GCM(S1) 01

KRISHNA KANTA HANDIQUI STATE OPEN UNIVERSITY

Patgaon, Rani Gate, Guwahati - 781 017

FIRST SEMESTER

BACHELOR OF COMMERCE

COURSE: 01

Business Organisation and Business Ethics

CONTENTS

UNIT 1	: Nature and Purpose of Business
UNIT 2	: Business Organisation
UNIT 3	: Sole-Trade Business and Joint Hindu Family Business
UNIT 4	: Cooperative Society and State Enterprise
UNIT 5	: Company Form of Organisation
UNIT 6	: Multinational Corporations
UNIT 7	: Vision, Mission and Objectives
UNIT 8	: Introduction to Business Ethics
REFERENCES	: For All Units

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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

UNIT 3: Sole-Trade Business and Joint Hindu Family Business

UNIT 4: Cooperative Society and State Enterprise

UNIT 5: Company Form of Organisation

UNIT 6: Multinational Corporations

UNIT 7: Vision, Mission and Objectives

UNIT 8: Introduction to Business Ethics

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.

BACHELOR OF COMMERCE

Business Organisation and Business Ethics

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Meaning of Business; Features of Business; Objectives of Business; Components of Business; Classification of Industries; Commerce and its Components; Factors to be Considered for Starting a Business; Meaning of Social Responsibility of Business

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UNIT 3: Sole-Trade Business and Joint Hindu Family Business **Pages: 44-54**

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UNIT 4: Cooperative Society and State Enterprise **Pages: 55-71**

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UNIT 8: Introduction to Business Ethics **Pages: 115-128**

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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 Meaning of Social Responsibility of Business

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

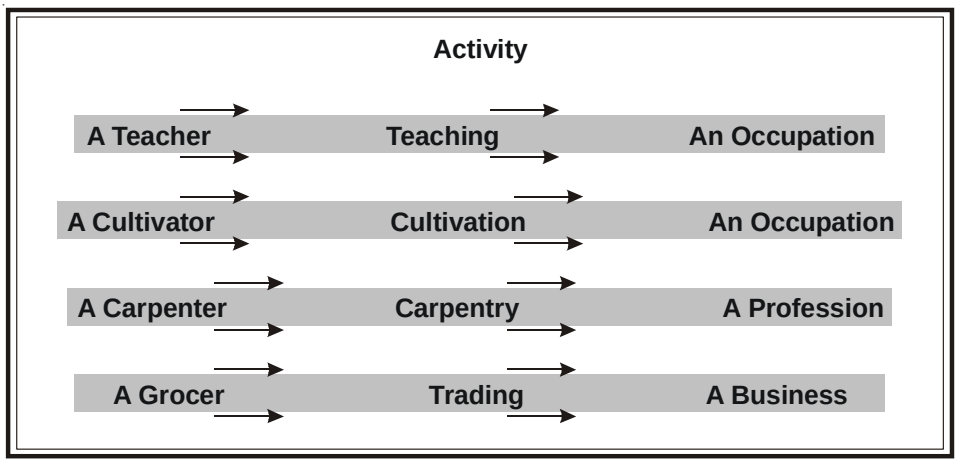
After going through this unit, you will be able to:

- define the meaning of business
- explain the features of business
- explain the objectives of business
- differentiate the terms Industry, Commerce and Trade
- explain the meaning of social responsibility of 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 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:

