity of the entrepreneur are better to reject.
  - **Location:** the entrepreneur need to take the decision for suitable location of the business. Depending upon the nature of the business, it may be located near the market or near to the sources of raw- materials.
  - **Technology:** Another important yardstick for evaluating the business idea is to analyse the technological requirement of the idea and need to decide whether the technology required is locally available or not, cost of the technology, likely changes in the existing technology and so on.
  - **Market Competition**: The entrepreneur need to analyse market competition for the selected idea. The competitors, their

advertising strategy, channel partners etc. need to be scanned before finalising the business idea.

- **Selecting a particular business idea**: After going through these steps, the entrepreneur selects a particular business idea, which will be carried out. However, it may happen that all the ideas generated are rejected on the basis of the different tests and start the process afresh.
- **Implementation:** When the entrepreneur finalised the idea, final step is its implementation. It involves arranging all financial, human, physical resources required for the production/ generation of the product/ service. The entrepreneur prepares a **project report**. This report contains all the details of the proposed business, like fixed capital and working capital requirements, estimated profit and loss, strengths and weaknesses of the proposed project etc. On the basis of the project report, the entrepreneur may raise the required funds from banks and other financial institutions. The entrepreneur may adopt the process of test marketing before starting full-fledged commercial production. In test marketing, the entrepreneur will select the representative market to launch the product/ service to ascertain customer responses. On the basis of the feedback of the test marketing, the entrepreneur takes the final decision to launch the product/ service on large- scale and tries to win the market competition.

11.10 SOURCES OF BUSINESS IDEAS

Sources of Business or Product Ideas

In this section, we will discuss some sources from where business ideas can be collected-

- **Market Characteristics:** Unfulfilled demand for products and services will be the source of a new product or service idea.
- **Business Policies:** Business policies like, industrial policies, EXIM policy etc. encourages the entrepreneur to think about new products and services.

- **Emerging New Technology and Scientific Know-how:** Commercial exploitation of indigenous or imported technology and know-how is another source of project idea.
- **Social and Economic Trends:** Social and economic status of people are always dynamic in nature and offer wide opportunities. An entrepreneur should observe such changes carefully to get new idea.
- **Observing Other's Deficiencies:** It helps to improve performance or add desirable features.
- **Novel Use of Known Products:** It is possible to think of new uses of existing products.
- **Trade Fairs and Trade Journals:** Magazines, journals, industries or trade fairs offer wide scope for business opportunities.
- **Business meets:** Business ideas may be developed through business meets organized by trade and commerce associations from time to time.
- Market research report, consultants, testing laboratories, educational institutions etc.
- Spying is considered as a powerful way of extracting business idea from other companies.

An entrepreneur may get various ideas but he/she has to select feasible and rewarding opportunities. For this he/ she has to evaluate the ideas and understand the gap between demand and supply. The evaluation process requires:

- Study government rules and regulations regarding different business opportunities.
- Extensive study of promising investment opportunity.
- SWOT analysis of the business venture, and
- Market Survey.



SWOT Analysis:
A technique used to evaluate strengths, weaknesses, opportunities and threats involved in a business venture



11.11 LET US SUM UP

- We do not have one indisputable definition of entrepreneur or entrepreneurship. However, we can conclude that an entrepreneur is the person who bears risk, combines various factors of production to exploit the perceived opportunities in order to evoke demand, create wealth and employment.
- The various characteristics of an entrepreneur may be classified into four, namely, leadership, risk-taking, decision making and business planning.
- The emergence of entrepreneurial class at any time and place is influenced by socio-economic, psychological, cultural and other factors.
- Different theories of entrepreneurship have been developed by the economists, sociologists and psychologists.
- The entrepreneurs play vital role in economic growth through employment generation, increasing income, improving standard of living of general people, making optimum use of all factors of production etc.



11.12 FURTHER READING

Books:

1) Khanka S.S. (2001). *Entrepreneurial development*. S. Chand and Co. Ltd.

2) Mohanty S. K. (2007). *Fundamentals of entrepreneurship*. Prentice Hall of India Pvt. Ltd.

3) Saini J.S. (2009). Entrepreneurship development: Programmes and practices. Deep & Deep Publications Pvt. Ltd.

Web Resources:

Chapter 1 – Introduction to Entrepreneurship – Entrepreneurship and Innovation Toolkit (bccampus.ca)

Chapter 1 – Introduction to Entrepreneurship – Entrepreneurship and Innovation Toolkit (bccampus.ca)

The entrepreneur's 'resource potential' and the organic square of entrepreneurship: definition and application to the French case | Journal of Innovation and Entrepreneurship | Full Text (springeropen.com)

Types of Entrepreneurs | Introduction to Business (lumenlearning.com)

Types of Entrepreneurs | Introduction to Business (lumenlearning.com)

Entrepreneurship Today – Introduction to Business (opentextbc.ca)

11.13 ANSWERS TO CHECK YOUR PROGRESS



ANSWERS TO CHECK YOUR PROGRESS 1

A) i) Innovative

ii) Hard working

B) i) Perceives opportunities for profitable investments

ii) Explores the prospects for starting an enterprise

iii) Obtains necessary industrial licenses

ANSWERS TO CHECK YOUR PROGRESS 2

A) The entrepreneurs play an important role in the economic growth of a country. The entrepreneurs explores innovative ideas, arranges the factors of production, put them in productive process. They create employment opportunities, generate income and increase the standard of lining of people. Therefore, the entrepreneurs are essential for economic growth.



11.14 MODEL QUESTIONS

Q 1: Define entrepreneur.

Q 2: Define entrepreneurship.

Q 3: What are characteristics of an entrepreneur?

Q 4: Explain emergence of entrepreneurial class in India.

Q 5: What are the different theories of entrepreneurship?

Q 6 Write short notes on

a) Dynamic entrepreneurship innovation theory.

b) Leibenstein's X-efficiency theory.

Q 7: Explain the role of an entrepreneur in economic development of a country.

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UNIT 12: VISION, MISSION AND OBJECTIVES

UNIT STRUCTURE

12.1 Learning Objectives

12.2 Introduction

12.3 Meaning of Vision

12.4 Characteristics of Vision Statement

12.5 Shared Value

12.6 Purposes of Shared Value

12.7 Concept of Mission

12.8 Characteristics of Mission Statement

12.9 Importance of Mission Statement

12.10 Formulation of Mission Statement

12.11 Distinctions between Vision and Mission

12.12 Concept of Objectives

12.13 Role of Objectives

12.14 Guidelines for Ideal Objectives

12.15 Hierarchy of Objectives

12.16 Setting of Objectives

12.17 Objectives and Goals

12.18 Let Us Sum Up

12.19 Further Reading

12.20 Answers to Check Your Progress

12.21 Model Questions

12.1 LEARNING OBJECTIVES

After going through this unit, you will able to:

- explain the meaning of vision, mission and objectives
- understand the formulation of mission
- describe the characteristics and importance of mission
- explain the formulation of mission statement
- distinguish between vision and mission

- understand the concept and role of objectives
- explain the guidelines for an ideal objective
- discuss the hierarchy of objectives
- describe the steps in setting the objectives
- distinguish between objectives and goals.

12.2 INTRODUCTION

While setting up an organisation, the promoters have to decide about it vision, mission and objectives. Without these, an organisation will be like a ship without radder. It will fail to grow and expand in a desired direction. Therefore, it is well accepted by all that vision, mission and objectives are very important in the long-term success of an enterprise.

This unit will help you in understanding the terms mission, vision and objective along with their significance in all types of organisations. You will also be able to make differences among the three terms.

12.3 MEANING OF VISION

The first task in the process of strategic management is to formulate the organisations vision and mission statements. These statements define the organisational purpose of a firm. Together with objectives, they form a hierarchy of goals.

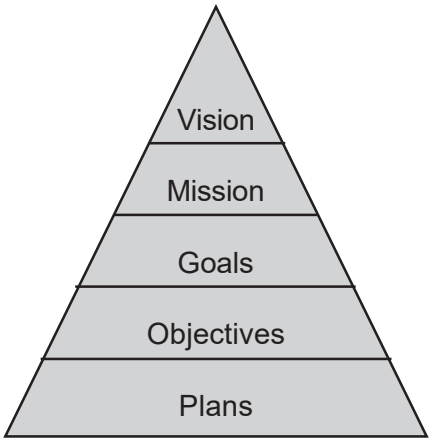


Fig. 7.1: Hierarchy of goals

A clear vision helps in developing mission statement, which in turn facilitates setting of objectives of the firm after analysing external and internal environment. Though vision, mission and objectives together reflect 'strategic intent' of the firm, they have their distinctive characteristics and play important roles in strategic management.

Vision can be defined as a mental image of a possible and desirable future state of the organisation. It is a vividly descriptive image of what a company wants to become in future. Vision represents top managements aspirations about the company's direction and focus. Every organisation needs to develop a vision of the future.

Vision has been defined in several different ways. According to Richard Lynch, 'Vision is a challenging and imaginative picture of the future role and objectives of an organisation'.

E. I. Namaki defines it as 'a mental perception of the kind of environment that an organisation aspires to create within a broad time horigon and the underlying conditions for the actualisation of this perception.'

Kotter defines it as 'a description of something (an organisation, corporate culture, a business, a technology, an activity) in the future.

Thus, the vision is presented as a picture or image that serves as a guide or goal. Depending on the definitions it is referred to as inspiring, motivating, emotional and analytical.

12.4 CHARACTERISTICS OF VISION STATEMENT

From the above discussion and definitions, many characteristics are identified in vision. According to Thompson and Strickland, some important characteristics of an effective vision statement are as follows:

i) **It must be easily Communicable:** Everybody should be able to understand it clearly.

ii) **It must be Graphic:** It must paint a picture of the kind of company the management is trying to create.

iii) **It must be Directional:** It must say something about the company's journey or destination.

iv) **It must be Feasible:** It must be something which the company can reasonably expect to achieve in due course of time.

v) **It must be Focused:** It must be specific enough to provide managers with guidance in making decisions.

vi) **It must be Appealing** to the long-term interests of the stakcholders.

vii) **It must be Flexible:** It must allow company's future path to change as events unfold and circumstances change.

12.5 SHARED VALUE

Vision is also known as value statement. value-based management is an approach to managing in which managers establish, promote and practice an organisation's shared values. An organisation's values reflect what it stands for and what it believes in. The organisational values form the organisation's culture and influence the way the organisation operates and how employees behave. For instance, pantagonia, a maker of outdoor sports and clothing pursues environmental preservation. Its strong environmental commitment influences employee's work actions and decisions in areas from product desing to marketing to shipping. In addition, pantagonia gives 10 percent of its profits to support environmental causes and activity seeks to educate its customers and suppliers about environmental issues. The company lives and practices values.

12.6 PURPOSES OF SHARED VALUE

The value that organisational members share serve at least four main purposes as shown below:

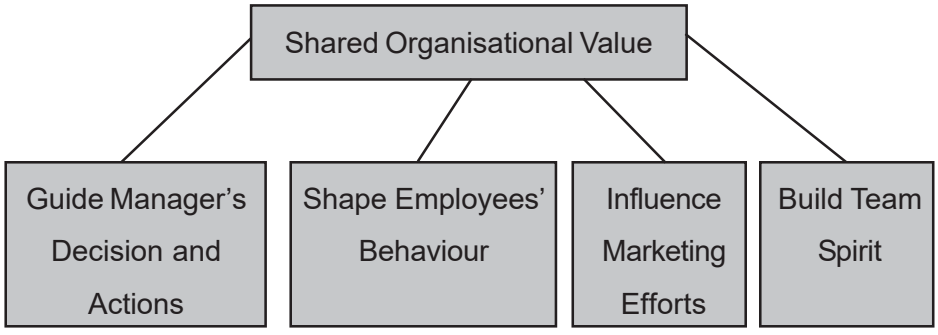


Fig. 7.2

1) **Guide Manager's Decisions and Actions:** The first purpose of shared values is that they act as guides for managerial decisions and actions. For instance, Tom's of Maine, a maker of all-natural personal care products states that 'we believe in products that are safe, effective and made of natural ingredients.' This statement of beliefs influence and guide company managers as they do their jobs.
2) **Shape Employees' Behaviour:** Another purpose of shared values is that they help in shapping the behaviour of employees. For instance, the shased values of Herman Miller, a manufacturer of office, residential and health care furniture are–
   a) commitment to innovation and uncompromising quality;
   b) participate management; and
   c) environmental stewardship.

