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Business Organisation

Meaning of Business Organisation

For understanding business organisation first we should have separate this two word 'business' and 'organisation'. The word 'business' means the combinition of two english words 'busy' and 'ness' which means keeping oneself in the state of being busy. And earn some wealth or money. Similarly the word 'organisation' means getting things & work done through others, it establishes relationship between the various factors of production.

Definition of Business Organisation

According to Keith Davis and Gulbelini, "Business Enterprise is an Association of individual or a group of individual who produce Goods and services to Society under the Incentive of Private Profit."

Scope of Business Organisation

a) Manufacturing Activities
b) Buying Activities
c) Selling Activities
d) Financial Activities
e) Personnel Activities
f) Office Activities
g) Accounting Activities

a) Manufacturing Activities

This activities are concerned with the conversion of raw materials into finished goods. This activity is performed by production department in an industrial organisation.

b) Buying Activities

It's a vital function. Buying may be done for trading purposes or for manufacturing. Buying activities are performed by Purchase Department in a big business house.

c) Selling Activities

Selling transfer the ownership of the commodity from the seller to buyer. By selling we can earn profit. Sales department looks after the selling activities of a business.

Objectives of Business Organisation

i) To help Management
ii) To Increase Production
iii) Co- operation of Employees
iv) To Achieve Economy in Time and Efforts
v) Service Motive

i) To help Management

The organisation helps management to have a control over various business function. It helps management to have a co-ordinated administration.

ii) To Increase Production

The organisation encourages every employee to make his best contribution in raising output.

Formation of Organisation

a) Division of Work
b) Classification of Activities
c) Appointing Suitable Persons
d) Delegation of Authority

a) Division of Work

The job is divided into various functions. The purpose of the division is to specialise individuals into different roles.

b) Classification of Activities

The activities are classified under various categories. Different departments will be able to co-ordinate their activities at different levels of management.

Functions of Business Organisation

a) Production Function
b) Marketing Function
c) Finance Function
d) Personnel Function
e) Other Function

a) Production Function

In this function it involves the creation of goods and services through the transformation of various inputs like materials, manpower, machinery etc.

b) Marketing Function

This function is responsible for all the activities relating to the distibution of goods and services, consumer research, pricing, channel decision, advertising and sales promotion.

Features or Nature of Business

a) Entrepreneur
b) Economic Activities
c) Exchange of Goods and Services
d) Profit Motive
e) Risk and Uncertainty
f) Continuity of Transactions
g) Creation of Utility
h) Organisation

a) Entrepreneur

The person who recognised the need for a product or service is known as entrepreneur. The entrepreneur visualises a business, combines various factors of production and puts them into a going concern.

b) Economic Activities

Business includes only economic activities. All those activities relating to the production and distribution of goods and services are called economic activities.

c) Exchange of Goods and Services

In business it is very important to exchange of goods and services. Business means being busy in some work. The goods to be exchanged may either be produced or procured from other sources.

Objectives of Business

A) Economic Objectives

1) Profit Earning
2) Production of Goods
3) Creating Markets
4) Technological Improvement

B) Human Objectives

1) Welfare of Employees
2) Satisfaction of Consumers
3) Satisfaction of Shareholders

C) Social Objectives

1) Availability of Goods
2) Supply of Quality Goods
3) Co-operation with the Government
4) Creation of more Employment
5) Utilising National Resources Properly

D) Organic Objectives

1) Survival
2) Growth
3) Earn Recognition and Prestige

E) National Objectives

1) Helping National Effort
2) Development of small Entrepreneurs
3) National Self - Sufficiency and Export Development
4) Development of skilled Personnel

Essential of Successful Business

1) Setting Objectives
2) Proper Planning
3) Sound Organisation
4) Proper Financial Planning
5) Location and layout of Plant
6) Marketing System
7) Research
8) Dynamic Leadership

1) Setting Objectives

It is very essential to set objective or goal in any business. Without goal no work can be done in proper system.

2) Proper Planning

Planning involves forecasting and laying down the course of action. Planning helps the management to prepare itself for facing the uncertanties of tomorrow

3) Location and layout of Plant

The location and layout of business should be in proper location. The plant should be located at a place where all factors of production are available at lowest costs. The aim of reaching an optimum point will be achieved only if the place of location of the business is suitable.

4) Marketing System

There is no use of producing thing if is cannot be sold. Marketing management is essential for earning profits Management should decide about the channels of distribution.

Nature of Business Organisation

The nature of business organisation depends upon the work performed by different business. To determine whether business organisation is a science or an art, we must understand clearly the meanings of the terms 'art' and 'science'.

Business Organisation - An Art

Art is bringing about of a desired result through application of skill. In this sense, business organisation is an art as one has to use his skill and knowledge in solving many complicated problems of business to achieve the enterprise objectives.

Business Organisation - A Science

Science is a systematised body of knowledge which establishes relationship between cause and effect. Business Organisation is viewed as a science as it is an organised body of knowledge built up by management practitioners, thinkers and philosophers over a period of years.

Business Organisation - A Science as well as an Art

Business organisation has elements of both art and science. It may not be proper to term them as pure science or pure art. The former science will have to solve problems and establish principles which might be applied with benefit to the latter (art).

Unit - II

Forms of Business Organisation

The business ownership acquaints us that the business is under the control or hold of an individual, the group of some individuals, state government or central government or the private industrialists etc.

The main forms of business ownership are as follows:

1) Sole Tradership
2) Joint Hindu Family Business
3) Partnership Business
4) Joint Stock Company
5) Other Forms

1) Sole Proprietorship

In sole - tradership a sole - trader uses his resources only and does not get the help of a partner.

According to Haney, "This business is in the hands of one person who is not only responsible for its management but also for its risks."

James Stephenson, "A sole - trader is a person who carries on business exclusively by and for himself."

Advantages of Sole - Proprietorship

1) Easy in Formation
2) Better control & quick decision
3) Flexibility in Operations
4) Retention of Business Secrets
5) Easy to Raise Finance
6) Direct Motivation
7) Promptness in Decision making

8) Direct Accessibility to Consumers
9) Inexpensive Management

1) **Easy in Formation**

There is no legal formalities are required to be performed.