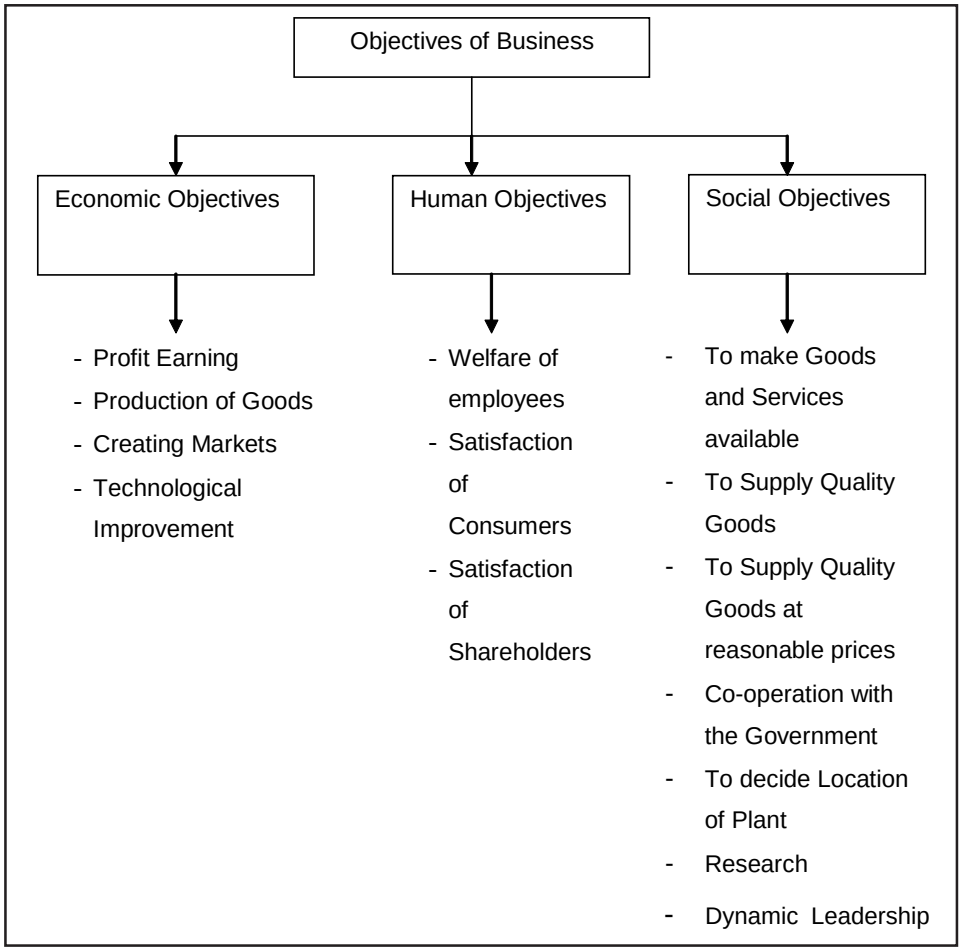


Fig. 1.1: Objectives of business

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.

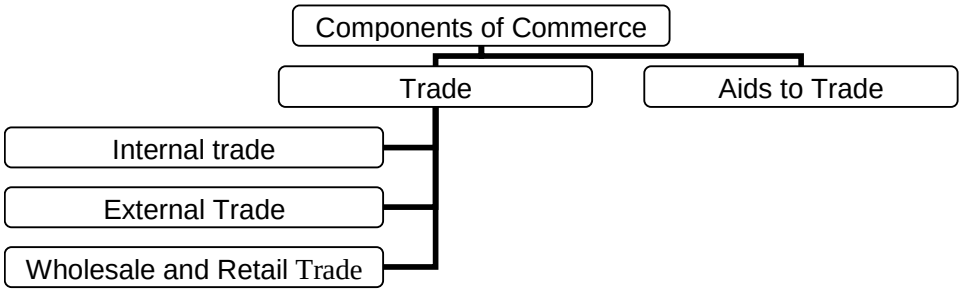
“Commerce embraces all those processes, which help to break the barriers between producers and consumers. It is the sum total of those processes, which are engaged in the removal of hindrance of persons(trade), place(transport and insurance) and time (ware-housing) in the exchange(banking) of commodities”