   The management and employees of the company practive values as they design and manufacture farnityre around the world.
3) **Influence Marketing Efforts:** Shared corporate values also influence marketing efforts. For instance, Avon products' management is committed to educating women about breast cancer. Under this programme the company asked women what their number one health concern was and breast cancer was the answer. The company's global salesforce educates women about the disease by bringing brouchers on their sales visits. Thus, Avon has found a way to link its business to an important social concern and to improve its marketing efforts all at the same time.
4) **Build Team Spirit:** Finally, shared values are a way to build team spirit in organisations. Shared values influence the way work is done, employees become more enthusiastic about working together as a team to support values they believe in. At companies such as Tom's of Maine, Avon, Herman Miller and numerous others, employees know what is expected of them on the job. They use the shared corporate value to shape the way they work.

   Some specific suggestious for developing a good corporate values statement are listed below :

i) Involve everyone in the company.

ii) Allow customising of the values by individual departments or units.

iii) Expect and accept employee resistance.

iv) Avoid trivial or unimportant statements.

v) Keep the statement short.

vi) Leave out religious references.

vii) Challenge it.

viii) Live it.

Companies that live and practice value-based management have accepted a broad perspective regarding their commitment to being socially responsible and socially responsive.



CHECK YOUR PROGRESS

Q.1: Explain the term 'vision'.

.....

.....

Q.2: Write two characteristics of vision.

.....

.....

12.7 CONCEPT OF MISSION

Mission is the pivot around which corporate strategy revolves. Although mission and vision are often used as synonymous, sometimes a distinction is made in which case mission evolves from the vision.

Fred David observes, ''a mission statement reveals the long-term vision of an organisation in terms of what it wants to be and whom it wants to serve.''

Thompson defines mission as "The essential purpose of the organisation, concerning particularly why it is in existence, the nature of the business it is in and the customers it seeks to serve and satisfy."

A mission statement has certain desirable components. An ideal

mission statement of business should define its customers, products or services, markets, technology, philosophy and self concept.

12.8 CHARACTERISTICS OF MISSION STATEMENT

A good mission statement should be short, clear and easy to understand. It should therefore possess the following characteristics :

1) **Not Lengthy:** A mission statement should be brief.
2) **Clearly Articulated:** It should be easy to understand so that the values, purposes and goals of the organisation are clear to everybody in the organisation and will be a guide to them.
3) **Broad, but not too General:** A mission statement should achieve a fine balance between specificity and generality.
4) **Inspiring:** A mission statement should metivate readers to action. Employees should find it worthwhile working for such an organisation.
5) **It should arouse Positive Feelings and Emotions** of both employees and outsiders about organisation.
6) **Reflect the Firm's Worth:** A mission statement should generate the impression that the firm is successful, has direction and is worthy of support and investment.
7) **Relevant:** A mission statement should be appropriate to the organisation in terms of its history, culture and shared values.
8) **Current:** A mission statement may become obsolete after some time. Changes in environmental factors and organisational factors may necessiate modification of the mission statement.
9) **Unique:** An organisation's mission statement should establish the individuality and uniqueness of the company.
10) **Enduring:** A mission statement should continually guide and inspire the pursuit of organisational goals. It may not be fully achieved, but it should be challenging for managers and employees of the organisation.
11) **Dynamic:** A mission statement should be dynamic in orientation allowing judgements about the most promising ones.

12) **Basis for Guidance:** Mission statement should provide useful criteria for selecting a basis for generating and screening strategic options.

13) **Customer Orientation:** A good mission statement identifies the utility of a firm's products or services to its customers and attracts customers to the firm.

14) **A Declaration of Social Policy:** A mission statement should contain its philosophy about social responsibility including its obligations to the stakeholders and the society at large.

15) **Values beliefs and Philosophy:** The mission statement should lay emphasis on the values the firm stands for; company philosophy known as 'company creed', gegerally accompanies or appears within the mission statement.

12.9 IMPORTANCE OF MISSION STATEMENT

The purpase of the mission statement is to communicate to all the stakeholders inside and outside the organisation what the company stands for and where it is headed. It is important to develop a mission statement for the following reasons:

1) It hepls to ensure unanimity of purpose within the organisation.
2) It provides a basis or standard for allocating organisational resources.
3) It establishes a general tone or organisational climate.
4) It serves as a focal point for individuals to identify with the organisation's purpose and direction.
5) It facilitates the translation objectives into tasks assigned to responsible people within the organisation.
6) It specilies organisational purpose and then helps to translate this purpose into objectives in such a way that cost, time and performance parameters can be assessed and controlled.



CHECK YOUR PROGRESS

Q.3: State whether the following statements are True or False:

i) A mission statement should be lengthy.

ii) A mission statement reveals the long-term vision of an organisation.

iii) A mission statement may become obsolate after sometime.

iv) A mission statement should be static.

v) An important component of a mission statement is customers.

Q.4: State two importance of mission statement.

i) .....

ii) .....

12.10 FORMULATION OF MISSION STATEMENT

There is no standard method for formulating mission statements. Different firms follows different approaches. It is important to involve as many managers as possible in the process of formulating a mission statement.

This is because through involvement, people become committed to the mission of the organisation.

Mission statements are generally formulated as follows :

1) In many cases, the mission is inherited i.e. the founder establishes the mission which may remain unchanged down the years or may be modified as the conditions change.
2) In some cases, the mission statement is drown up by the CEO and board of directors or a committee of strategies constituted for the purpose.
3) Engaging consultants for drawing up the mission statement is also common.
4) Many companies hold brain storming session of senior executives

to formulate a mission statement. Soliciting employees views is also common.

5) According to Fred R-David, and ideal approach for developing a mission statement would be to select several articles about mission statements and ask all managers to read these as background information. Then ask managers to prepare a draft mission statement for the organisation. A facilitator or a committee of top managers, merge these statements into a single document and distribute this draft mission statement to all managers.

   Then the mission statement is finalised after taking inputs from all the managers in a meeting. Thus, the process of formulating a mission statement represents a great apportunity for strategies to obtain needed support from all managers in the firm.

6) Decision on how to communicate the mission to all managers, employees and external constituencies of an organisation are needed when the document is in its final form. Some organisations even develop a videotape to explain the mission statement and how it was developed.

7) The practice in Indian companies appears to be a consultative-participative route. For example, at Mahindra and Mahindra, workshops were conducted at two levels within the organisation with corporate planning group acting as facilitators. The State Bank of India went one step ahead by inviting labour unions to partake in the excercise. Satyam Computers went one more step ahead by involving their joint venture companies and overseas clients in the process.

12.11 DISTINCTIONS BETWEEN VISION AND MISSION

While a mission statement describes what the organisation is now; a vision statement describes what the organisation would like to become. A vision statement defines more of a direction as to 'where are we headed' and 'what do we want to become', whereas the company's mission broadly indicates the 'business purpose' of the organisation.

The distinction between vision and mission can be summarised as follows :

Vision	Mission
1) It is a mental image of a possible and desirable future state of the organisation.	1) It is a enoluring statement of philosophy, a creed statement.
2) It is a dream	2) It is a purpose or reason for firm's existance.
3) It is broad in nature	3) It is more specific than vision.
4) It answers the question "what we want to become?"	4) It answers the question "what is our business?"



CHECK YOUR PROGRESS

Q.5: Distinguish between vision and mission.

i) .....

ii) .....

iii) .....

iv) .....

12.12 CONCEPT OF OBJECTIVES

Objectives form the basis for the functioning of an organisation. Indeed, objectives help define the organisation in its environment.

According to William Newman and Charles E. Summer, 'objectives are those ends which the organisation seeks to achieve by its existence and operations.'

Used broadly, the word objective covers long-range company aims, more specific department goals and even individual assignments. Thus, objectives may pertain to a wide or narrow part of an enterprise, and they may be either long or short range. In other words, objectives may be defined as the long-term results that an organisation seeks to achieve in pursuing its basic mission.

Objectives may be tangible or intangible. Jangible objectives include achievement of materially quantifiable targets or goals. Intangible objectives include factors like brand or company image, employee morale etc.

Objectives should not be static, they should be dynamic. That is, changes in the environment or changes in the organisational strengths and weaknesses may call for modifications to objectives.

12.13 ROLE OF OBJECTIVES

Objectives play an important role in strategic management. They are essential for strategy formulation and implementation. The following points elucidate the role or importance of objectives:

1) **Justify the Organisation:** The objectives indicate the purpose and aims and thereby the social justification for the existance of an organisation.
2) **Provide Direction:** Objectives provide direction for the functioning of an organisation. When objectives are clear, the aims of the activities of different people in the organisation coverage for the achievement of the common purpose.
3) **Helps Strategic Planning/Management:** Strategic planning or management is indeed a means to achieve the objectives. Objectives, thus, help effective functioning of the organisation in a given environment.
4) **Basis for Management by Objectives:** Clearly formulated objectives form the basis for management by objectives which is a way of management by results.
5) **Help Co-ordination:** As Glueck points out, objectives help co-ordinate decisions and decision-makers by directing the attention of employees to desirable standards of behaviour. It may reduce conflicts in decision making if all employees know what the objectives are?
6) **Provide Standards for Assessment and Control:** Objectives, by making clear what the results should be, provide the basis for control and assessment of organisational performance. Without objectives, the organisation has no objective basis for evaluating its success.

7) **Help Decentralisation:** Objectives help decentralisation effective by making clear the organisational objectives to various elements in the organisation. Decentralisation, by assigning decision-making to lower level personnel, gives a subordinate execlutive or operator considenable freedom in deciding how to perform his work.

12.14 GUIDELINES FOR IDEAL OBJECTIVES

Objectives, to be successful, should possess certain qualities and there are, therefore, some important factors to be considered while formulating the objectives. Given below are important factors to be considered while formulating the objectives. Given below are important guidalines or principles for the formulation of objectives.

1) **Participation:** To the extent possible, formulation of objectives should involve the participation of important people responsible for the achievement of the objectives. The sense of participation will provide motivation and a moral responsibility for the achievement of objectives.
2) **Clarity:** Objectives should not be vague and ambitious. They should be spelt out clearly. Further, they should be made clearly known to the people who work for their accomplishment.
3) **Realism:** Objectives should be realistic. They should be reasonable in the sense that they should be achievable with the best efforts, given the environment. At the same time, they should be high enough to elicit the full ntilisation of the company's resowoces and skills.
4) **Flexibility:** Objectives should not be very rigid, they should be flexible. Changes in the environment may call for modifications to the objectives. For example, objectives can grow obsolete because of the continuous changes occusing in the company's environment. A company should suitably modify the objectives when changes in environment call for their modification.
5) **Consistency:** Objectives should be mutually consistent throughout the organisation. That is, all objectives within the organisation should support the overall enterprise objectives.

6) **Ranking:** An organisation with multiple objectives should assign relative priorities and indicate the time horigon within which to attain each of the objectives.

7) **Veripability:** Objectives should be capable of being verified or measured. For example, an objective like reasonable profit cannot be verified with the actual performance. On the other hand, an objective like a 15 percent return on investment is verifiable.

8) **Balance:** There should be an appropriate balance between the different objectives of an organisation. For example, there should be a proper balance between profitability, employee welfare, customer welfare, community welfare etc. Under emphasis on one may advernely affect others.



CHECK YOUR PROGRESS

Q.6: State whether the following statements are True or False:

i) Objectives should be very rigid.

ii) Objectives provide standards for assessment and control.

iii) Objectives may be tangible or intangible.

iv) Objectives are not essential for strategy formulation.

v) Objectives should be realistic.

Q.7: State two role or importance of objectives.

i) .....

ii) .....