2) **Better Control**

In this form of organisation one man is responsible for all types of activities. So, there is direct authority and responsibility belongs to one man and business is controlled in an effective way.

3) **Retention of Business Secrets**

Being the sole proprietor, he is not expected to share his trade secret with anybody else. So, secrets can be maintain.

Disadvantages of Sole Proprietorship

1) Limited Resources
2) Limited Managerial Ability
3) Unlimited Liability
4) Uncertain Continuity
5) Limited Scope of Employees
6) No Large Scale Economics
7) More Risk Involved

1) **Limited Resources**

The sources of a sole proprietor are limited because he makes investments from his family invest or sources only.

2) Limited Managerial Ability

One person may not be expert in each and every function of the business. Limited managerial capacity will hinder the growth of concern.

* Is one-man control the best in the world?

Yes one-man can control the best in the world according to form of organisation. It is right to say that one man control is the best in the world if that man is big enough to manage everything, because of the following reasons:

a) Easy to form and dissolve
b) Motivation
c) Flexibility
d) Sole beneficiary of profits
e) Personal touch
f) Secrecy

And the following limitations are to be kept in mind for achieving the best out of the sole tradership:

a) Unlimited liability
b) limited resources of Finance
c) limited Goodwill
d) limited Managerial Ability
e) lack of time

2) Partnership

Meaning

When two or more than two person combine together to form an organisation for earning profits, it is known as the 'Partnership'.

Kimball and Kimball, " Partnership is a group of more than two individuals, who have invested capital mutually for the fulfilment of some commercial purpose

The Indian Partnership Act, 1932

In its section 4 defines the 'partnership' as the mutual relationships of those persons who have agreed to divide the profits of such business among themselves which is being run by them or by someone on behalf of all of them.

Essential Elements of Partnership

1) Two or more Persons
2) An Agreement Among the Partners
3) There must be Some Business
4) Objective Being Earning and Sharing Profit.
5) Business Run by All or One on Behalf of All
6) Liability of Each Partner, Joint and several.
7) Existence of Firm Not Separate from Partners.

Kinds of Partners

1) Active Partner

That partner who takes active part in the day-to-day working of the business. He may also be called a working Partner.

2) **Sleeping or Dormant Partners**

That partner who contributes capital, shares profits and contributes to the losses of the business but does not take part in the working of the concern.

3) **Nominal Partner**

A partner who only lends ~~st~~ his name to the firm and doesn't contribute capital.

4) **Partner in Profits**

A partner who contributes capital and share profit only.

5) **Partner by Estoppel**

When a person is not a partner but poses himself as a partner, either by words or in writing or by his acts, he is called a partner by estoppel.

6) **Secret Partner**

A Partner whose membership of the firm is kept secret from outsiders.

7) **Sub - Partner**

A Partner may associate anybody else in his share in the firm be called sub- Partner.

8) **Minor as a Partner**

A minor partner whose age is under majority.

Rights of Partners

a) Right to take part in management
b) Right to share in profits
c) Right to retire
d) Right Not to be expelled
e) Right of access to accounts
f) Right to interest on capital
g) Joint owner of Partnership property
h) Right of incoming partner
i) Powers in emergency

Duties and liabilities of a partner

1) To indemnify the firm
2) Not to make any Secret profits
3) To act within scope of authority
4) Common advantages
5) Due diligence
6) To share losses
7) Not to transfer interest

1) To act within scope of authority

Every partner must act within the scope of the actual authority conferred upon him.

2) Due diligence

Every partner is bound to attend diligently to his duties in the conduct of the business.

3) To share losses

Every partner has to share equally the losses of the firm unless otherwise agreed upon.

3) Joint Hindu Family

The business of Joint Hindu Family is controlled under the Hindu Law instead of Partnership Act. The membership in this form of business organisation can be acquired only by birth or by marriage to a male person who is already a member of Joint Hindu Family. All the affairs of the J.H.F. are controlled and managed by one person who is known a 'Karta' or 'Manager'.

There are two schools of Hindu Law - one is Dayabhaga which is prevalent in Bengal and Assam and the other is Mitakshara prevalent in the rest of the country.

According to Mitakshara law, there is a son's right by birth in the property of joint family. It means, when a son is born in family, he acquires an interest in the property jointly held by the Family.

Characteristics of a J.H.F

1) Governed by Hindu Law
2) Management
3) Membership By Birth
4) Liability
5) Permanent Existence
6) Implied Authority of Karta
7) Minor also a partner
8) Dissolution

Advantages of J. H. F.

1) Easy to start
2) Efficient Management
3) Secrecy
4) Prompt Decision
5) Economy
6) Credit Facilities
7) Natural love between Members
8) Freedom regarding selection of Business.

Disadvantages of J. H. F.

1) Limited Membership
2) Limited sources of capital
3) Limited Managerial skill
4) Unlimited Liability
5) Misuse of Power

4) Joint Stock Company

Professor Marshall James, " A Joint Stock company is an artificial person with a perpetual succession and a common seal."

Justice James, " A company is an association of persons united for a common object."

Characteristics of Company

1) Distinct Entity
2) Perpectual Succession
3) Limited Liability
4) Transferable shares
5) Common seal

Merits of Company Form of Organisation

a) Accumulation of Large Resources
b) Limited Liability
c) Continuity of Existence
d) Efficient Management
e) Economics of Large Scale Production
f) Transferability of Shares
g) Ability to Cope with Changing Business Environment
h) Diffused Risk
i) Democratic Set-up
j) Social Benefits

1) Efficient Management

In company form of organisation, ownership is separate from management. It enables the company to appoint expert and qualified persons for managing various business functions.

2) Economics of Large Scale Production

With the availability of large resources, the company can organise production on a big scale

3) Transferability of Shares

The shares of a public company are freely transferable. A shareholder can dispose of his shares at any time when the market conditions are favourable or he is in need of money.