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



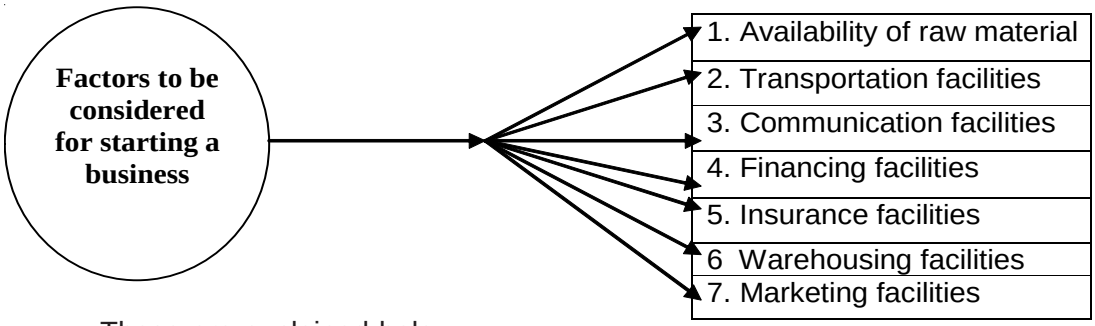
iii) Commerce means–

a) Production of goods b) Exchange of goods

c) Providing service

1.9 FACTORS TO BE CONSIDERED FOR STARTING A BUSINESS

Before starting business, following factors must be taken into consideration:



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 MEANING OF SOCIAL RESPONSIBILITY OF BUSINESS

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. It is nothing but meeting the obligations to these various interest groups as per prevailing social norms and expectations.



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

UNIT STRUCTURE

2.1 Learning Objectives

2.2 Introduction

2.3 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 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 SCOPE OF BUSINESS ORGANISATION

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.

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.



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.

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.

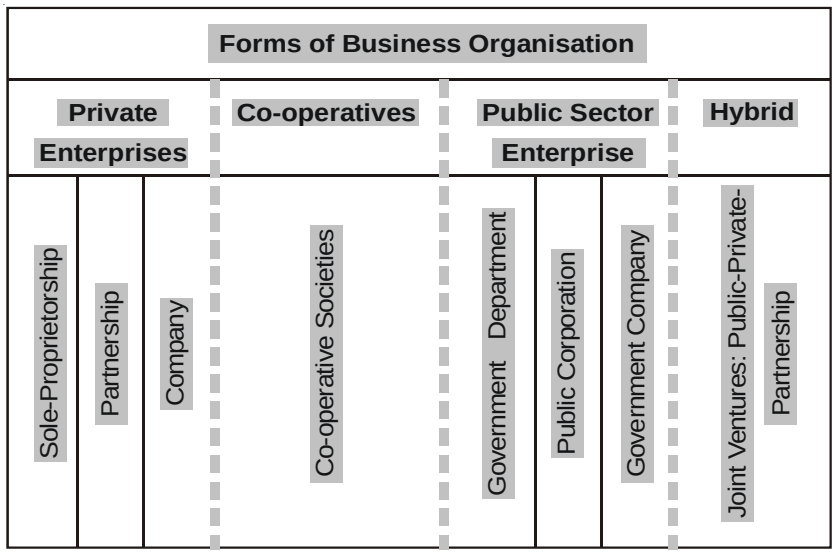
5) **Project Organisation:** In this organisation, various specialists are put under a project manager. The experts in different fields are sent on the project to look after various activities. The project manager has the overall responsibility of executing various plans.

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 organisations is closely related to the growth of trade and industry. The forms of organisations developed according to the needs of the business. Those forms of organisations 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: SOLE-TRADE BUSINESS AND JOINT HINDU FAMILY BUSINESS

UNIT STRUCTURE

3.1 Learning Objectives

3.2 Introduction

3.3 Meaning of Sole-Trade Business

3.4 Features of Sole-Trade Business

3.5 Advantages of Sole-Trade Business

3.6 Disadvantages of Sole-Trade Business

3.7 Concept of Joint Hindu Family Business

3.8 Characteristics of Joint Hindu Family Business

3.9 Merits of Joint Hindu Family Business

3.10 Demerits of Joint Hindu Family Business

3.11 Let Us Sum Up

3.12 Further Reading

3.13 Answers to Check Your Progress

3.14 Model Questions

3.1 LEARNING OBJECTIVES

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

- discuss the concept and features of sole trade business
- explain the advantages and disadvantages of sole trade business
- describe the concept and features of Joint Hindu Family business
- evaluate the merits and demerits of Joint Hindu Family business.