12.15 HIERARCHY OF OBJECTIVES

Those organisations which function with a hierarchical structure, i.e. with different levels of management like top level, middle level and lower level, normally have a hierarchy of objectives to be pursued at different levels. They are explained below:

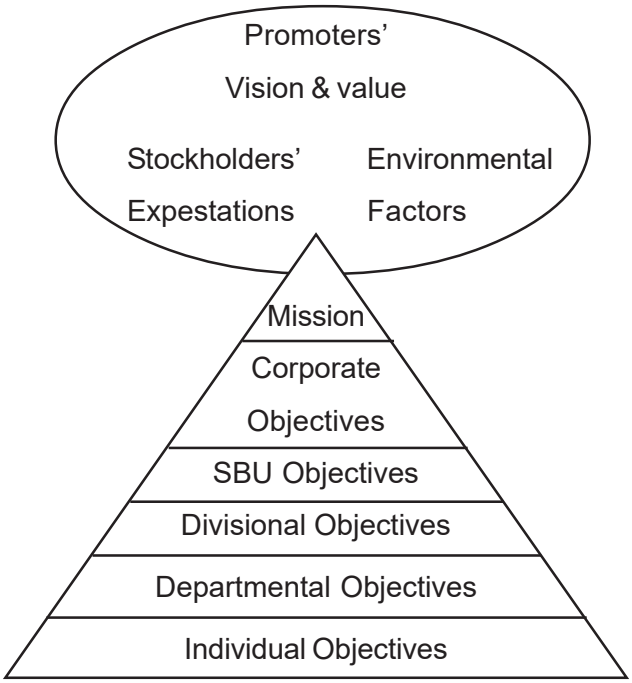


Fig. 7.3 Hierarchy of objectives

1) **Mission:** At the top of the hierarchy is the organisational mission which is shaped by the vision and values of the promoters, expectations of the sharcholders and environmental forces.
2) **Corporate Objectives:** Below the mission is the overall objectives of the organisation or the corporate objectives, which are long-range or strategic objectives. The corporate objectives are to be formulated and pursued by the Board of Directors and topmost managers.

   The overall objectives lead to the next level of the hierarchy which consists of more specific objectives such as those in the key result areas such as certain percent return on investment or a certain percentage increase in the market share over a certain period of time.
3) **SBU Objectives:** In a multi-SBU (Strategic Business Unit) organisation, the next level in the hierarchy is the SBU objectives. For each SBU organisation, objectives should be set reparately.
4) **Divisional Objectives:** The divisional objectives are then formed for each division on the basis of the SBU objectives.
5) **Departmental Objectives:** Below the divisional objectives are the departmental objectives, i.e. objectives for the different departments

like production, finance, marketing, personnel, research and development etc. which help achieve the corporate objectives.

6) **Individual Objectives:** A department may have several sections or units under it. For example, the marketing department may have several geographical divisions like northern zone, eastern zone, southern zone and western zone or product groups divisions like product A, product B, product C etc. Each such section will have its own objectives which will contribute to the achievement of the departmental objectives. Each section may have several personnel responsible for the achievement of the sectional objectives. For example, a maeketing sub-division may have under it several salesman each of whom will have to achieve a specific objective like sales target.

A hierarchical organisation, thus, has a hierarchy of objectives and the objectives of the different levels are designed to help achieve the overall organisational objectives.

12.16 SETTING OF OBJECTIVES

There are two approaches to objective setting. They are–

1) Top-down Approach
2) Bottom-up Approach

They are explained below:

1) Top-down Approach: In this approach, company-wide objectives are fixed first, and then financial and strategic objectives are fixed for business units, divisions, functional departments and operating units.

Proponents of the top-down approach argue that this approach has two powerful advantage:

i) It helps produce cohesion among the objectives and strategies of different parts of the organisation, and

ii) It helps to unify internal efforts to more the company along the chosen strategic course.

2) **Bottom-up Approach:** In this approach, objective setting starts at the bottom level of the organisation first, and the company-wide objectives reflect the aggregate of what has bubbled up from below. Proponents of the bottom-up approach argue that top management needs to have information from lower levels, and this will make objectives more realistic and acceptable. They also argue that subordinates are more likely to be motivated and commited to goals that they initiate rather than the goals trust upon them. In spite of the strength of the arguments, the bottom-up approach is not generally followed for objective setting.

   It the top management allows objective setting to start at the bottom levels of an organisations in the interest of involving a broad spectrum of organisational members, then they will not have the benefit of company-wide performance targets as a giude nor the basis for connecting their performance targets to the company goals. The resulting strategic plan is likely to be inconsistent, fragemented or uncordinated. Bottom-up objective setting with little or no guidance from above, nearly always signals an absence of strategic leadership on the part of top management.

12.17 OBJECTIVES AND GOALS

The term ‘goals’ and ‘objectives’ are used in a variety of ways, sometimes in a conflicting way.

The term ‘goal’ is often used interchangebly with the term ‘objective’. But some authors prefer to differentiate the two terms.

A ‘goal’ is considered to be an open-ended statement of what one wants to accomplish with no quantification of what is to be achieved and no time criteria for its completition. For example, a simple statement of ‘increased profitability’ is thus a goal, not an objective, because it does not state how much profit the firm wants to make. Objectives are the end results of planned activity. They state what is to be accomplished by when and should be quantified. For example, ‘increase profits by 10 percent over the last year’ is an objective.

As may be seen from the above, 'goals' denote what an organisation hopes to accomplish in a future period of time. They represent a future state or outcome of the effort put in now. 'Objectives' are the ends that state specifically how the goals shall be achieved. In this sense, objectives more the goals operational. Objectives are concrete and specific in contrast to goals which are generalised. while goals may be qualitative, objectives tend to be mainly quantitative, measurable and comparable.

The distinction between goals and objectives is summarised below:

Goals	Objectives
1) They are general statement	They are specific statement
2) They are qualitative	They are quantitative, measurable
3) They are broad organisation wide targets.	They are narrow targets set by operating divisions.
4) They are concerned with long-term results.	They are concerned with immediate, short-term results
5) They are needed in strategy implementation.	They are needed in strategy formulation.



CHECK YOUR PROGRESS

Q.8: State whether the following statements are True or False:

i) Mission is at the top of the hierarchy of objectives.

ii) Strategic objectives are the short-term objectives.

iii) For each SBU organisation, objectives should be set separately.

iv) Each section of an organisation may have only one personnel.

v) Objectives of different levels help achieve the overall organisational objectives.

Q.9: Write the two approaches to objective setting.

i) .....

ii) .....



12.18 LET US SUM UP

In this unit we have discussed the following aspects of vision, mission and objectives:

- Vision and mission statements together with objectives define the organisational purpose.
- Feasibility, flexibility, directional, communicable, appealing etc. are some of the important features of vision statement.
- Vision is also known as value statement which influences manager's action, employees' behaviour, marketing efforts and team spirit.
- A mission stutement should be brief, clear, inspiring, relevant, dynamic and unique.
- A mission statement should be developed to provide a basis or standard for allocating organisational resources.
- Objectives form the basis for the functioning of an organisation.
- Objectives play an important role in strategic management.
- Some principle like clarity, flexibility, consistency, balance etc are to be followed in formulating the objectives.
- There are two approaches in objective setting.
- Goals are qualitative while they are quantitative and measurable.



12.19 FURTHER READING

1) Cherunilam, Francis (2002); *Business Policy and Strategic Management*; Himalaya Publishing House.

3) Pathak, R. K.; Kalwar, M. C. (2005); *Principles of Management, Abhilekh Publication*; Guwahati.

3) Rao, C. Appa Rao; B, Parvathiswara; Sivaramakrishna, K. (2010); *Strategic Management and Business Policy*; New Delhi: Excel Books.

4) Srinivasan, R.; Chunawalla, S. A. (1995); *Management Principle and Practice*; Himalaya Publishing House.

12.20 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: Vision can be defined as a mental image of a possible and desirable future state of the organisation.

Ans. to Q. No. 2: Two characteristics of vision are–

a) It must be easily communicable

b) It must be feasible

Ans. to Q. No. 3: i) False, ii) True, iii) True, (iv) False, v) True

Ans. to Q. No. 4: Two importance of mission statement are–

i) It helps to ensure unanimity of purpose within the organisation.

ii) It provides a basis or standard for allocating organisational resources.

Ans. to Q. No. 5: Vision and mission can be distinguished as under:

i) Vision is a dream, mission is a purpose.

ii) Vision is broad, mission is more specific.

iii) Vision is a mental image, mission is a statement of philosophy.

iv) Vision answers 'what we want to do' while mission answers 'what is our business.

Ans. to Q. No. 6: i) False, ii) True, iii) True, iv) False, v) True

Ans. to Q. No. 7: Two role or importance of objectives are–

i) Objectives provide direction for the functioning of an organisation.

ii) Objectives provide standards for assessment and control of the organisational performance.

Ans. to Q. No. 8: i) False, ii) False, iii) True, iv) False, v) True.

Ans. to Q. No. 9: Two approaches of objective setting are–

i) Top-down Approach ii) Bottom-up Approach.



12.21 MODEL QUESTIONS

Q.1: Explain the meaning of vision and mission.

Q.2: Discuss the characteristics of vision statement.

Q.3: What is shared value ?

Q.4: Describe the purposes of shared value.

Q.5: Explain in brief the characteristics of mission statement.

Q.6: What are the importance of mission ststement ?

Q.7: Discuss the procedure for formulating mission statement.

Q.8: Explain the concept of objectives.

Q.9: Write briefly the role of objectives in strategic management.

Q.10: What are the guidelines for ideal objectives ?

Q.11: Discuss the hicrarchy of objectives.

Q.12: What are the approaches to objective setting ?

Q.13: Distinguish between objectives and goals.

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UNIT 13: BUSINESS ETHICS

UNIT STRUCTURE

13.1 Learning Objectives
13.2 Introduction
13.3 Concept of Business Ethics
13.4 Elements of Business Ethics
13.5 Need for Business Ethics
13.6 Factors affecting Business Ethics
13.7 Unethical Business Behaviour
13.8 Ethis Vs. Law
13.9 Theories of Ethics
13.10 Ethics in Global Context
13.11 Let Us Sum Up
13.12 Further Reading
13.13 Answers to Check Your Progress
13.14 Model Questions

13.1 LEARNING OBJECTIVES

After going through this unit, you will able to:

- define meaning and characteristics of business ethics
- explain the elements or principles of business ethics
- ontline the need for business ethics
- describe the factors affecting business ethics
- understand ethical and unethical behaviour
- know about ethics in global context.

13.2 INTRODUCTION

The word 'ethics' is derived from the Greek Word 'ethos' which refers to character or ideal standard of behaviour.

According to common usage, the terms moral, good, right, just, honest etc. all are synonymous with ethical. In general, ethics deals more

with good than with evil. However, same action may be moral or immoral, depending upon the school of moral thought. Again, what is moral in our society may be immoral in another.

In simple woods, ethics specify, what is good or bad, fair or unfair, right or wrong? When applied to business, ethics mean the business practices which are desirable from the point of view of the society.

In this unit we will discuss the concept, elements needs and factor's affecting business ethics. We will also discuss the unethical business behaviour and some theaories of business ethics.

13.3 CONCEPT OF BUSINESS ETHICS

Business ethics are just an extension of the general concept of ethics. It can be defined as socially determined moral principles which govern business activities.

B. O. Wheeler defines the term business ethics as follows:

"Business ethics is an art and science of maintaining a proper harmonious relationship with society, its various groups and institutions as well as recognising the moral responsibility for the rightness or wrongress of business."

A business is a part of the society and so it should follow the ethical or moral norms of the society. It should be guided by the principles which are considered right by the society. It is expected of every business firm to integrate ethical values with the business operations.

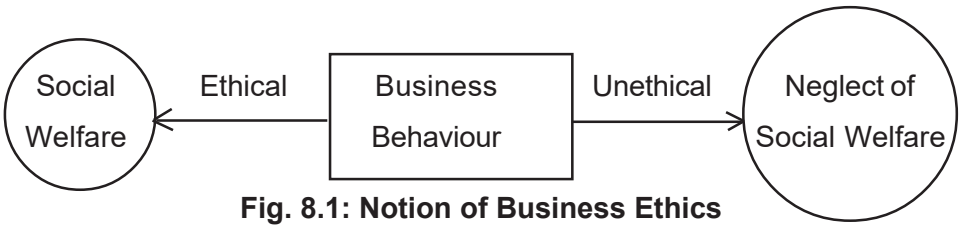


Fig. 8.1: Notion of Business Ethics

Examples of Business Ethics

Every business is expected to carry its operations in an ethical manner or socially destirable way.

A few examples of ethical business practices are:

i) To charge fair prices from the customers.

ii) To use fair weights for measurement of commodities.
iii) To pay taxes to the government honestly.
iv) To charge reasonable profits from the customers.
v) To give fair treatment to the workers.

The following characteristics emerge from the discussion and analysis of the definition of business ethics:

i) Business ethics are, in a way, a type of self-imposed discipline.
ii) They are moral principles which guide business behaviour.
iii) They imply an idea of honesty which guides the businessmen as to the rightness or wrongness of their decisions and actions.
iv) The basic philosophy of business ethics is maximum serial welfare through functioning of business exterprises.