Demerits of Company Form of Organisation

1) Difficulty of Formation
2) Separation of Ownership and Management
3) Evils of Factory System - monopoly & pollution
4) Speculation in shares
5) Fradulent Management
6) Lack of Secrecy

7) Delay in Decision Making
8) Concentration of Economic Power
9) Excessive State Regulations

1) Difficulty of Formation

A number of stages are involved in company promotion. A lot of legal formalities are required to be performed at the time of registration.

2) Separation of Ownership and Management

In company shareholders who are owners play an insignificant role in the working of the company. On the other hand control is in the hands of those who have no stakes in the company.

3) Lack of Secrecy

The management of companies remains in the hands of many persons so secrecy can not be maintain.

5) Cooperative Organisation

Definition

According to Prof. Calvet, " Co-operation is a form of organisation wherein persons voluntarily associate together as human beings on the basis of equality for the promotion of economic interests of themselves."

Merits of Co-operative Organisation

1) Economising the Middlemen's Commission

2) Unadulterated Goods at Reasonable Price

3) Checking Up the Economic Concentration

4) Helpful in Establishing Socialistic Society

5) Easier to Organise

6) Economical Management and Supervision Expenses

7) Equal Right of Members on the Organisation

8) Governmental Concessions

9) Limited Liability

10) Developing Moral Qualities Among Members

1) Economising the Middlemen's Commission

There is no agent so as a result, the things are available at cheaper rates.

2) Unadulterated Goods at Reasonable Price

It is against the policy of the co-operatives to adulterate the goods or create an artificial scarity of the things in market.

3) Easier to Organise

Not many legal or statutory formalities are required to be complied with in setting up of the co-operative society.

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Demerits of Co-operative Organisation

1) Lack of Individual Inspiration
2) Mutual Differences Among Members
3) Exploitation of All by a Few Members
4) Very Limited Business
5) Much Departmental Control on the Co-operatives
6) Lack of Proper Accounting system
7) Capital is Limited
8) Inefficient Management

1) Lack of Individual Inspiration

In co-operative societies, there is no personal interest of any individual.

2) Mutual Differences Among Members

In co-operative organisations, many times even on the trifling matters, the differences arise among members, which lead to the closure of the unit.

3) Very Limited Business

Co-operative societies are unable to provide and extend to their customers so many facilities and incentives as the retail shopkeepers.

Formation of Co-operative Societies

1) Send an application to the Registrar
2) Investigation by the Registrar
3) Permission being granted by the Registrar
4) The effect of the registration

In India the co-operative societies are formed under the following two acts:

1) Indian Co-operative Societies Act, 1912
2) States Act

Forms of Co-operative Societies

1) Consumer Co-operative Store
2) Manufacturing Co-operative Societies
a) Co-operative societies which provide raw material, production equipment etc.

b) Co-operative manufacturing societies.
3) Distribution Co-operative Societies

4) Co-operative credit societies
a) Agriculture credit societies

b) Non-agriculture credit societies

Unit - III 1st Dec

Memorandum of Association

Meaning

A Memorandum of Association is a legal document prepared in the formation and registration process of a limited liability company to define its relationship with shareholders. It is called as foundation - stone of company establishment.

Contents

The contents of MOA of any type of company has been assesed in Section 13.

1) Name Clause
2) Registered office clause
3) Objective clause
4) Liability clouse
5) Capital clause
6) Association clause

1) Name Clause

The name clause requires you to state the legal and recognized name of the company. You are allowed to register a company name only if it does not bear any similarities with the name of an existing company. Company name must end with the word "limited" because MOA is a legal requirement for limited liability companies only.

2) Registered office clause

The registered office clause requires you to show the physical location of the registered office of the company. You are required to keep all the company registers in this office in addition to using the office in handling all the outgoing and incoming communication correspondence.

3) Objective clause

The objective clause requires you to summarize the main objectives for establishing the company with reference to the requirements for shareholding and use of financial resources. You also need to state ancillary objectives; that is, those objectives that are required to faciliate the achievement of the main objectives. The objectives should be free of any provisions or declarations that contravene laws or public good.

4) Liability clause

The liability clause requires you to state the extent to which shareholders of the company are liable to the debt obligations of the company in the event of the company dissolving. You should show that shareholders are liable only their shareholding and/or to their commitment to contribute to the dissolution costs upon liquidation of a company limited by gurantee.

5) Capital clause

The capital clause requires you to state the company's authorized share capital, the differente categories of shares and the nominal value of the shares. You are also required to list the company's assets under this clause.

6) Association clause

The association clause confirms that shareholders bound by the MOA are willingly associating and forming a company. You required seven members to sign an MOA for a public company and not less than two people for a MOA of a private company. You must conduct the signing in the presence of witness who must also append his signature.

Articles of Association

Meaning

According to Section 2(2) of the companies Act, Article means such rules which are made at the preliminary stage or establishment of the company or which are amended from time to time according to the previously passed companyies and its memt Act.

Contents of the Article

According to the Company Act, 1956, the following must be described specially in the Articles of the company -

1) Description of exclusion of Table 'A'.

2) Acceptance of preliminary contracts.

3) The rules for dividing the capital and its increase, decrease or alteration, etc.

4) Rules pertaining to shares or types of shares, number and value thereof, request, allotment, transfer, amendent.

5) Rules regarding borrowing power.

6) Rules of law of information regarding meetings, working method, vote-counting, work-details etc.

7) Rules regarding appointment number, efficiency, rights, liability, availing leave, inefficiencies and remuneration of the directors.

8) Rules pertaining to the conditions and terms of appointment, rights, duties, liabilities, remuneration, suspension of the managing director, managing secretary etc.

9) Rules regarding ledger - procedure, audit, liability of preparation and keeping of the other general and legal books etc.

10) Rules regarding share - certificate, share - warrant, bonus share, debenture etc.

11) Procedure of winding - up of the company and its rules.

Difference between MOA & Articles of Association

Basis	Memorandum of Association	Articles of Association
1) Meaning	MOA is a document that contains all the fundamental information which are required for the incorporation of the company.	Articles of Association is a document containing all the rules and regulations that governs the company.
2) Defined in	Section 2 (56)	Section 2 (5)
3) Type of Information contained	Powers and objects of the company.	Rules of the company.
4) Status	It is subordinate to the companies Act.	It is subordinate to the memorandum.
5) Restrospective Effect	The memorandum of association of the company cannot be amended retrospectively.	The articles of association can be amended retrospectively.
6) Major Contents	A memorandum must contain six clauses.	The articles can be drafted as per the choice of the company.