3.2 INTRODUCTION

In this unit you will be able to know the meaning of sole trading as well as Joint Hindu Family business. A business unit is said to be in the form of sole trading if it is owned, managed and controlled by an individual. But 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 of sole trading orgnisation and its advantages as well as disadvantages. The features, advantages and disadvantages of Joint Hindu Family Business will also be discussed in this unit.

3.3 MEANING OF SOLE-TRADE BUSINESS

A business unit owned and managed by an individual is called sole-trade or individual proprietorship. 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.

3.4 FEATURES OF SOLE-TRADE BUSINESS

The features of sole trade business organizations are discussed below–

1) **No Separate Legal Existence:** A sole trading 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. Hence, all the benefits and burdens, rewards and risks will have to be assumed by its proprietor alone.
2) **Capital Contribution:** The proprietor alone will have to make all the necessary arrangements for getting the entire capital and all other assets essential for starting and the subsequent operation of his business. Of course, he is free to borrow funds, if needed.
3) **Management and Control:** The individual trader will have complete authority over all the affairs of the business. Workings of sole trade business 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.

4) **Profit Sharing:** Owners need not share the profit earned in his business with anybody. Entire surplus of his business goes to him alone.

5) **Liability:** Liability of the proprietor is unlimited. He is personally liable for the debt of the business and his personal assets can be used for repayment of business debt.

6) **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) Sole trade businesses are stared by two persons.

ii) Sole trading business has no legal existance.

iii) The liability of the sole trader is limited.

iv) A sole trade business is managed by the owner.

3.5 ADVANTAGES OF SOLE- TRADE BUSINESS

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 sole trader.



Impetus: A force that moves somthing along.

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 sole trader himself 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 sole 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 sole trading 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 sole trading concern. That is why, the sole trading organisation are given importance from this social standpoint also.

3.6 DISADVANTAGES OF SOLE-TRADE 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 sole trading business:

1) **Limited Capital and Insufficiency of Resources:** The sole trader heavily depend 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 sole trader. 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 sole trader 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 sole-trading organisation suffers from the absence of division of labour and specialisation.

4) **Weak Bargaining Capacity:** Very often, the sole-trader 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:** Sole 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 sole-trader, 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, sole 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: State three advantages of sole-trading business.

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Q.3: State three disadvantages of sole-trading business.

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3.7 CONCEPT OF JOINT HINDU FAMILY BUSINESS

After discussing about sole proprietorship business let us now discuss about Joint Hindu Family (JHF) Business Hindu or Undivided Family(HUF) Business that prevails only in India. In this form of business organisation all members of a Hindu family are engaged in business. The business and property of the family is manage and controlled by the eldest male member, who is known as *Karta.* 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.

There are two system governing membership of JHF. One is the Dayabhaga system and another is Mitakshara system. Dayabhaga system is applicable in West Bengal and it allows both male and female to be coparceners. Mitakshara system is applicable rest of the India which allows only male members to be coparceners. Under Dayabhaga system there is no right by birth, so during father's life time there is no coparcenary between father and the son. In case of Mitakshara system coparcenary arises during life time of father and the son has right by birth.

3.8 CHARACTERISTICS OF JOINT HINDU FAMILY BUSINESS

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 and It is governed by Hindu Law (Succession) Act, 1956.
2) **Membership:** In JHF business only male members 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.

3) **Liability:** The karta being the head of the family has unlimited liability, even his personal property can be used for discharging business dues. Liability of all other coparcenary is limited to their share in the business.
4) **Continuity:** Death of any member or karta does not affect continuity of the 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. A HUF business can be dissolve either through mutual agreement or by partition suit in court.
5) **Management:** 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.
6) **Profit Sharing:** All coparceners have equal shares in the profit of the business.
7) **Registration:** Registration of HUF business is not necessary.