13.4 ELEMENTS OF BUSINESS ETHICS

Some of the basic elements of business ethics while running a business enterprise are:

1) **Top Management Commitment:** Top management has a very important role to guide the entire organisation towards ethical behaviour. The CEO and other top level managers must be openly and strongly committed towards ethical conducts and guide people working at middle and low level to follow ethical behaviour.
2) **Publication of a 'Code':** Generally ethical organisations define a code of conduct and set of ethics for all the employees in the organisation. These principles are defined in a written document called code. These ethics cover various areas such as health and safety in the work place. fair dealing in selling and marketing activities etc.
3) **Establishment of Compliance Mechanism:** To make sure that actual decisions match with a firm's ethical standards, suitable mechanism should be established, e.g. corporate ethics in training, recruitment, selection etc.

   The employees of the organisation must be free to report about the matters of unethical behaviour in the organisation.

4) **Involving Employees at all Levels:** While making ethical programmes and policies, employees must be involved because these have to practised by them only. By forming small groups of employees the ethical policies can be discussed by them and we can examine their attitude towards these policies.

5) **Measuring Results:** Although its is very difficult to measure the ethical results but it must be verified and audited that how far work is being carried on according to ethical standards. From time to time the top level must meet the employees to set the future plan of action.



CHECK YOUR PROGRESS

Q.1: State whether the following statements are True or False:

i) The word 'ethics' is derived from the Latin word 'ethos'.

ii) Business ethics are a type of self-imposed discipline.

ii) To pay taxes to the Government honestly is unethical.

iv) The basic philosophy of business ethics is maximum social welfare.

v) Top management has no role to play in business ethics.

Q.2: State two features of business ethics.

i) .....

ii) .....

13.5 NEED FOR BUSINESS ETHICS

The need for business ethics is evident throughout the world. Professional codes or code of conducts have been developed by the trade associations so that business community and professional people exhibit ethical behaviour for safety and welfare of the people.

Business ethics are needed for the following reasons:

1) **Improve the Confidence of Customers:** Publication of a code of

ethics is likely to improve the confidence of customers, clients, employees etc. in the quality of service they may expect.

2) **Govern the Interrelationship of the Members:** Business codes govern the interrelationship of the members. Busniess cannot be carried on without trust in th eethical standards.
3) **Protection of Interests:** The interest of all those who deal with business, i.e. stockholders, employees, customers, competitors, dealers and suppliers need to be protected from the unethical ways of dealing and exploitation.
4) **Organisation of Powerful Consumer Associations:** Consumers are no longer at the mercy of the business firms. They have organised powerful associations to discipline the business firms. To avoid any confrontation with the consumers' associations, it is advisable for the business to follow ethical practices.
5) **Confrontation with Major Groups of Social Issues:** Business today is confronted with major groups of social issues like environmental protection, energy crisis, people-oriented management etc. These issues being interrelated, need that business should feel some obligation for meeting these issues.
6) **Intervention of Government:** Various laws reflect the ethics of society. If a business is not ethical it will attract the intervention of government and court of law.

ETHICS IN E-BUSINESS

E-business is defined as the use of Internet and computer or mobile applications in the business transactions. E-business gives small businesses access to a broader consumer market to compete with larger businesses. The growth of e-business continues to provide businesses with more opportunities. However, the e-business industry faces many ethical issues like traditional brick-and-mortar businesses. Ethics are necessary for supporting trustworthy e-business endeavours that cultivate customer loyalty in long-term. In E-business, ethics guides and influences how the company serves its customers and treats its employees.

As technology in general and the Internet in particular become a more important part of doing business, many are finding themselves faced with new ethical dilemmas. To address this problem some business firms are hiring ethics consultants. The companies engaged in e-business activities need to implement ethical business practices. There are some globally recognised factors that determine whether e-commerce companies are implementing ethical business practices or not. Some of those factors are discussed below:

- **Transparency:** Transparency is one of the most important aspects of ethical business. A transparent business policy ensures that customers are informed of what data is using in the business. In doing so, trust is cultivated between customers and businesses. The practice of representing facts, pertaining to what the company does, truthfully and with clear communication.
- **Integrity:** For online businesses, integrity is structured within the domains of clear policies, guidelines, and related learning materials. The practice of upholding ethical values by e-commerce businesses, in effect, encouraging employees to apply ethical standards daily. Integrity guides the e-commerce business to stick to its original decision.
- **Trustworthiness:** In e-business consumers typically like to continue buying from those companies which they believe are dependable and principled. Therefore, **trustworthiness** is very important **Trustworthiness** is the act of fulfilling commitments and promises to their customers.
- **Loyalty:** Loyalty in e-business describes the ongoing emotional relationship with staff, investors and consumers**.** Loyalty is the by-product of a customer's positive experience with the company. It works to create trust. In the long run, loyalty is translated to business profits valuing the advancement of the company and employees.
- **Respect:** Showing respect for the rights, privacy and dignity of its consumers is an important ethical standard for the e-commerce businesses.

- **Fairness:** Fairness and equality should be reflected in a company's business operations. **Fairness is t**he act of driving business operations fairly and committing to exercising their legitimate power to serve their customers. E-commerce companies should use transparent and honourable methods to gain competitive advantages over their existing business competitors.
- **Responsibilities:** E-businesses with higher ethical standards recognise their responsibilities to their employees and customers.
- **Sympathy:** Feeling bad for someone because of their situation is sympathy. Sympathy allows the managers of the business firms to understand how their employees are feeling and to better relate to them.
- **Lawfulness:** Abiding by legal regulations and obligations in the area of taxes, worker safety, and employment and labour laws is an important factor of e-business ethics. Working within the boundaries of the legal system get more credibility and honour from the community as well as its customers.

13.6 FACTORS AFFECTING BUSINESS ETHICS

The following are the main determinants of business ethics:

1) **Social Values:** Social values refer to moral principles or moral values or beliefs of society. The society in which people have high moral values, in that society the businessman also has to practise ethical behaviour as social forces excercise considerable influence on business ethics.
2) **Personal Values:** The businessman with high moral values and principles excercise ethical behaviour. The personal beliefs of individuals working in an organisation also influence business ethics. Generally employees follow their superiors and tend to adopt their values and actions. The behaviour of business rivals and associates also shapes the business ethics.
3) **Industry Norms:** Some industries and trade follow a set code of

conduct. The industries have an ethical climate which governs the code of conduct of their employees. With trend towards professionalsm there is improvement in ethical behaviour of managers. The professional managers normally tend to have higher ethical standards as compared to non-professional managers.

4) **Government Rules and Regulations:** The rules and regulations framed by the government force the businessmen to follow ethical behaviour and excercise high code of conduct. For example, it is compulsory for liquor manufacturing and tobacco manufacturing companies to write statutory warning on the product that 'comsumption of liqnor or tobacco is injurious for health or causes cancer.'

5) **Legislation:** The government can excercise control over businessmen and can force them to follow ethical behaviour by passing an Act or law. For example, consumer protection Act, Essential Commodities Act etc are passed by the Government to keep a check on the unethical behaviour of the businessmen.



CHECK YOUR PROGRESS

Q.3: State whether the following statements are True or False:

i) Professional code of conducts have been developed by the trade associations.

ii) Business can be carried on without trust in the ethical standards.

iii) Social values refer to moral values or beliefs of society.

iv) Generally employees donot follow their supperiors.

v) A Government has no cantrol over businessmen.

Q.4: What do you mean by intervention of Government?

.....

.....

13.7 UNETHICAL BUSINESS BEHAVIOUR

Corruption and unethical behaviour go together and exist side by side. Corruption is encouraged because business cannot wait and has to be kept going as an existing concern while government red-tape takes time. The varions sections of society practise unethical behaviour for fulfilment of their own goals and interests. Some examples are given below:

A) Unethical Behaviour to Workers:

i) Overlooking industrial safety norms in order to get work done.
ii) Denying legitimate promotion.
iii) Discremination among workers on the basis of caste, sex or religion.
iv) Inhuman treatment to poor workers.

B) Unethical Behaviour to Consumers:

i) Indulging in vulgar and false advertising to attract consumers.
ii) Neglating after sale service.
iii) Supplying lesser weight at higher prices etc.

C) Unethical Behaviour to Investors/Shareholders:

i) Witholding meaningful information.
ii) Indulging in unhealthy speculation.
iii) Witholding payment of dividends etc.

D) Unethical Behaviour to Government:

i) Keeping two sets of books to evade taxes.
ii) Supply wrong or misleading information to Government departments.
iii) Deliberately non-cooperating with the state in implementation of its economic and social policies.

E) Unethical Behaviour to Society at Large:

i) Bribing public officials to obtain undue favours.
ii) Causing environmental pollution such as air, water, sound pollution etc.
iii) Black marketing and hoarding of goods.
iv) Production of things injurious to health of people etc.

13.8 ETHICS VS. LAW

Ethical behaviour is above the behaviour required by law. Both law and ethics decide what is right and what is wrong. Law reflect the ethical or moral values of society, that is what conduct is permitted and what is not permitted in the society and if one is breaking the law then one is punished or penalised. The business ethics also decides what is th expected conduct of businessman and what is not expected by the society. Some unethical aspects of business are also punishable such as adulteration, black marketing etc. but some acts are considered unethical which are not punishable under law. For example, unduly high price charged by the businessman is unethical but it is not punishable under law. That is why we say ethics are above the law.



CHECK YOUR PROGRESS

Q.5: State whether the following statements are True or False:

i) Inhuman treatment to poor workers is an unithical behaviour.

ii) Neglating after sales service is an ethical behaviour.

iii) Withholding payment of dividends to shareholders is ethical.

iv) Supplying wrong information is to government is ethical.

v) Black marketing and hoarding of goods is unethical.

Q.6: Identify two unethical behaviour of business to the society–

i) .....

ii) .....

13.9 THEORIES OF ETHICS

There are four theories or views on business ethics. They are–

1) Theory of Utilitarian View.
2) Theory of Rights View.
3) Theory of Justice View.

4) Theory of Integrative Social Contracts.

They are explaned below:

1) **Theory of Utilitarian View:** The utilitarian view of ethics says that ethical decisions are made on the basis of their outcomes or consequences. Utilitarian theory uses a quantitative method for making ethical decisions. For example, a plant manager may decide to lay off 20 percent of workforce from the plant because it will increase the plants profitability, improve job security for the remaining 80 percent.

   Utilitarian theory encourages efficiency and productivity. However, it can result in biased allocations of resources. Utilitarian can also result in the rights of some stakeholders being ignored.

2) **Theory of Rights View:** This theory is concerned with respecting and protecting individual liberties and privileges such as the right to privacy, freedom of conscience, free speech, life and safety etc. The positive side of this theory is that it protects individuals, basic rights. But it has a negative side for organisations. It can present obstacles to high productivity and efficiency by creating a work climate that is more concerned with protecting individuals' right than with getting the job done.

3) **Theory of Justice View:** The next view is the theory of justice view of ethics. Under this approach, managers are to impose and enforce rules fairly and impartially and do so by following all legal rules and regulations. For example, a manager may provide the same rate of pay to individuals who are similar in their levels of skills, performance or responsibility irrespective of their gender, personality, race etc.

   Using standards of justice also has pluses and minuses. It protects the interests of those stakeholders who lack power. However, it may make employees reduce risktaking, innovation and productivity.

4) **Theory of Integrative Social Contracts:** This theory proposes that ethical decisions should be based on empirical (what is) and normative (what should be) factors. This view of ethics is based on the integration of two 'contracts' :

i) General social contract that allows businesses to operate and defines the acceptable ground rules,

ii) More specific contract among members of a community that addresses acceptable ways of behaving.

For example, in deciding what wage to pay workers in a new factory, managers following the integrative social contracts theory would base the decision on existing wage levels in the community. This theory of business ethics suggests that managers need to look at existing ethical norms in industries and companies in order to determine what constitutes right and wrong decision and actions.

Most business people follow the utilitarian theory of ethics. This is because this approach is consistant with such business goals as efficiency, productivity and profits. However, trends towards individual rights, social justice and community standards mean that managers need ethical standards based on non-utilitarian criteria. The result, of course, is that managers inereasingly find themselves struggling with ethical dilemmas.

13.10 ETHICS IN GLOBAL CONTEXT

Social and cultural differences between countries are important environmental factors that determine ethical and unethical behaviour. For example, the manager of a Maxican firm bribes several high ranking Government officials in Maxico city to secure a profitable Government contracts. Such a practice would be seen as unethical, if not illegal, in the United States. But it is a standard business practice in Mexico.