7) obligatory	Yes, for all companies.	A public company limited by shares can adopt Table A in place of articles.
8) compulsory filing at the time of Registration.	Required	Not required at all.
9) Alteration	Alteration can be done, after passing special resolution (SR) in AGM and previous approval of Central Govt. or Company Law Board is required.	Alteration can be done in the Articles by passing Special Resolution at AGM.
10) Relation	Defines the relation between company and outsider.	Regulate the relationship between company and its members and also between the members interse.
11) Acts done beyond the scope	Absolutely void	can be ratified by shareholders.

Prospectus

Meaning

Prospectus means legally mandated document published by every firm offering its securities to public for purchase. According to Section 2 (36) of the Indian Companies Act, 1956. Prospectus means document described or issued as prospectus and includes any notice, circular, advertisement or other document inviting deposit from the public or inviting offers from the subscription or purchase of any shares in, or debentures of a body corporate.

Contents of Prospectus

1) Firm's objectives

2) Primary Business Activity

3) Background and qualification of principal officers

4) Current financial Position

5) Projected financial statements

6) Assumptions underlying the projections

7) Foreseeable risks to the firm

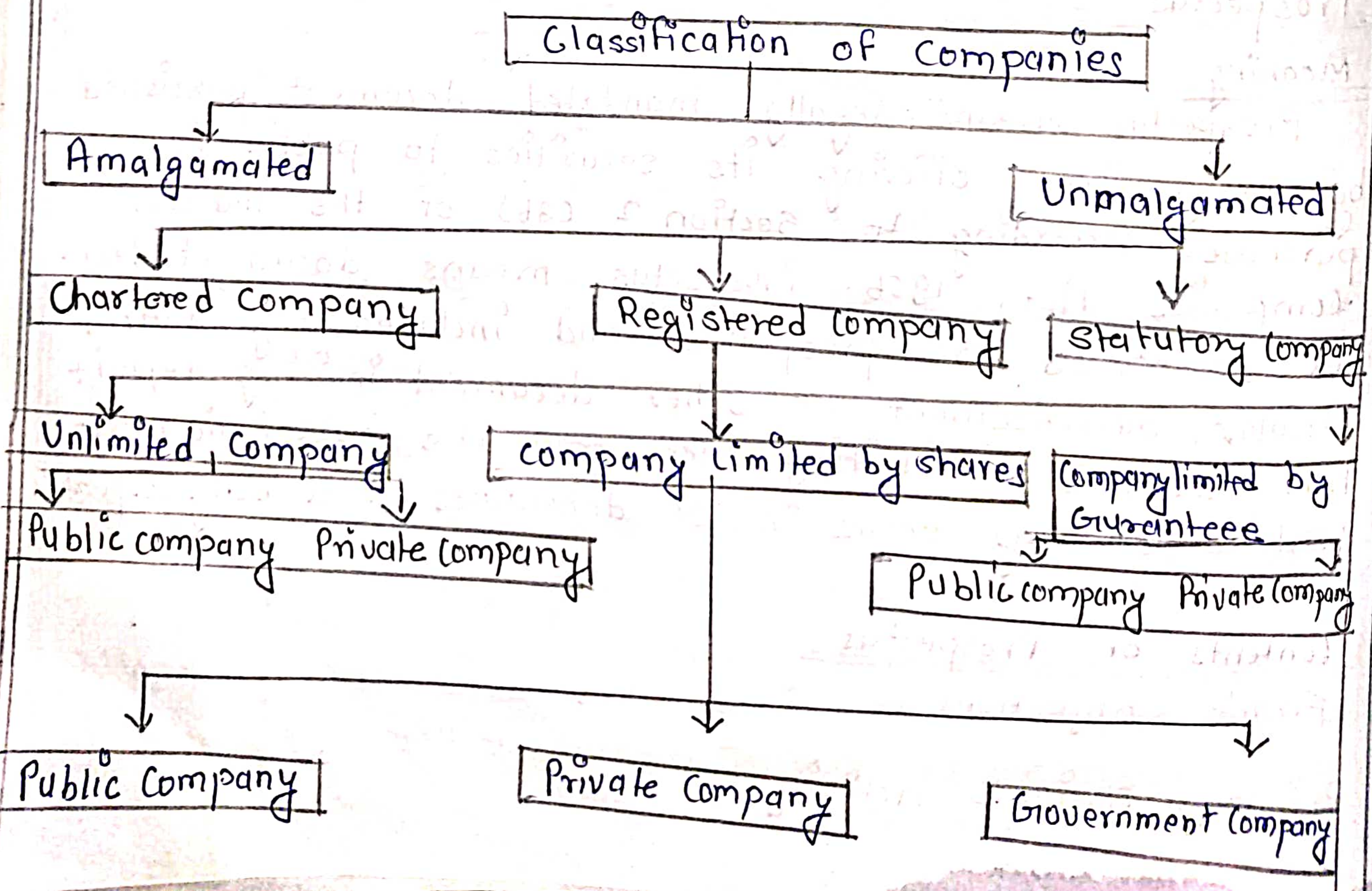
8) Offering price on the stock (shares)

9) (In case of bonds and notes) how the interest and principal will be paid.

Types of Company

Meaning

A company is a body corporate or an incorporated business organization registered under the companies act. It can be a limited or an unlimited company, private or a public company, company limited by gurantee or a company having a share capital, or a community interest company.



Classification of Companies by Mode of Incorporation

1) **Royal Chartered Companies**

These companies are formed under a special charter by the special order of a king or a queen. Few examples of royal chartered companies are BBC, East India Company, Bank of England etc.

2) **Statutory Companies**

These companies are incorporated by a special act passed by the central or state legislature. These companies are intended to carry out some business of national importance. For example, The Reserve Bank of India was formed under RBI act 1934.

3) **Registered or Incorporated Companies**

These companies are formed / incorporated under the companies act passed by the government. These companies come into existence only after these are registered under the act and the certificate of incorporation is passed by the Registrar of companies.