3.9 MERITS OF JOINT HINDU FAMILY BUSINESS

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

i) **Quick Decision:** Since *karta* has the full right to manage the HUF business, it enables him to take quick decision without any interference.
ii) **Limited Liability:** Except *karta* all other coparceners has limited liability to the extent of their share in business. This enables the members to run the business freely.
iii) **Stability:** Compared to sole proprietorship and partnership business JHF business is more stable since death of any members or *karta* has no effect on its existence.
iv) **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.

v) **Free from legal Formalities:** JHF business can be started without much legal formalities. Registration of JHF business is not mandatory.

3.10 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.4: State three Characteristics of JHF business.

i) .....

ii) .....

iii) .....

Q.5: State three disadvantages of JHF business.

i) .....

ii) .....

iii) .....



3.11 LET US SUM UP

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

- A business unit owned and managed by an individual is called sole-trade or individual proprietorship.
- The features of sole trade business organization are the business has no separate legal identity, capital is contributed by the owner and he himself manage the business. etc.
- Sole-trade business is easy to form, easy to maintain secrecy, easy to make decision.
- In Joint Hindu Family (JHF) Business all members of a Hindu family are engaged in business and it prevails only in India.
- 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.



3.12 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.



3.13 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.

Ans. to Q. No. 4: 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. 5: 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.



3.14 MODEL QUESTIONS

Q.1: Write a note on sole trading concerns.

Q.2: What are the merits of sole trading concerns?

Q.3: Explain the features of a JHF business.

Q.4: Explain the limitations of JHF business.

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UNIT 4: CO-OPERATIVE SOCIETY AND STATE ENTERPRISE

UNIT STRUCTURE

4.1 Learning Objectives

4.2 Introduction

4.3 Meaning and Definition of Co-operative Societies

4.4 Characteristics of Co-operative Society

4.5 Formation of Co-operative Society

4.6 Types of Co-operative Societies

4.7 Merits and Demerits of Co-operative Organisations

4.8 Concept of Public Sector Enterprises

4.9 Charecteristics of Public Sector Enterprises

4.10 Forms of Public Sector Enterprises

4.11 Contribution of Public Sector Enterprises

4.12 Let Us Sum Up

4.13 Further Reading

4.14 Answers to Check Your Progress

4.15 Model Questions

4.1 LEARNING OBJECTIVES

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

- know 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
- know the meaning, Charecteristics and forms of Public sector enterprise
- discuss the Contribution of Indian Public Sector
- explain the problems of the public enterprises.

4.2 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. We have successful Co-operatives. We have dormant Co-operatives also. The experiences are mixed. Likewise state enterprises in India played an important role in promoting industry and commerce and in building infrastructure in the country.

In this unit we will discuss various aspects of Co-operative Societies and state enterprise.

4.3 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 come together and form 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."

4.4 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". Aftet registration the Co-operative Society becomes a distinct entity of its member. 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 DMDotive:** 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.

4.5 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) 4 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.

- **Disposal of Surplus/Profit:** Every Co-operative Society in addition to providing service to its members also generates some profit while conducting business. Profit is distributed among the members 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.