Should Coca-Cola employees in Saudi Arabia adhere to US ethical standards or should they follow local standards of acceptable behaviour? The problem is that some practices are considered improper in the United States while the same is proper in other countries.

In the case of payments to influence foreign officials or politicians, there is a law to guide US managers. The foreign corrupt practices Act makes it illegal for US firms to knowingly corrupt a foreign official. In some Latin American countries, for example, government bureaucrats are paid ridiculously low salaries because custom dictates that they receive small

payments from those they serve. Payoffs to these bureauerats 'grease the machinery' of government and ensure that things get done. The foreign corrupt practices does not expressly prohibit small payoffs to foreign government employees whose duties are primarily administrative or clerical when such payoffs are an accepted part of doing business in that country.

It is important for individual managers working in foreign culture to recognise the various social, cultural and political and legal influences on business. Global organisation must clarify their ethical guidelines so that employees know what is expected of them while working in a foreign location. This adds another dimension to making ethical judgements.

Nine Principles of Global Business

A) Human Rights:

Principle 1: Support and respect the protection of international human rights within their sphere of influence.

Principle 2: Make sure business corporations are not complicit in human rights abuses.

B) Labour Standars:

Principle 3: Freedom of association and the effective recognition of the right to collective bargaining.

Principle 4: The elimination of all forms of forced and compulsory labour.

Principle 5: The effective abolition of child labour.

Principle 6: The eliminations of discrimination in respect of employment and occupation.

C) Environment:

Principle 7: Support a precautionary approach to environmental challenges.

Principle 8: Undertake initiatives to promote greater environmental responsibility.

Principle 9: Encourage the development and diffusion of environmentally friendly technologies.

Source : The Global Compact website, August 14, 2000.

There are nine principles for doing business globally in the areas of human rights, labour standards and environment Managers can do a number of things if they are serious about reducing unethical behaviours in their organisations:

i) They can seek to hire individuals with high ethical standards.
ii) Establish codes of ethics and decision rules.
iii) Lead by example.
iv) Provide ethics training.
v) Conduct social audits.
vi) Provide support to individuals facing ethical dilemmas.

When all or most of them are implemented as part of a comprchensive ethics programme, they have the potential to significantly improve an organisations ethical climate.



13.11 LET US SUM UP

- The word 'ethics' is derived from the Greek word 'ethos' which refers to character or ideal standard of behaviour.
- Business ethics are just an extension of the general concept of ethics. It can be defined as socially determined moral principles which govern business activities.
- There are some basic principles of ethics to be followed while running a business enterprise.
- Business ethics are needed for improve the confidence of customers, govern the interrelationship of the members, rotect the interest of stakeholders, organise powerful consumer associations etc.
- There are four theories or views on business ethics they are Theory of Utilitarian View, Theory of Rights View, Theory of Justice View and Theory of Integrative Social Contracts.



13.12 FURTHER READING

1) Chhabra, T. N. and Chhabra, Sandhya; *Business Studies*; Karol Bagh, New Delhi: Arya Publication.
2) Gandhi, Poonam; *Business Studies*; Nai Sarak, Delhi: Dhanpat Rai & Co.
3) Pathak, R. K., Kalwar, M.C.; *Business Studies*; Ram Nagar, New Delhi: S. Chand & Company Ltd.
4) Robbins and Coulter; *Management*; Delhi: Prentice Hall.

13.13 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: i) False, ii) True, iii) False, iv) True, v) False.

Ans. to Q. No. 2: Two features of business ethics are–

i) They are moral principles which guide business behaviour.
ii) The basic philosophy of business ethics is maximum social welfare.

Ans. to Q. No. 3: i) True, ii) False, iii) True, iv) False, v) False.

Ans. to Q. No. 4: Various laws reflect the ethics of society. If a business is not ethical it will attract the intervention of Government and court of law.

Ans. to Q. No. 5: i) True, ii) False, iii) False, iv) False, v) True.

Ans. to Q. No. 6: Two unethical behaviour of business to the society are–

i) Bribing public officials to obtain undue favours.
ii) Black marketing and Hoarding of goods.



13.14 MODEL QUESTIONS

Q.1: What is meant by business ethics?

Q.2: What are the characteristics of business ethics?

Q.3: Discuss the principles of business ethics.

Q.4: Explain the need for business ethics.

Q.5: Discuss in brief the main determinants of business ethics.

Q.6: Explain unethical behaviour of business with some examples.

Q.7: Make a comparison between ethics and law.

Q.8: Discuss in brief the various theories on business ethics.

Q.9: Write a note on ethics in the global context.

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UNIT-14 SOCIAL RESPONSIBILITIES OF BUSINESS

UNIT STRUCTURE

14.1 Learning Objectives
14.2 Introduction
14.3 Meaning of Social Responsibility
14.4 Meaning of Corporate Social Responsibility (CSR)
14.5 Scope of Social Responsibilities of Business
14.6 Social Responsibilities- Indian Business Houses
14.7 Forces Influencing the Working of the Business Organisations
14.8 Relationship between the Government and Business Houses
14.9 Let Us Sum Up
14.10 Further Reading
14.11 Answers To Check Your Progress
14.12 Model Questions

14.1 LEARNING OBJECTIVES

After going through this unit you will be able to:

- explain the meaning of social responsibilities of business.
- describe the scope of social responsibilities of business.
- outline the social responsibilities performed by Indian Business Houses.
- explain the forces influencing the working of the business.
- describe the relationship between the Government and the business houses.

14.2 INTRODUCTION

In this unit, we are going to discuss about social responsibilities of business which has gained much importance in the recent years. Social responsibilities are the expectations of the society on business organisations

that they should think about the society in addition to their profit earning objective. Then, we will discuss the scope of social responsibilities of business and the discharging of social responsibilities by Indian business houses with reference to some business houses. The relationship between the Government and the business houses will also be discussed which throws light on role of government in development of trade, commerce and industry in India.

14.3 MEANING OF SOCIAL RESPONSIBILITY

In this section, we will discuss the meaning of social responsibility of business. Social Responsibility of business has been one of the most talked about and widely supported subjects. Over the last few decades in India and rest of the world, social responsibility has become comprehensive enough to include anything under the sun.

Social responsibility is an ethical idea that an individual or an organization has a responsibility to the society. It is anything which is beyond the firm's direct economic and technical interest. Social responsibility is concerned with social welfare and Human betterment. In this process a firm sacrifices harmful activities to social and human beings.

The term 'social responsibility' is described as a 'nebulous idea' and, hence, is defined in various ways. Adolph A. Berle has defined social responsibility as 'the manager's responsiveness to public consensus'. This means that there cannot be the same set of social responsibilities applicable to all countries in all times. These would be determined by public consensus at any given time in a given society.

According to Keith Davis the term 'social responsibility' refers to two types of business obligations, viz,

a) The socio-economic obligation, and

b) The socio-human obligation.

The first one includes obligations to promote employment opportunities. The socio-human obligation of every business is to develop

human values such as morale, co-operation, motivation and self-realisation in work.

Operationally, social responsibility is the harmonious interaction of business with its various interest groups such as employees, consumers, shareholders, government and the community at large etc. It is nothing but meeting the obligations to these various interest groups as per prevailing social norms and expectations.

14.4 MEANING OF CORPORATE SOCIAL RESPONSIBILITY (CSR)

In this era of globalisation everything related to trade and commerce has undergone immense development in a new way all over the world. Corporate sector has to play a major and significant role in the vastly changing scenario of the late 20th century and 21st century. Multinational companies and other huge companies are getting entrance into the nook and corner of the world, where they earlier did not have the opportunity. India is also not an exemption in this competitive journey to achieve its desired goal.

The concept of CSR is not a new one but its focal point changes with the changing requirement of business and varying social needs.

In simple terms, Corporate Social Responsibility (CSR) denotes the responsibility towards the growth of the society and maintaining a environment. It is a concept whereby companies and business houses decide voluntarily to contribute to a better society and a cleaner environment through its business activities and its social investments. CSR has been making an increasingly prominent impact in the social system.

The concept of CSR came in 1920s , but due to the severe condition of World War I and great depression, the concept does not blossoms.

The concept of CSR came in to limelight in 1950s. Voward Bowen in his publication "Social Responsibility of Businessman", made the significant contribution about CSR.

A theoretical model has been accepted in 1979 by the corporate sector , which was developed by Carroll . Now, the corporate sector started to focus their CSR initiative towards business strategy.

There are various formal and informal ways through which a business can make contributions towards CSR practices. CSR can be regarded as a way by which the companies are integrating their social, environmental, decision making and operations to improve the society and society's wealth.

The nature and scope of corporate social responsibility has changed over time .The historical concept of CSR take into consideration only the 'philanthropic' aspect , but now the concept has been changing. Now we can categorized the CSR activities in four (4) aspects .which are as follows:

- Economical
- Ethical
- Legal
- Philanthropic

14.5 SCOPE OF SOCIAL RESPONSIBILITIES OF BUSINESS

After discussing the meaning of social responsibilities of business, let us now discuss the scope of social responsibility of business. Business is related with different inter-related groups in society as share holders, consumers, employees and community. In addition, business has also responsibilities to distributors and retailers, competitors, unions and the government. Therefore, the scope of social responsibilities of business is very wide.

A businessman's social responsibilities to different stakeholders in business are briefly enumerated below:

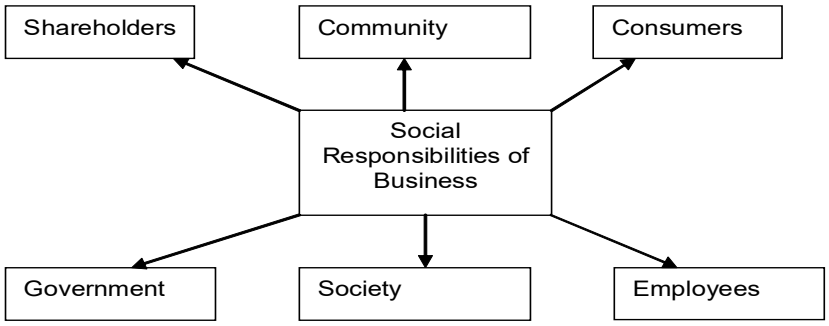


Fig: Social Responsibilities of Business

- **Responsibility towards Environment:** Air and water pollution have become a serious threat to the health of people in different parts of the world. Some industries and market places are causing high degree of pollution. Under such circumstances business community is responsible for keeping the environment of industrial and commercial centres clean and healthy. Specific responsibilities in context to environment are:
  - Establishing new industries away from towns and cities.
  - Installing anti-pollution devices in the factories.
  - Helping the local administration in city planning, drainage system and maintenance work.
- **Responsibility of Protecting Natural Resources:** The exploitation of natural resources for use as raw materials by industrial enterprises **may cause serious** concern. The forests, the mountains, the animals and the birds need protection for ecological balance **and sustainable development. It is a social and moral responsibility of the business unit to replenish and restore the resources they utilised**. The industrialists should realise their responsibilities and **extend their co- operation to** the government in protecting the precious resources and lives.
- **Responsibility towards Customers: customers are considered as a king in todays' buyers' market. It is a responsibility of business houses to render proper value for the price they charge from the customers for their products** In modern marketing the customer is treated as the king. A firm should make conscious and organised efforts to find out what the members of the community need and how it can provide maximum **level** of satisfaction to them. The business **houses** are responsible for supplying goods and services of right quality to their customers in right time, at right place and **for** right price. They are to ensure that:
  - The goods are produced in right quantity to meet customers' demand.

- The goods are made available when desired by the customers.
- The quality standards are followed.
- Advertisements are not misleading and incorrect.
- After sale service, if promised, is provided.

- **Responsibility towards Shareholders:** Shareholders expect a reasonable return on their investment. The management of a company is responsible to their shareholders for giving reasonable profits to them. The interest of small shareholders, who are scattered through out the state or country need to be protected.

- **Responsibility towards Employees:** The major responsibilities of business towards the people employed by them may be summed up as follows:
  - To pay salaries and wages in time.
  - To ensure good working condition.
  - To arrange for safety of workers.
  - To pay compensation in case of death/injury as prescribed by the law in force.