Classification of Companies based on the liability of the members

A) **Companies Limited by Shares**

These companies have a defined share capital and the liability of each member is limited by the memorandum to the extent of the face value of shares subscribed by him.

B) **Companies Limited by Gurantee**

These companies may or may not have a share capital and the liability of each member is limited by the memorandum to the extent of the sum of money which had promised to pay in the event of liquidation of the company for payments of debb and liabilities of the company.

c) Unlimited Companies

There is no formal restriction to the amount of money that the shareholder/ member of the company has to pay in the event of the liquidation of an unlimited company.

Classification of Companies based on the number of Members

i) Public Company

A public company is a corporation whose ownership is open to the public. In other words, anyone can buy the shares of a public company. In India A public company should have at least 7 members and 3 directors, and issue a prospectus or file a statement in lieu of prospectus with the Registrar before allotting shares.

ii) Private Company

A private company cannot be owned by the public, it restricts the number of members, the right to transfer its shares and prohibits any invitation to the public to subscribe for any shares or debentures of the company. In India a private company is a separate legal entity with a suitable company name, an address, at least 2 members and at most 200 members, and at least two directors with one being an Indian resident.

Public Enterprises

Meaning

The term 'public enterprises', is meant any such industrial, commercial or business undertaking or pursuit whose ownership, management and direction is under the central, state or local government or under any other public body.

Definition

According to A.H. Hansen, " Public Enterprise means state ownership and operation of industrial, agriultural, financial and commercial undertakings."

Characteristics of Public Enterprises

1) Government Ownership
2) Socio - Economic Objective
3) Financed by Government Treasury
4) Specific Form for Organisation
5) State Monopoly
6) Extensive or Wide Jurisdiction
7) As a Part of Government Plans
8) Public Responsibility
9) State control on Management System
10) Specific Objects of Establishing

1) Government Ownership

The biggest characteristics of public enterprise is that its control doesn't vest in the private hands, it is managed and controlled by the state.

2) Socio - Economic Objective

The main purpose of the public enterprise is to perform the social service, as well as serving the economic motives.

Objectives of Public Enterprises

Objectives

1) Establishment of Basic & Heavy Industries
2) Regulation of Important Services
3) Utility of Natural Resources
4) To continue the sick & Uneconomic Industries
5) Use of the sources of financial Institutions for National Benefit.
6) Development of Backward Areas
7) Increase in electricity production and Irrigation resources.
8) New Resources of Employment
9) Suitable Distribution System

1) Utility of Natural Resources

Public enterprise use the minerals in the form of raw material and power. Same as public enterprise utilize all natural resources in effective way.

2) Development of Backward Areas

Public enterprise are established generally in such areas which are backward with the Industrial point of view. Due to these people can get employment and new goods.

3) New Resource of Employment

Public enterprise gives birth to new resources of employement in the country. Due to this, unemployment decreases and the manual power of the country is utili

Merits of Public Enterprises

Free from Drawbacks of Capitalism
Proper Utilisation of Natural Resources
Successful Economic Planning
Check on the Abuses of Monopoly
Possibility of Risky and Enterprising Industries
Feeling of Public Service
Developing Healthy Industrial Climate
On the Path to Socialistic Society
Balance Between Demand and Supply

1) **Proper Utilisation of Natural Resources**

It is possible to make the most appropriate utilisation of the natural resources by the establishment of public enterprises.

2) **Checks on the Abuses of Monopoly**

By resorting to the setting up of public enterprises, government could exert some check upon the defects of monopoly.

3) **On the Path to Socialistic Society**

The public enterprise are a step towards the development of socialistic society. It might lead to a better and equitable distribution of wealth in country.

4) **Balance Between Demand and Supply**

By maintaining balance between demand and supply public enterprise controll the economy in a better way.

Demerits of Public Enterprises

State Capitalism As a Lacuna
Inefficient Management System
Prevalence of Red - Thpism
Increased Tendency Towards Bureaucracy
Universality of the consumer is Abolished
Ignoring the Drawbacks
Avoidance of the Economic Laws
Additional Burden Upon state Regarding Management
Burden of loss on Tax - payers

1) **Increased Tendency Towards Bureaucracy**

In this state enterprises, run by public sector, the defects of bureaucracy are quite apperent.

2) **Ignoring the Drawbacks**

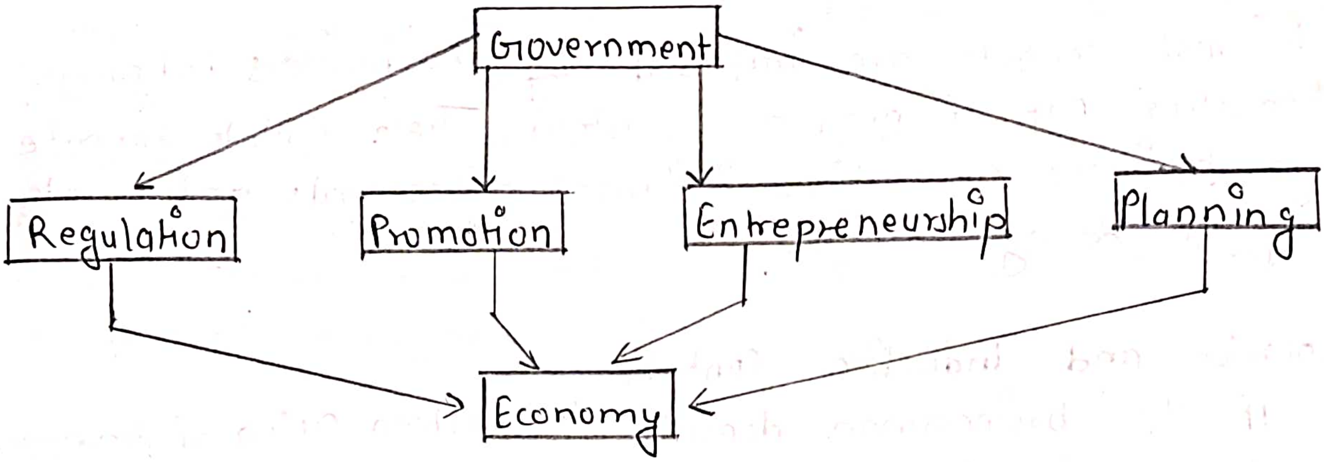
When no steps are taken up for controlling them, the quantum of losses increases.