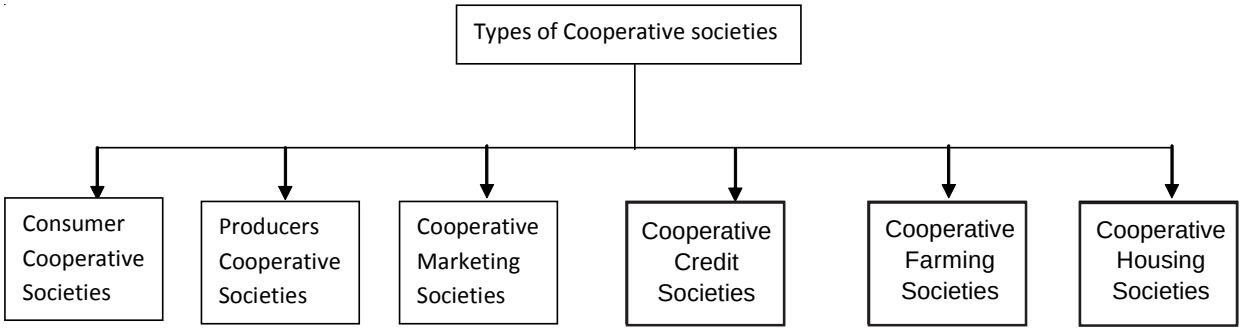
CHECK YOUR PROGRESS

Q.1: Under which Act Co-operative Societies are registered in India?

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4.6 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. This societies provides all the modern facilities in their houses and grant loan at lesser rate of interest.

4.7 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 of the society suffers 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 larning.
- **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.



Drawings: Withdrawing money from business by partners for their personal use.



Goodwill: An intangible business asset.

- **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, economical and academic background. Many a times they strongly differs 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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4.8 CONCEPT OF PUBLIC SECTOR ENTERPRISES

Government owned enterprises are termed as public sector undertakings (PSU) 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 Undertakings (PSUs) 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. Theses are owned and managed by government and its objective is to promote social welfare along with earning profits.

4.9 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.

e) 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.

f) Financial Freedom: All the financial need of public sector enterprises are met through the investment of capital by the government.

g) 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.

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

Following are the examples of some of the Public Sector Companies in India: ONGC, SBI, Indian Oil Corp, Bank of Baroda, Hindustan Copper, SAIL, Bharat Petroleum, Power Grid corporation of India, Indian Bank, Canada Bank etc.



CHECK YOUR PROGRESS

Q.4: Define Public Sector Enterprises.

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Q.5: Give three examples of Public Sector Enterprises

a) .....

b) .....

c) .....

4.10 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 that 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.6: What are the different forms of Public Sector Enterprises?

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4.11 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.

4.12 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.



4.13 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
- 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 enterprises are underutilization of capacity, undesirable bureaucratic interference, stagnation in production, political interference.



4.14 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.



4.15 ANSWERS TO CHECK YOUR PROGRESS

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

Ans. to Q. No. 4: 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. 5: three examples of Public Sector Enterprises are ONGC, GAIL and SAIL

Ans. to Q. No. 6: Different forms of public sector enterprises are departmental organization,public corporation,government company and joint enterprise.



4.15 MODEL QUESTIONS

Q.1: What do you understand 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 5: COMPANY FORM OF ORGANISATION

UNIT STRUCTURE

5.1 Learning Objectives

5.2 Introduction

5.3 The Company Organisation

5.4 Features of a Joint Stock Company

5.5 Types of Companies

5.6 Merits of a Joint Stock Company

5.7 Demerits of a Joint Stock Company

5.8 Suitability of Different Forms of Business Organisations

5.9 Let Us Sum Up

5.10 Further Reading

5.11 Answers to Check Your Progress

5.12 Model Questions

5.1 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.

5.2 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.

5.3 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, 1956, 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."

5.4 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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5.5 TYPES 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.

5.6 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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5.7 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.

5.8 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.



5.9 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.



5.10 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.



5.11 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



5.12 MODEL QUESTIONS

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

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

Q.3: Define a private company.

Q.4: What is public company?

Q.5: 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 6: MULTINATIONAL CORPORATIONS

UNIT STRUCTURE

6.1 Learning Objectives

6.2 Introduction

6.3 Concept of MNCs

6.4 Structure of MNCs

6.5 Types of MNCs

6.6 Objectives of Multinational Corporations

6.7 Characteristics of Multinational Corporations

6.8 Reasons for Growth of Multinational Corporations

6.9 Arguments in Favour of Multinational Corporations

6.10 Arguments Against Multinational Corporations

6.11 MNCs in India

6.12 Let Us Sum Up

6.13 Further Reading

6.14 Answers to Check Your Progress

6.15 Model Questions

6.1 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
- know the reasons for growth of Multinational Corporations.