- **Responsibility towards the State:** The state functions through three organs: the legislature, the executive and the judiciary. The business is to deal with all the three organs for various purposes. It is responsible towards the state to abide by the rules and regulations, to pay taxes and dues honestly, submit required information or documents correctly and not to resort to immoral practices.
- **Responsibility towards Institutions:** There is a great need for co-operation between business houses and various institutions that are preparing young men and women for career in business. The industrial houses have to co-operate with business and economic institutions by providing practical training facilities, scholarship, stipends etc. to the deserving students. For instance, in India, a

number of institutes of higher learning and research centres established by different business houses like, Tatas, Birlas and other industrialists have contributed a lot to the growth of science, technology, social sciences and other disciplines.

- **Responsibility towards Village Community:** Industrial houses and businessmen are responsible to the village community which provides them with manpower and raw materials and markets for their finished products. The projects which they should set up for rural development may include:
    - Establishment and running of schools, vocational training centers, hospitals etc.
    - Construction and maintenance of village roads, drinking water facilities etc.
    - Rural electrification.
    - Development of dairies and poultry farms.
    - Supporting in establishment and running of cottage and village industries.
- **Responsibility towards Society at Large:** Business class is the richest class in the society. It does influence social customs and traditions in a big way. The business community must not affect the rich traditions and cultures of the society by displaying 'money power'. They are responsible to the society at large to follow norms, moral values and assist in the development of educational, medical, sports and other facilities. They should encourage our artists, musicians, poets, writers and scholars. The business people are also responsible for creating a better environment and higher standards of living for people and improving the image of the business.



CHECK YOUR PROGRESS 1

Answer in 50 words

A) Discuss the responsibilities of business to the customers.

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14.6 SOCIAL RESPONSIBILITIES-- INDIAN BUSINESS HOUSES

Now, we will discuss the performance of business houses in discharging social responsibilities in India. Progressive organizations in all countries are to-day keen to play a social role. They have begun to take their role of a corporate citizen in an innovative manner. International Business Machines (IBM), the biggest computer transnational corporation has a world wide policy of taking up social projects in countries where it conducts its business. These projects include the renovation of Buddhist temple in Indonesia, saving an Italian city from sea erosion etc. MBB, the biggest German aerospace company, has denoted expensive equipment to a New Delhi hospi wiss companies, have a massive involvement in consumer education.



Transnational Corporation: Corporation which operate in more than one country or nation at a time.

Many business organizations in India have also contributed greatly in the area of social responsibility. Associated Cement Companies (ACC) is rendering social service over the last few decades. It launched a village welfare scheme in 1952. This scheme was aimed at providing employment and improving the quality of rural life through setting up of schools, health centers, co-operative societies etc.

The Mafatlal Group follows a slightly different line in social performance. It spends a huge sum of money every year on rural welfare

programmes for helping the poor. It constructs homes for homeless, provides drinking water, and distributes books, stationery and scholarship in rural areas.

The Tata and Birla Group of industries have taken several schemes for development of sports, science and technology, religious places etc. in the country. Companies like Cadbury India, Glaxo and Richardson etc. are helping farmers to grow crops which serve as raw materials for them. In 1970, TISCO voluntarily in its articles spelled out its moral and social commitments to various groups in the society. The Escort Group of industries has set up "Escort Heart Institute & Research Centre" in 1988 for treatment of heart disease. Escort has also made valuable contributions for promotion and maintenance of various educational institutes, hospitals, and orphan houses etc. particularly in the northern India.

In the public sector, Bharat Heavy Electricals Ltd. (BHEL) is playing a prominent role in the area of social responsibility. All the divisions of BHEL have drawn comprehensive schemes for the welfare of their employees in townships and for those living in the nearby areas. Jobs done by BHEL units in this respect include provision of drinking water facilities, construction of external sewerage, roads and culverts, providing health facilities, improving educational facilities and so on.

It is very encouraging that the Indian business enterprises are playing a great role in serving the society. However, there are various other areas where Indian business houses can contribute for social enlistment-

- The business can contribute in the area of employment. Business should create enough job opportunities to absorb persons. The creation of new jobs is not a problem but a challenge which business should accept.
- The removal of regional disparities is also the responsibility of business. The business should set up new units in those areas which have been neglected earlier.
- The rural areas should be developed so that these areas are also able to reap the benefit of development. The cottage and small

scale industries should be given encouragement and it will improve the quality of life in rural areas.

- The business units should make proper efforts in controlling pollution so that ecological balance is maintained.
- Big industries units can open schools, colleges, dispensaries, construct roads and create recreational facilities not only for their employees but also for the people living in those areas.

The business units located in Assam are also contributing towards the upliftment of the society. But the number of such units is very limited. Expect Oil India Ltd., Indian Oil Corporation, ONGC, Tea Industry and a few other organizations, businessmen in general have not realised their responsibility towards society. The oil companies and the tea industry have taken some projects for social upliftment in Assam which include construction of schools, roads, culverts, dispensaries, supplying of drinking water, sponsoring big sport events, rewarding the local literatures etc. However, they have not come up with any big projects like establishment of research centre, construction and maintenance of hospitals, technical institutions, construction of stadium, development of the rural economics etc. The people of Assam, specially the rural people do expect more contributions from businessmen for their socio-economic development in near future.



ACTIVITY 1

Find out some activities which a business organization can perform for the welfare of the society.

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14.7 FORCES INFLUENCING THE WORKING OF THE BUSINESS ORGANISATIONS

A business organization has to make decisions within the framework of certain environmental forces. These may be broadly classified as under:

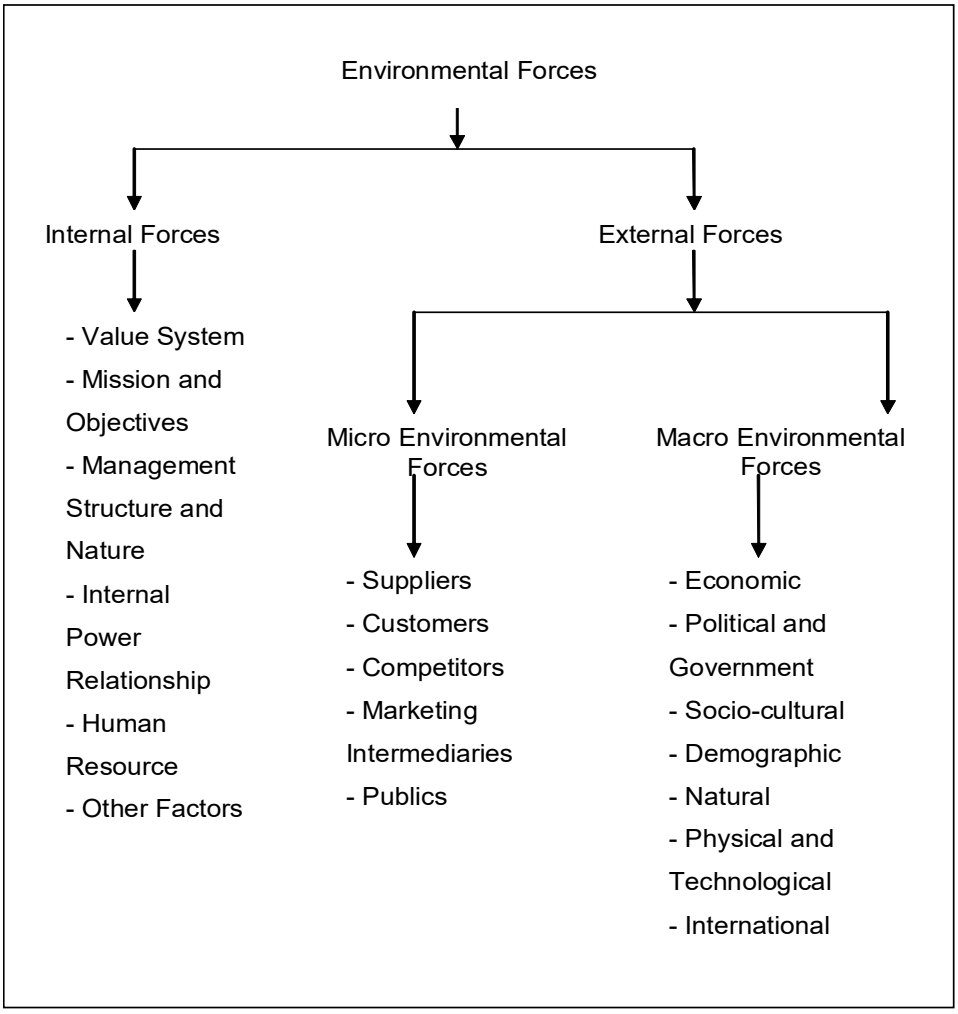


Fig: Classification of Environmental Forces

Although the business environment consists of both the internal and external environments, the term 'business environment' is generally used to refer to external environment.

The internal forces, for example, production capacity, production technology, human resource, financial policies, distribution network, quality of salesmen etc. are generally regarded as 'controllable' forces. The

management of the company has control over these forces and can alter or modify them to suit the environment.

The external forces are those that are beyond the control of company management. For instance, management has little or no control over economic forces, socio-cultural forces, demographic forces, government and legal factors etc. Hence, they are generally regarded as 'uncontrollable' forces.

A brief description of various internal and external forces is given below:

INTERNAL FORCES

There are a number of internal forces that influence the business decisions in an organization. The important forces are outlined below:

- **Value System:** The value system has an important bearing on the choice of business, the mission and objective of the organization, business policies and practices. It is a widely accepted fact that the extent to which the value system is shared by all in the organization is an important factor contributing to success.
- **Mission and Objectives:** The business domain of the company, priorities, business philosophy, business policy etc. is guided by the mission and objectives of the company.
- **Management Structure and Nature:** The organizational structure, the composition of the Board of Directors, professional approach of management etc. are important factors influencing business decisions.
- **Internal Power Relationship:** The amount of support provided by lower- level management, workers, shareholders etc. to the top management has important influence on business decisions and their implementation. The relationship between the members of the Board of Directors is also a critical factor.

- **Human Resource:** The characteristics of the human resources like skill, quality, morale, commitment, attitude etc. could contribute to the strength or weakness of an organisation.
- **Other Factors:** Other factors include-
  a) Physical Assets and Facilities.
  b) Research and Development and Technological capabilities.
  c) Marketing Resources.
  d) Financial Factors.

EXTERNAL FACTORS

The external forces that influence the business organizations may be discussed under two broad categories, viz Micro and Macro forces.

MICRO ENVIRONMENTAL FORCES

Micro environmental forces are intimately linked with the company. They include the suppliers, customers, competitors, marketing intermediaries and the public. A brief description of each of them is given below:

- **Suppliers:** An important force in the micro environment of a company is the suppliers, i.e. those who supply the inputs like raw-materials and components to the company.
- **Customers:** A business exists only because of its customers. Customers may be of different categories like individuals, householders, institutional, governments etc. The choice of the customer segments must be made carefully to ensure success of business organizations.
- **Competitors:** In marketing the products a firm may encounter with two types of competitors:
  - Firms producing and selling similar types of products; and
  - Firms producing other items in which a consumer desires to spend his discretionary income.



Discretionary Income:
Income available with the individual after deducting tax and expenses for essentials, such as food, clothing and shelter.

The second type of competition is very high in countries characterised by limited disposable incomes.

- **Marketing Intermediaries:** The marketing intermediaries include middlemen such as agents and merchants who help the company to find customers. They also include advertising agencies, marketing research firms, media firms, consultancy firms and financial intermediaries.
- **Publics:** A public is a group that has an actual or potential interest in or impact on an organisation's ability to achieve its interest. Media publics, citizens' action publics and local publics are some examples.

MACRO ENVIRONMENTAL FORCES

The macro environmental forces are the forces which which influence the business as a whole across the sectors of the economy. They are not specific to a company of an industry. The macro environmental forces shape opportunities and pose threats to the company. The macro forces are more uncontrollable than the micro environmental forces. Some important macro environmental forces are given below:

- **Economic environment:** Economic conditions, economic policies and the economic system are the important factors that constitute the economic environment of a business. The economic conditions of a country, for example, the nature of the economy, **GNP, NNP,** level of income, **general price level** distribution of income etc. are very important determinants of business strategies. Similarly, different economic policies followed by a government such as restrictive or liberal import policy or a policy of protecting the home industries may have different impact on business.
- **Political and Government Environment:** Political and government environment has close relationship with economic system and economic policy. There are a number of laws that regulates the conduct of business. The laws cover such matters as standards of products, packaging, promotion, etc. Certain changes in government



Economic System

It is a set of methods and standards that guides ownership and allocation of economic resources.

policies such as the industrial policy, fiscal, tariff policy etc. may have profound impact on business. Some policy developments create opportunities as well as threats.