3) **Avoidance of the Economic Laws**

In the public enterprises, the economic laws are mostly ignored and not kept into consideration during the governmental transactions.

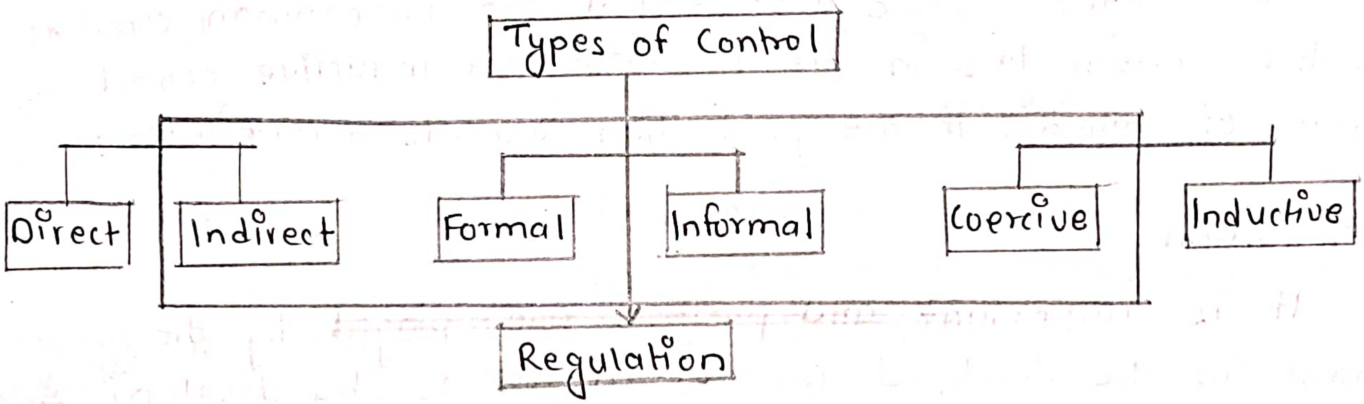
Different Roles of the Government

Government normally plays four important roles in an economy as shown in the following figure:



Regulation

Also called controls or intervention, government regulation assumes several forms:-



1) Direct and Indirect Controls

The reasons being that direct controls are discretionary in nature. These can be applied selectively on certain firms, certain industries or certain products or services. A few examples of the direct controls are:

- Industrial Licensing
- Price and Distribution controls etc.

As is clearly from the name, indirect controls are not indirectly exercised by the Government but are usually exercised through various fiscal and monetary incentives or disincentives.

- Variaton of corporate income tax to influence economic activity.

2. Formal and Informal Controls

Formal controls are generally imposed through legislation. It is powerful in nature.

Informal controls are imposed by the business houses upon themselves out of need and custom. These controls emanate from business conventions, informal agreements and accepted way of doing things.

3. Coercive and Inductive Controls

If the businessman doesn't do certain action of Government regulations, he has to pay penalties, which is Coercive controls. E.g. taxes must be paid or the penalty will be there in the form of fine or imprisonment.

Some controls promise a reward if the businessman complies with a certain line in action. These are inductive controls e.g. grant of subsidies if the production exceeds a certain level.

Promotion

It is important and positive role played by the government in the developed countries as well as the developing countries. It includes the following activities :

1) To build up and strengthen the necessary development infrastructure e.g. finance, transport, power, marketing and other promotional activities

2) Revival of sick units.

3) Encouragement to small scale units.

4) Removal of regional imbalances

Entrepreneurship

In many countries, the Government also plays the role of an entrepreneur. It means that the business houses are established and operated by the government and the risk is also born by the government. The reasons for the growth of state owned Enterprises are as follows:

- Absence or death of Private entrepreneurship
- Neglect of certain non-profitable sectors by the private entrepreneurs.
- Monopolies in certain sectors and the resultant exploitation of consumers.
- Social political ideologies

Planning

The need for planning arises due to the scarcity of resources. When to slove problem of scarcity government makes plan and it is main objective of national planning. Planning for future economic development inevitably means Regulatory, Promotional and entrepreneurial action.

Conclusion

As a result, the role of government towards business and society is constantly changing. Ability to understand public policy can enhance the chances of success of a business. Neither business nor government operates in a vacum. Therefore, a proper communication between government and business advocates is essential for obtaining maximum benefits of public policies of government.

Forms of Public Enterprises

Different Forms of Organisation of Public enterprise are as follows:-

1) Departmental Types of Public Enterprise
2) Public Corporation
3) Government Company
4) Mixed - Ownership Corporations
5) Public Utilities

1) Departmental Types of Public Enterprise

Departmental undertakings are the oldest among the public enterprises. A departmental undertaking is organised, managed and financed by the Government. It is controlled by a specific department of the government. The parliament lays down the general policy for such under-takings.

Characteristics

1) Arranging Finances by Budget
2) Full control by the Government
3) Minister as Departmental Head
4) Financing by state Treasury
5) State Approval for Litigation
6) Government Rules of Accounts and Auditing

Advantages of Departmental Undertaking	Disadvantages of Departmental undertakings
1) Perfect Secrecy	1) Limited Suitability
2) No misuse of the Public Funds	2) Lack of Management Efficiency
3) State Responsible for Accountability	3) Red - Tapism and Bureaucracy
4) Less Chances of Fraud	4) Lack of Elasticity
5) More effective	5) Ignoring the losses
6) Less incidence of Taxation Upon public	6) Lack of competent officials.

2) Public Corporation

The public corporation refers to such organisations which are incorporated under the special Acts of the Parliament / State legislative Assemblies. Its management pattern, its powers and functions, the area of activity, rules and regulations for its employees and its relationship with government departments, etc, are specified in the concerned Act. Ex:- State bank of India, life insurance Corporation of India.