6.2 INTRODUCTION

You might have heard or see many companies running business in India, like Philips, Siemens, Hyundai, LG, Ford, Nestle, Coca Cola, Sony, McDonald's, Citi Bank, Good Air, etc. these companies are not operating only in India, if you go to different parts of the world you will find these

companies 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.

6.3 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 in second position the host countries, after that the home countries comes and lastly the international environment.

6.4 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.

6.5 TYPES OF MNCs

Depending upon nature of operation MNCs are classified in to 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.

6.6 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.

6.7 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.

6.8 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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6.9 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.

6.10 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.

6.11 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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6.12 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.



6.13 FURTHER READING

1) Saleem, Shaikh; *Business Environment*; Pearson.

2) Lekhi, R. K.; *The Economic Development and Planing*; Kalyani Publishers.

6.14 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.

6.15 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 7: VISION, MISSION AND OBJECTIVES

UNIT STRUCTURE

7.1 Learning Objectives

7.2 Introduction

7.3 Meaning of Vision

7.4 Characteristics of Vision Statement

7.5 Shared Value

7.6 Purposes of Shared Value

7.7 Concept of Mission

7.8 Characteristics of Mission Statement

7.9 Importance of Mission Statement

7.10 Formulation of Mission Statement

7.11 Distinction Between Vision and Mission

7.12 Concept of Objectives

7.13 Role of Objectives

7.14 Guidelines for Ideal Objectives

7.15 Hierarchy of Objectives

7.16 Setting of Objectives

7.17 Objectives and Goals

7.18 Let Us Sum Up

7.19 Further Reading

7.20 Answers to Check Your Progress

7.21 Model Questions

7.1 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.

7.2 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.

7.3 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.

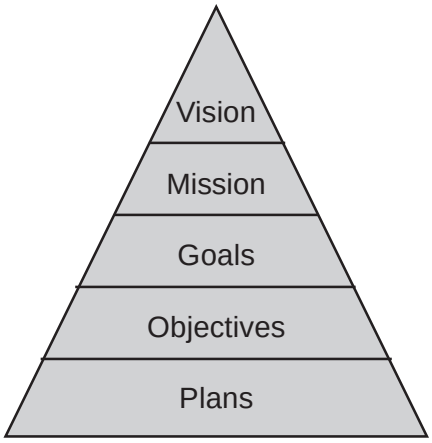


Fig. 7.1: Hierarchy of goals

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.

7.4 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.

7.5 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.

7.6 PURPOSES OF SHARED VALUE

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

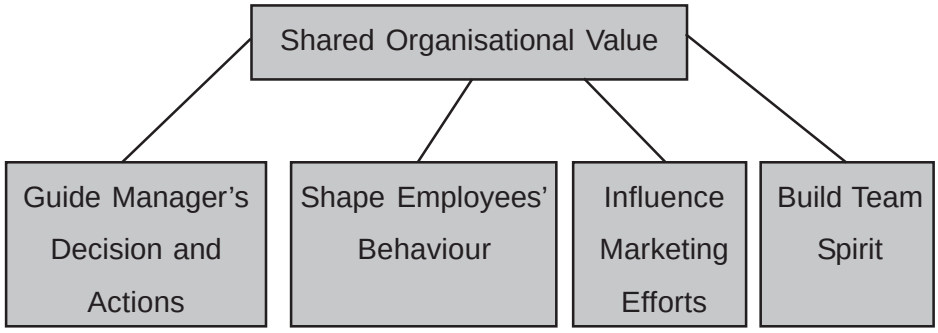


Fig. 7.2

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'.

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Q.2: Write two characteristics of vision.

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7.7 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.

7.8 CHARACTERISTICS OF MISSION

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.

7.9 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) .....

7.10 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.

7.11 DISTINCTION 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) .....

7.12 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.

7.13 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.

7.14 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) .....