- **Socio-cultural Environment:** The socio-cultural forces are very important that should be analysed while formulating business strategies. In no case a business should ignore the customer, traditions, tastes and preferences etc. of the people. The buying and consumption habits of the people, their languages, beliefs and values, education all are factors that affect business. For a business to be successful, strategies should be formulated to suit the socio-cultural environment.
- **Demographic environment:** Demographic factors like the size, growth rate, age composition, sex composition etc. of the population, family size, economic satisfaction of the population, educational levels, language, caste, religion etc. are all factors that are relevant to business,
- **Natural Environment:** Geographical and ecological factors, such as natural resources endowments, weather and climatic conditions, topographical factors, location aspects in the global context, port facilities etc. are all relevant to business. Ecological factors have recently assumed great importance.
- **Physical and Technological Environment:** Business prospects depend also on the availability of certain physical facilities. For example, the sale of television sets is limited by the extent of the coverage of the telecasting, Demand for refrigerators is affected by the extent of electrification and power supply, the demand for LPG gas stoves is affected by the rate of growth of gas connections. Technical developments may increase the demand for some existing products. For example, advance in the technologies of food processing and preservation, packaging etc. have considerably improved the marketability of products.



Liberalization: Relaxation of government restrictions.

- **International Environment:** The international environment is very important from the point of view of certain categories of business. It is particularly important for industries directly depending on imports or exports. For example, a recession in foreign markets, the adoption of protectionist policies by foreign nations, a liberalisation of imports etc. may affect the volume of foreign business to a large extent. A company which depends on the export market has to face the impact of adverse developments in foreign markets. **Currency exchange rates fluctuations, economic recession, change in the political system of a country etc. also influence a business having international operations.**



CHECK YOUR PROGRESS 2

A) Mention three macro environmental forces that influence working of the business?

i) .....

ii) .....

iii) .....

14.8 RELATIONSHIP BETWEEN THE GOVERNMENT AND BUSINESS HOUSES

The governments in general have a very close relationship with business. The government of a country is concerned with not only law and order in the country, but also participates in economic activity and control and regulates business so as to maximize social welfare. The government maintains different types of relationship with business a description of which is given below:

1. Government as Promoter of Business: G**overnments specially of developing nations have a very important role as a promoter of business and industries in** the country through efforts in the public and

private sectors. As promoter of business the government is undertaking the following activities:

- Providing technical guidance to the entrepreneurs.
- Encouraging industrial research.
- Removing the shyness of capital.
- Establishing Industrial Estates.
- Collecting trade information, data for encouraging home as well as foreign business.

2. Government as Regulator of Business: Government regulation on private enterprises is exercised with a view to directing the economy towards maximum social good. Some of the methods used for regulating business activities are as follows:

a) Regulation of Investment Activity in Private Enterprise by means of Economic Planning: Totalitarian economics are highly planned and centrally controlled. The State owns all the productive resources and there is complete regimentation of economic activity. Not only is production planned but consumption is also planned by the state. The government decides what shall be produced and in what quantities and does not allow the amount and variety of production to be determined by consumer preferences.

b) Regulation of Business Activity through Industrial Policy: Since independence, the national government has been taken on industrialisation and is committed to a policy of rapid industrial progress. It took a number of measures such as providing economic infrastructure by improving means of transport and communications, expanding facilities for general and technical education, improving the quality of industrial labour, and establishing a number of financial institutions for providing different types of finances to all categories of industries. It has also taken steps to ensure that a country has a sound currency and banking system. It has introduced suitable tariff and tax policy. Further, it has given all encouragement and assistance for the development of small-scale industries.

c) Regulation of Investment, Location, Size, Expansion etc through Industrial Licensing: The basic framework for the government's industrial

licensing policy, designed to regulate indiscriminate entry and growth in the industrial sector, was provided in the Industrial Policy Resolution of 1948. The government has effected changes, from time to time, in its industrial licensing policy in order to fulfill the priority needs of the economy and to promote orderly growth of industries.

d) Regulation and Control of Prices of Commodities: The government regulates and exercises control over prices by fixing prices of raw materials, semi-finished and finished goods. The general power is given by the Industrial (Development and Regulation) Act 1951. The Essential Commodities Act, 1955 gives special power to the government to declare any commodity as essential in the public interest and exercise control over it. Tariff Commission acts as the most important agency of the government for foxing prices. The Commission acts primarily for granting protection to home industries against foreign competition.

e) Regulation of Corporate Management, Wages, Hours of Work, and Bonus to the Employees: Regulation of corporate management is done through the Companies Act 1956. Regulation of wages and working conditions of workers are done through the Factories Act 1948, the Payment of Wages Act 1936, the Minimum Wages Act 1948, etc.

f) Regulation of Monopolies and Restrictive Trade Practices through Legislation: Every government takes steps to curb monopolistic practices which prove prejudicial to common good. On the basis of the recommendations of the Mahalanobis Committee on the Distribution of Income and Wealth and Concentration of Economic power, the Government of India appointed monopolies Enquiry Commission in May 1964 under the Chairmanship of Justice k.C.Das Gupta. On the basis of the Monopolies Enquiry Commission's Report, the Government of India passes the Monopolies Restrictive Trade Practices Act, 1969 and this came into effect from June 1970. However, after liberalisation major amendments have been made in the MRTP Act and it has lost its holds to a great extent in the changing industrial environment in India as well as in the globe.

3. Government as Arbitrator: Industry or business cannot grow unless there is industrial peace in the country. The Government has ensured social justice to both employers and employees through Industrial Disputes Act, 1947. The Government acts as an arbitrator to settle the industrial disputes through its machinery of Conciliation Officers, Board of Conciliations, and Industrial Tribunals etc.

4. Government as Entrepreneur: Private sector depends more upon Government financial institutions for financing their expansion, growths and diversification. On the other hand, there is a lack of managerial skill and professional managers in government sector. To overcome various difficulties faced by both private and public sector, the concept of 'joint sector' has been announced by the government. The joint sector is essentially an extension of the concept of mixed economy to the management of an undertaking where both public and private sector exist together. The formula is very attractive and admirably suited to present position of the economy and the government's thinking. It can harmoniously combine the efficiency, experience and dynamism of the private enterprise with the social objectives of public enterprises. The Government, thus, participates as a partner or sharer in industry with private sector.

5. Government Developments and Agencies for Guidance and Assistance: Besides taking direct part in industry or business, government also provides guidance and assistance to entrepreneurs through various government departments and agencies. Some of them are given below:

- Ministry of Commerce and Industry
- Development Councils
- Financial Institutions
- Foreign Collaboration
- Industrial Research
- National Productivity Council
- Bureau of Indian Standards
- Technical Institutes
- Small-scale Service Institutions

- Trade Commissioners
- Department of Commercial Intelligence and Statistics
- Export Promotion Councils
- Marketing Boards
- Commodity Boards



CHECK YOUR PROGRESS 3

Answer in 50 words:

A)Explain the relationship between state and business

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14.9 LET US SUM UP

The concept of social responsibility has different importance to different interested groups in society. However, it has assumed great importance to business houses in the changing socio-economic environment. Both the public as well as private sectors have to discharge social responsibilities for attainment of business goals as well as upliftment of the society. There is a distinct relationship between business and government. The government can play significant role in controlling and regulating the business activities so as promote business and maximise social welfare.



14.10 FURTHER READING

1. Basu C. R , *Business Organisation and Management*

2. Saxena S. A, *Business Organisation and Management*

3. Sherlekar S. A, *Modern Business Organisation Management*

14.11 ANSWERS TO CHECK YOUR PROGRESS

ANSWERS TO CHECK YOUR PROGRESS 1

A) The business organizations are responsible to the customers. The responsibilities of business to the customers are:

- The goods must be produced in right quantity to meet customers' demand.
- The goods must be available when desired by the customers.
- The quality standards should be strictly followed.
- Advertisements should not be misleading and incorrect.

ANSWERS TO CHECK YOUR PROGRESS 2

A) i) Economic environment

ii) Political and Government Environment

iii) Socio-cultural Environment

ANSWERS TO CHECK YOUR PROGRESS 3

A) The government of a country plays an active role in economic and business activities. The government provides various technical and financial assistances to the business. Government imposes various restrictions on the private sector to direct the economy for maximum social good. Therefore, government acts as promoter, regulator, arbitrator and sharer of business.



14.12 MODEL QUESTIONS

1. What is social responsibility of business? Discuss the scope of social responsibilities of business.
2. Discuss the social performance of business in India.
3. Analyse the different environmental forces influencing business organization.
4. What is the relationship between Government and business? Discuss the role of Government in present day business.
5. Why are businessmen concerned about social responsibilities? Explain the forces inducing social responsibilities.

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UNIT 15 : HUMAN VALUES IN BUSINESS

UNIT STRUCTURE

15.1 Learning Objectives

15.2 Introduction

15.3 Meaning of Values

15.4 Meaning and Nature of Human Values in Business

15.5 Importance of Human Values

15.6 Types of Human Values

15.7 Human Values in Business Ethics

15.8 How Business Ethics deals with Human Values

15.9 Essential Human Values for Business Owners

15.10 Significance of Ethical Values for Success of Business

15.11 Codes of Conduct

15.12 Let Us Sum Up

15.13 Further Reading

15.14 Answers to Check Your Progress

15.15 Model Questions

15.1 LEARNING OBJECTIVES

After going through this unit, you will be able to:

- develop understanding about meaning and definitions of values
- understand the meaning and nature of human values in business
- describe the importance and types of human values
- explain the importance of human values in business ethics
- explain how business ethics deals with human values
- discuss the essential human values for business owners
- describe the significance of ethical values for success of business
- understand the meaning and concept of codes of conduct.

15.2 INTRODUCTION

It is often said that a person or an object has value. However, it is difficult to define value as it is abstract in a nature. It is commonly regarded as an economic conception. Naturally, the 'human values' is a difficult topic to be defined. But they are essentially moral values that apply to all humans. Different cultures will have different sets of human values, but some can be found in every culture. This unit discusses about the meaning, importance, types of human values and their necessity in business ethics.

15.3 MEANING OF VALUES

The term 'Value' originates from the Latin word 'Valere' which means 'to be of worth'. The Oxford Dictionary defines 'Value' as the 'worth, desirability or utility of a thing'. According to some other dictionaries Value renders to anything useful, worthy or estimable. It may be in the form of price, worth or importance of a thing.

Making an attempt to define the term 'Value' is a difficult task. However, many eminent people have defined 'Value' in different ways. One definition has given by Paker which reads as 'Value is the assuagement of desire".

In the words of John Dewey, "Value means primarily, to price, to esteem, to appraise, to estimate. It means the act of cherishing something holding it clear and also, the act of passing judgement upon the nature and amount of its value as compared with something else,"

According to Rokeach, "Value is an enduring belief, a specific mode of conduct or an end state of existence, along a continuum of relative importance."

Prof. R. K. Mukerjee, defines "Values are socially approved desires and goals that are internalised through the process of conditioning, learning or socialisation and aspirations."

According to Kluckohn a value is a conception of the desirable and not something "merely desired".

15.4 MEANING AND NATURE OF HUMAN VALUES IN BUSINESS

A human being in his entire life learns numerous. We, as humans, are a part of many social organizations like schools, workplaces, markets, businesses, etc. The virtues that guide us to take into account the human elements when we interact with other human beings are termed as human values. Basic human values refer to those values which are at the core of being human. Human values are those values which help men to live in harmony with the world. Human values bring out the fundamental goodness of human beings and society at large. The values which are considered basic inherent values in humans include truth, loyalty, love, peace, brotherhood, honesty, sincerity, truthfulness, gratitude, tolerance, non-violence, acceptance, consideration, appreciation, listening, openness, affection, respect for others including plants and animals, a sense of responsibility, cooperation, self-reliance, secularism and internationalism etc.

The nature of human values is complex and abstract because it deals with how human experience the world. Human values are integral part of one's personality and affects employability quantity too. Many employers are inclined to hire those who have better human values.

15.5 IMPORTANCE OF HUMAN VALUES

Human values are very important as they make up our personality and define how we act in life. The values that we hold determine who we are, who we want to be and what guide us through life. They also govern how we live our lives and how we make decisions on an everyday basis. Without human values our lives would become disordered and there would be no meaning behind any of the things that we do or say.