Merits of Public corporation	Demerits of Public Corporation
1) Freedom from Government Interference	1) lack of Individual Incentives to Employees.
2) Services of specialised Employees Available	2) Misuse of the Public Funds
3) Quick Decisions Available	3) Increasing State Intervention
4) Flexibility in the Rules	4) Difficulty in Amending the Constitution
5) Permanent Existence	5) Lack of Qualified and Experienced Employees

3) Government Company

As per the provisions of the Indian Companies Act, a company in which 51% or more of its capital is held by central and / or state government is regarded as a Government Company. These companies are registered under Indian Companies Act, 1956. and follows all those rules and regulations as are applicable to any other registered company.

Merits of Government Company	Demerits of Government Company
1) Helpful in Nation's Industrial Progress	1) lack of Business secrecy
2) Elasticity in Financial system	2) lack of Personal Interest
3) Aptitude of the Masses	3) Political consequences
4) Use of Profit in Public Interest	4) Red - Tapism
5) No Need of Enacting separate legislation.	5) lack of competent and efficient Managers

4) Mixed - Ownership Corporations

Such organisations in which the government or the state partially invests the capital, and partially or wholly the responsibility of management is entrusted to the private sector are designated as the mixed-ownership corporations. In the boards of directors of these corporations, the representatives from outside of the goverment, are included. Usually, the total share capital of these corporations is not subscribed wholly by the governments.

Merits of Mixed - Ownership corporations	Merits of Mixed - Ownership corporations
1> Benefits of Public and Private, Both sectors	1> Lack of Public Service
2> Efficient Direction	2> lack of efficiency
3> No Financial Problem	
4> Audit Like Public Companies	

5> Public Utilities

Public utilities are those business undertakings which provide necessary services to the society. The dealing of the undertakings with the supply of electricity, gas, power, water and transport etc. are all covered under public utility services. R. G Hawtrey defines public utilities as "a service in which a tendency to a local monopoly necessitates, the intervention of a public authority to defend the interest of the consumer."

Characteristics of Public Utilities

1> Protection of Consumers
2> Monopoly Position
3> Special Franchise
4> Large Investments
5> Public Regulations
6> No Business Risks
7> Pricing Policies

Small Business

Meaning

Small business are either service or retail operations which are independently owned organisations that require less capital and less workforce and less mechinery. These businesses are ideally suited to operate on a small scale to serve a local community and to provide profits to the company owners.

Definition

According to the definition provided by the government website for business, business.gov.in, a small scale business is a business set up in which the financial commitment towards infrastructure such as building & equipment, whether made as an owner or no rental or purchase basis, does not surpass Rs. 1 crore.

Role of Small Business in India

1) Industrial units
2) Labour - oriented
3) Human Resources
4) Utilisation of local resources
5) Flexible and Adaptable

1) Industrial units

In an economy so enormous as India, 95% of the industrial units in the country consits of small business and 40% of ~~the~~ total industrial output is contributed by these small Industries. Again, small businesses bag around 45% of the total exports from India.

2) Flexible and Adaptable

New business opportunity is captured at right time. The strength to adapt and grow in the face of upcoming changes gives an edge to the small businesses. Also, being the manufacturer and distributor, small businesses develop a sense of personal touch with the area of business and their customers. Limited in size and finance, there is little or no government intervention.

Government Assistance

The support of small industries include:

1) Institutional Support

a) National Bank for Agriculture and Rural Development (NABARD)

b) A Rural Small Business Development Centre (RSBDC)

c) National Small Industries Corporation (NSIC)

d) Small Industries Development Bank of India (SIDBI)

e) The National Commission for enterprises in the Unorganised Sector (NCEUS)

f) Rural and Women Enterpreneurship Development (RWED)

g) World Association for small and Medium Enterprises (WASME)

h) Scheme of Funds for Regeneration of Traditional Industries

2) Incentives

3) Future

Features of Small Business

1) Competition
2) Supplementary
3) components
4) Initiation
5) servicing

1) Initiation

Small industry can initiate new products and subsequently grow large with the growth of the product. Staley mentions that many of the automobile factories started this way in USA. In India, the electronics industry looks like taking to this pattern of development.

2) Supplementary

Small industry can 'fill the cracks' between the big volume and standardised outputs of large factory. Staley mentions a Madras case where a small tricycle factory flourished alongside a large cycle factory.

Importance of Small Scale Industries in Indian Economy

1) Safety from the bad effects of urbanisation and industrialization
2) Use of local sources
3) Important Part in National Production
4) Reasons related to Employment
5) Business starts with little capital
6) Artistic goods
7) Industrial quiet

8) Catering to the needs of the large scale industries
9) Quick production industries
10) Safe from class struggle

Problems of Small Scale Industries

1) Problem of the capital
2) The problem of distribution of the finished products
3) Competition with larger industries
4) Problem of lack of technical knowledge and superior managerial skills
5) Lack of standardization
6) lack of proper education and training to the artisans
7) lack of timely payment and accumulation of stock
8) Problem of raw material

Suggestions for Growth of Small Scale Industries

1) Development of small scale government Industries
2) Setting up of advisory bodies
3) Co-ordination between small scale and large scale Industries
4) Quality Control
5) Expansion of research programmes
6) Expansion of exhibitions of small scale industries
7) Expansion of financial facilities

SIDBI

It is the principal Financial Institution for the Promotion, Financing and Development of the Micro, Small and Medium enterprise sector and for co-ordination of the functions of the institutions engaged in similar activities. It is managed by a team of 10 Board of Directors. The authorised capital of the Bank is Rs. 1000 crore and the Paid up capital is Rs. 450 crore.

Small Industries Development Bank of India.

Functions of SIDBI

1) It refinances loans extended by the primary lending institutions to small scale industrial units, and also provides resouries support to them.

2) It discounts and rediscounts bills arising from sale of machinery to or manufactured by Industrial units in the small scale sector.

3) To expand the channels for marketing the products of small scale Industries sector in domestic and international markets.

4) It provides service like leasing, factoring etc. to industrial concerns in the small scale sector.

5) To initiate steps for technological up-gradation and modernisation of existing units.