7.15 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:

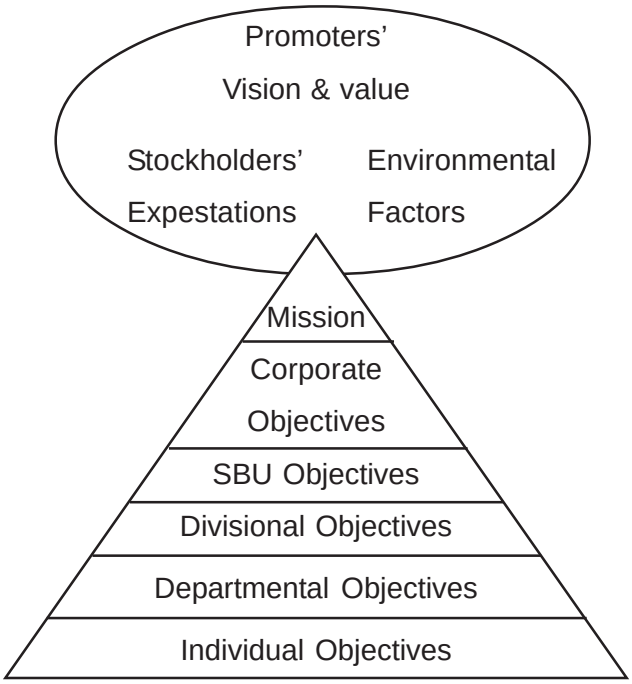


Fig. 7.3 Hierarchy of objectives

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.

7.16 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.

7.17 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) .....



7.18 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.



7.19 FURTHER READING

1) Cherunilam, Francis (2002); *Business Policy and Strategic Management*; Himalaya Publishing House.

4) Pathak, R. K.; Kalwar, M. C. (2005); *Principles of Management, Abhilekh Publication*; Guwahati.

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7.20 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.



7.21 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 8: INTRODUCTION TO BUSINESS ETHICS

UNIT STRUCTURE

8.1 Learning Objectives

8.2 Introduction

8.3 Concept of Business Ethics

8.4 Elements of Business Ethics

8.5 Need for Business Ethics

8.6 Factors Affecting Business Ethics

8.7 Unethical Business Behaviour

8.8 Ethis Vs. Law

8.9 Theories of Ethics

8.10 Ethics in Global Context

8.11 Let Us Sum Up

8.12 Further Reading

8.13 Answers to Check Your Progress

8.14 Model Questions

8.1 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.

8.2 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.

8.3 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.

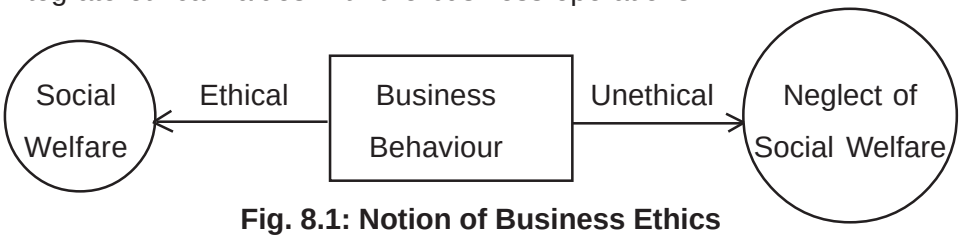


Fig. 8.1: Notion of Business Ethics

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.

8.4 PRINCIPLES/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) .....

8.5 NEED FOR/SIGNIFICANCE OF 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.

8.6 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?

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.....

8.7 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.

8.8 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) .....

8.9 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.

8.10 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.



8.11 LET US SUM UP

- The wond ‘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.



8.12 FURTHER READING

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2) Gandhi, Poonam; *Business Studies*; Nai Sarak, Delhi: Dhanpat Rai & Co.
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4) Robbins and Coulter; *Management*; Delhi: Prentice Hall.



8.13 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.



8.14 MODEL QUESTIONS

Q.1: What do you understand 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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