Human values provide an understanding of what people find to be important in their lives. There are many different aspects of human values namely integrity, morality, and benevolence etc. However, the value system

is not static. It can change depending on context or social situation. For a specific context, some people may have a certain set of values but may have completely different values for another context. The importance of human values can be summarised as follows:

- Human values provide understanding of the attitudes, motivation and behaviours
- They influence our perception of the world around us
- They represent interpretation of “right and wrong”
- They provide a way to understand humans and organisation.

15.6 TYPES OF HUMAN VALUES

Human values are the things that motivate us to do what we do and make decisions based on these values. Individuals who bear those human values enjoy exploring opportunities and trying new experiences. These individuals are often drawn to careers that allow them to explore different fields. It may also allow them to change careers throughout their lives. There may be various human values namely autonomy, community, creativity, justice, power and self-direction etc.

- *Autonomy*: Autonomy is the ability to be self-directed and take charge of our own actions. Someone having autonomy have the freedom to choose their own path in life and they can pursue a career or lifestyle they want. They do not feel that they are being pushed into something that is not for them.
- *Creativity*: Creativity is all about having fun with new ideas and thinking outside the boundary. It is important because it helps us solve problems in creative ways. We don’t have to rely on old methods that might not work anymore. Creative individuals may find themselves drawn to professions such as inventors, musicians, architects and filmmakers.
- *Community*: Community is the sense of belonging and connection to other people. People having value community tend to feel like everyone needs each other to survive and succeed.

- *Power*: Power is the ability to act on one's desires without interference from others. Those who value power will likely go into law enforcement or government positions where they have authority over what happens in society.
- *Justice*: Justice means fairness for everyone and taking care of those who need it most, even if it costs more than usual. Those who value justice usually end up in careers where they serve others such as doctors, lawyers, teachers and social workers.
- *Self-direction*: Self-direction refers to making choices and living according to one's beliefs instead of letting others tell you how to live your life.



CHECK YOUR PROGRESS

Q. 1: State the meaning of human values.

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Q. 2: Mention any two types of human values.

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Q. 3: The values that we hold determine who we are, who we want to be and what guide us through life. (Write true or false)

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15.7 HUMAN VALUES IN BUSINESS ETHICS

In simple words values in business ethics mean principle or code of conduct that govern transactions. Certain standards are required to govern on how the organizations go about their business operations, these standards are called ethics. These ethics are meant to analyse problems that come up in day to day course of business operations. This also applies to individuals who work in organisations, their conduct and to the organisations as a whole.

Business ethics refers to implementing appropriate business policies and practices with regard to debatably controversial subjects. Business ethics is a wider term that includes many other sub ethics that are relevant to the respective field. For example, there is marketing ethics for marketing, ethics in HR is for Human resource department and so on. However, business ethics itself is a part of applied ethics. Applied ethics takes care of ethical questions in the technical, social, legal and business ethics.

Nowadays business ethics determines the fundamental purpose of existence of a company. Because we live in an era of cut throat competition and competition breeds enmity. This enmity reflects in business operations, code of conduct. There is an ensuing battle between various groups in business. For example, battle between those who consider profit or shareholders' wealth maximisation as the main aim of the company and those who consider value creation as main purpose of the organisation. In the first case, if an organisations main objective is to increase the shareholders' wealth, then considering the rights or interests of any other group is unethical. Whether in the latter, it is argued that profit maximisation cannot be at the expense of the environment and other groups in the society that contribute to the wellbeing of the business.

At the end, we can say that business ethics continues to a debatable topic. Many people argue that lots of organisations use it to seek competitive advantage and creating a fair image in the eyes of consumers and other stakeholders. There are also some advantages like transparency and accountability.

15.8 HOW BUSINESS ETHICS DEALS WITH HUMAN VALUES

Ethics and ethical behaviour are becoming integral issues on the present business community and they are increasingly being focused in business. A growing number of organisations are crossing the red line of ethics and ethical behaviour. People are now becoming more concern about what is actually being happening in the name of competition, growth and

profitability among the business organisations. They are constantly surveying and evaluating the unethical practice in business organisations.

Business ethics mostly deal with basic human values as business are run by human beings. Moreover, business ethics deal with the creation and application of moral standards in the business environment. Morals are judgments, standards and rules of good conduct in the society. They guide people toward permissible behavior with regard to basic values. Basic human values refer to those values which are at the core of being human. The basic inherent values in humans include truth, honesty, loyalty, love, peace, etc. Values are the guiding principles of our lives. They are essential for positive human behaviour and actions in our daily lives. They are formed on the basis of interests, choices, needs, desires and preferences.

15.9 ESSENTIAL HUMAN VALUES FOR BUSINESS OWNERS

It is a difficult job for the business owners to keep their team motivated. Any size of business, even the smallest, if run on a strong foundation of core values can make a winning team. Here are some core values that business owners should strive to have at all times with the intent of leading their businesses to success.

- **Passion**: Business owners must be passionate enough about what they do to facilitate their employees. A business owner must create an atmosphere of respect and trust. When people operate in an environment of trust, they feel safe and empowered to be the best versions of themselves. They participate actively sharing responsibilities and outcomes. Good business owners understand this well. They know the art of strengthening the spirit and building positive relationships in their teams.
- **Empathy**: Empathy is a human trait that brings forth qualities of warmth and strength together. Leading with empathy has great merits since it allows a business owner to perceive things from other individual's perspective in his business. Many people tend to see things from their

own point of view without caring why someone feels as they do. In this situation, it is easy to assume that the other person is wrong rather than understanding their context and perspective.

- **Innovation:** It is imperative that business owners evolve with openness to serve the change. Business owners must adopt a culture of innovation for themselves and their employees. Encouraging ideas for improvement at all levels is important. By being open-minded, new ideas will flow and the business will tell what it needs. This kind of thinking will lead to gentle shifts over time that will take the business towards success.
- **Bravery:** Bravery is an another human value that a business owner should have for recognizing and pursuing the opportunities. Bravery, springs from natural creativity and a determined spirit, helps the entrepreneur deal with discouragement and even defeat in the early stages of company formation.
- **Vision: The business owners should have a clear** Vision that guides them in the business planning process, clarifying the opportunity and setting goals for the business. Vision allows the businessmen to see their past and current position and beyond limited resources to appreciate the potential of the business.
- **Respect for self and others:** Self-respect and respect for others enables people to appreciate their efforts. This respect, frees business owners from the obstacles of low self-esteem, hopelessness and anger.
- **Honesty:** A business owner must be honest in financing the business and managing the assets. Honesty lets the businessman avoid false security and stay calm amid confusing situations.
- **Loyalty:** A businessman should loyal enough to his stakeholders. Loyal people avoid conflicts of interest, help build and protect the good reputation of their businesses and help boost the morale of their colleagues.
- **Fairness:** Fairness is one of the important human values the business

owners should have. Treating all individuals equally and courteously is fairness.

- **Leadership:** Business owners should have Leadership quality. Business owners maintain their leads by constantly improving operational efficiency, worker satisfaction and customer approval.
- **Trust:** Trust is an indispensable human value. Trust which results from reliability, compassion, and gentleness, permits the businessmen to overcome mistrust, selfishness, and ruthlessness.
- **Respect:** A business owner should have the quality to respect his subordinates. Everyone deserves equal respect and support for sharing ideas and opinions, without fear of any penalty or form of discrimination.
- **Accountability:** Accountability requires a total commitment to the ethical quality of all decisions, actions and relationships.
- **Transparency:** Committing to transparency requires making business information and policies available to appropriate groups.
- **Environmental Consciousness:** Business owners should environmentally conscious and should be commitment to the environment by helping mitigate the effects of global climate change.

15.10 SIGNIFICANCE OF ETHICAL VALUES FOR SUCCESS OF BUSINESS

Ethics and values help in satisfying basic human needs. Ethical values in business promote integrity among the employees and gain trust from other key stakeholders also. Ethics and values build credibility, leadership skills, improves decision making process, and provides long term gains.

There are several reasons why business ethics are essential for success in business. Well-defined ethics programmes establish a code of conduct that drives all employee behaviour from top to bottom. It effects from executives and middle management to the newest and youngest employees in the business. Whenever all employees in a business

organisation make ethical decisions, the organisation establishes a reputation for ethical behavior. Its reputation grows, and it begins to experience the benefits a moral establishment gains through:

- Increased trust in products and services
- Increased brand recognition and growth
- Customer retention and growth
- Attracts investors
- Increased ability to negotiate
- Attracts talent



CHECK YOUR PROGRESS

Q. 4: State the meaning of business ethics.

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Q. 5: Mention any three core human values that a businessman should have.

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15.11 CODES OF CONDUCT

The words 'code of conduct' and 'code of ethics' in business are not synonyms, they may bear different meaning. A code of conduct offers principles defining the ethics of a business. It also contains specific rules for employee actions and behaviour. Whereas, a code of ethics is use in broader sense and it provides a set of principles that affect mindset of employees' and decision-making in business. Ethics are a set of code of moral principles that decide what is right and wrong.

A code of conduct is closely related to a code of ethics. Based on the areas they are involved in; all business firms will have a different code of ethics with different areas of interest. However, the main areas that a business typically focuses on integrity, objectivity, professional competence, confidentiality, and professional behaviour.

Creating a code of conduct is most essential for success of any business. A code of conduct or ethics in business is a set of guiding principles which include values, rules, standards etc. to ensure a business and its employees act with honesty and integrity in all sides of its day-to-day operations. It reflects the culture already present, or the culture that is looking to promote.



15.12 LET US SUM UP

In this unit we have discussed the following aspects:

- Value means 'to be of worth'. Value renders to anything useful, worthy or estimable. It may be in the form of price, worth or importance of a thing.
- Basic human values refer to those values which are at the core of being human. Human values help men to live in harmony with the world.
- Human values bring out the fundamental goodness of human beings and society at large.
- The basic inherent values in humans include truth, loyalty, love, peace, brotherhood, honesty, sincerity, truthfulness, gratitude, tolerance, non-violence, acceptance, consideration, appreciation, listening, openness, affection, self-reliance, secularism and internationalism etc.
- Human values are very important. They make up our personality and define how we act in life.
- The values govern how we live our lives and how we make decisions on an everyday basis.
- Without human values our lives would become disordered and there would be no meaning behind any of the things that we do or say.
- Human values provide an understanding of what people find to be

important in their lives.

- There may be various human values namely autonomy, community, creativity, justice, power and self-direction etc.
- Business ethics refers to implementing appropriate business policies and practices with regard to debatably controversial subjects.
- Business ethics mostly deal with basic human values as business are run by human beings.
- Any size of business, even the smallest, if run on a strong foundation of core values can make a winning team.
- The core values that business owners should strive to have at all times with the intent of leading their businesses to success are passion, empathy, innovation, bravery, vision, loyalty, trust, leadership etc.
- There are several reasons why business ethics are essential for success in business.
- Ethical values in business promote integrity among the employees and gain trust from other key stakeholders also. Ethics and values build credibility, leadership skills, improves decision making process, and provides long term gains.
- A code of conduct offers principles defining the ethics of a business. It also contains specific rules for employee actions and behaviour.



15.13 FURTHER READING

1) Vasishth and Rajput (2021), *Business Ethics and Values with Case Studies*, Taxman.
2) Vasishth and Rajput (2022), *Corporate Governance Values and Ethics with Case Studies*, Taxman.
3) Verma Kameshwar Singh, *Human Values and Ethics for Engineers and Professionals,* Axiom Nutrifit.

15.14 ANSWERS TO CHECK YOUR PROGRESS

Ans. to Q. No. 1: Human values refer to those values which are at the core of being human. Human values help men to live in harmony with the world.

Ans. to Q. No. 2: Autonomy and creativity

Ans. to Q. No. 3: True

Ans. to Q. No. 4: Business ethics refers to implementing appropriate business policies and practices. Business ethics mostly deal with basic human values as business are run by human beings.

Ans. to Q. No. 5: Passion, honesty and trust



15.15 MODEL QUESTIONS

Q 1: Describe the meaning of values.

Q 2: State the meaning and nature of human values in business.

Q 3: Describe the importance and types of human values.

Q 4: Explain the importance of human values in business ethics.

Q 5: Explain how business ethics deals with human values.

Q 6: Discuss the essential human values for business owners.

Q 7: Describe the significance of ethical values for success of business.

Q 8: State the meaning of codes of conduct.

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