6) SIDBI Co-Promotes state level venture funds in association with respective state government.

Multinational Corporations

According to David E. Lilliental: MNCs are corporations which have their home in one country but operate and live under the laws and customs of other countries as well.

Features of MNCs

1) World wide operation
2) Create Maximum operation
3) Advanced Technology
4) High efficiency

5. Monopolistic Market
6. Product/service organization
7. Ownership and control

1) Monopolistic Market

Generally, MNCs supply large quantities of quality products and services in the international market. So they create a separate brand name and capture a large area of foreign market.

2) Advanced Technology

MNCs invest a huge amount of money on research and development of latest technology. Therefore transfer advanced technology to developing countries through subsidiaries and branches.

Importance of MNCs

1) Transfer of capital and technology
2) Mass production
3) Increase in employment opportunity
4) Increase in government revenue
5) Research and development
6) Good International relation

1) Good International relation

A MNCs recognizes the country in the international market. It creates harmonious relation between parent company and subsidiary countries. It recognizes exporting country to all over the world.

2) Mass Production

With help of advanced technology, they can produce quality goods and products at cheaper price. Due to Job innovation and specialization help to produce more consumption increase as production in more unit reduce cost.

Drawbacks of MNCs

1) Interference in the Economic Sovereignty of the host country
2) Drainage of Resources
3) Strain on Foreign Exchange Reserves
4) Minimum Transfer of Technology
5) Exploitation of Labour
6) Cultural Loss
7) Creation of Monopolies
8) Evasion of taxes
9) Economic power
10) Depletion of natural resources
11) High Profit Orientation

1) Cultural loss

The most serious threat faced by the host country is the loss of their cultural moorings. In the name of globalisation the MNCs ~~under~~ usher in their own dress and food habits which are simply grabbed by the youth of the host countries.

2) Creation of Monopolies

The MNCs may create their monopolies in the markets and eliminate local competitors.

3) Evasion of Taxes

The MNCs may manipulate their accounts to evade the taxes in the host country.

Role of MNCs

1) Transfer of capital
2) Balance of Payments
3) Linkage Effects
4) Employment Creation and Human Resource Capital
5) Quality Products at Relative cheaper cost

1) Transfer of capital

MNCs play in important role to help the developing countries to obtain capital from the developed countries of the world. In the Indian context, total foreign direct investment flown under various schemes has increased exponentially in, the recent years.

2) linkage Effects

MNCs benefit the developing nations from multiplier and linkage effects resulting from better use of the technology. These effects are usually tied to changes in technology and include training and mobilisation of resources.

Unit-V

Socio Responsibility of Business

Definition

According to Keith Davis, " Social responsibility of business implies that the business men's decision and action are taken for reasons at partially beyond the firm's direct economic or technical interest."

According to Koontz and O' Donnell, " Social responsibility the personal obligation of everyone as he acts in his own interest, to assure that the right and legitimate interests of all others are not impinged."

Characteristics of the Concept 'Social Responsibility'

1) Two - Fold System

2) Significance in the Whole of Business Region

3) Development of All the Business Related Parties

4) Direction of Business for Social Benefit

Social Responsibilities of a Business

1) Business and the shareholders
2) Business and the workers
3) Business and the consumer
4) Business and the society
5) Business and the government

Social Responsibility towards different Sectors

1) Social Responsibility of Management towards Consumers.

2) Social Responsibility of Management towards Employees

3) Social Responsibility of Management towards Owners

4) Social Responsibility of Management towards Society

5) Social Responsibility of Management towards Government

Factors Responsible for the Realisation of Social Responsibility

1) Market Forces
2) Government Intervention
3) Emergence of Professional Managers
4) Growth of Trade Unions
5) Public Scrutiny

Business Ethics

Definition

According to Keith Davis, "Business ethics is the application of general ethical rules to business."

According to John Donaldon, " Business Ethics is the systematic study of moral or ethical matters in business, industry or related activities in business - institutions or practices or beliefs."

Objectives

1) Diagnostic
2) Normative
3) Prescriptive

Approaches of Business Ethics

1) Business and its Internal Stackholders

2) Business and its End Users or customers

3) Business and its Social Environment

4) Business and the Natural Environment

5) Business and its competitors

6) Business and Personal Policy

Importance of Business Ethics

1) Ethics corresponds to basic human needs

2) Values create credibility with the public

3) Values give management credibility with employees

4) Values help in better decision making

5) Ethics and Profits go together

6) law cannot protect society, ethics can

Factors Influencing Business Ethics

1) Social Factors

2) Cultural Factors

3) Personal Values

4) Political and legal factors

5) Industry codes
6) Professional Codes
7) Organisational Factors

Difference between Ethics & Social Responsibilities

a) Ethics provide guidelines for human behaviour in every field, whether organizational or non-organisational.
But
Social responsibilities works in organisational context. Thus, implication of ethics are much wider than those of social responsibility.

b) Ethics is concerned with micro aspect that is, relating to daily operating decisions with limited social impact.
But
Social responsbility is concerned with macro aspect relating to decisions with broad implications for a large segment of the society.

Corporate Governance

Corporate governance involves a set of relationship between a company's management, its board, its shareholders and other stakeholders. Corporate governance also provides the structure through which the objectives of the company are set, and the means of attaining those objectives and monitoring performance are determined."

Importance of Corporate Governance

1) Changing Ownership Structure
2) Importance of Social Responsibility
3) Growing Number of scams

4) Indifference on the part of Shareholders
5) Globalisation
6) Takeovers and Mergers
7) SEIBI

1) **SEIBI**

SEIBI has made corporate governance compulsory for certain companies. This is done to protect the interest of the investors and other stakeholders.

2) **Takeover and Mergers**

Today, there are many takeovers and mergers in the business world. Corporate governance is required to protect the interest of all the parties during takeovers and mergers.

3) **Importance of Social Responsibility**

Today, social responsibility is given a lot of importance. The Board of Directors have to protect the rights of the customers, employees, shareholders, suppliers, local communities, etc. This is possible only if they use corporate governance.

Principles of Corporate Governance

1) Accountability
2) Fairness
3) Transparency
4) Responsibility