INTRODUCTION TO BUSINESS

A.T.M. Faizul Haque
Md. Liton Ali

Scanned with CamScanner

CONTENTS

Scanned with CamScanner

Scanned with CamScanner

Introduction

Chapter Outline :

Definition of business, Nature and Scope of business, Elements/ Components of business, Characteristics Features of business, Objectives of business. Why we study Business? / Importance of studying business.Meaning of Plant Firm and Industry, Different types of industry, Concepts regarding inputs and outputs of business, Questions to Answer, Multiple Choice Questions, Idicate True or False & References.

1.1 Definition of Business

Business is a term with a very wide meaning. It refers to an activity of people working for the purpose of producing and distributing goods and services at a profit. A business activity creates utilities by production of goods and services to satisfy human wants. Simply, business is an activity of people directed towards satisfying human wants at a profit. In broad sense, business is the activity performed by an individual or a group of people with a view to earn profit within the government rules and regulations.

Various authors have defined business in different ways. Some of them are quoted below:

"Business is the exchange of goods, services, or money for mutual benefit or profit."- *Skinner and Ivancevich*

"Business may be defined as any form of commercial activity to satisfy the economic wants of people at a profit."-***Keith Davis.***

"Business is any enterprise engaged in production and distribution of goods for sale in a market or rendering services for a price."-*Professor Owen.*

Finally, business without profit or loss is no business. It is the whole complex field of trade, commerce, industry and the network of ancillary services, distribution, banking, insurance, transport and so on which serve and penetrate the world of business as a whole.

1.2 Nature and Scope of Business

The scope of business is very comprehensive. It encompasses all human activities, which tend to satisfy needs and wants of the human beings living in a society. A large part of the business is concerned with providing the final or finished products or goods to the desired people.

Business is universal and everywhere. It is essential to ensure the production and distribution of goods and services to satisfy the economic wants of people at a profit. The nature and scope of business are changing very quickly. The people who are engaged in business, must have to cope with the changing environment because the people's attitudes, habits, tastes, likes and dislikes, norms, beliefs, values, perceptions and motives are changing with the change of time.

Profit earning cannot be the sole motive of business activity. Businessmen do have a social responsibility too that must be met. Business organizations produce goods and services

Scanned with CamScanner

to generate profit but such activities create impact on society as well as the whole community. The responsibility of businessman is to provide the goods and services in a way which is not harmful to the society.

1.3 Elements / Components of Business

Business includes all activities concerned with the production, sale or exchange of goods and services with the objectives of earning profit. There are three components of business and these are stated below:

➲ **Trade :** Trade is the final stage of business activity and it involves sales and purchase of goods. It can be divided into two types such as-

Home Trade: When trade takes place within the national boundaries.

Foreign Trade: When trade takes place across the national boundaries.

➲ **Commerce:** It is the process of buying, selling and other activities which facilitate trade such as storing, packaging, transportation, insurance, banking, finance and marketing promotion. The principal function of commerce is to remove the hindrances of person, place time, exchange and knowledge.

➲ **Industry:** Industry refers to that part of business activity which is engaged in raising producing, processing, fabricating, extracting and conversion of goods.

1.4 Characteristics / Features of Business

Business is the activity performed by an individual or a group of people with a view to earn profit within the government rules and regulations. Some of the important characteristics are given below:

➲ **Profit:** This is a very important criterion of business that distinguishes it from other types of activities. People start business just to earn profit although there is the possiblilities of loss at least in the initial stages.

➲ **Risk:** Risk is inherent in businesses although the degree may vary from one kind to another. It is possible that there may be loss instead of gain. There is no business activity, which is not subject to loss.

➲ **Legality:** The subject matter of business is to be legal. Business can operate through government rules and regulations of a country. Illegal business is not to be considered as business.

➲ **Creation of utilities:** Business leads to the creation of utilities and thus satisfies human wants by modification of product features, size, color, style, design etc.

➲ **Exchange of goods and services:** Exchange of goods and services is the foundation of business. If there exists no exchange function there cannot be any business. Exchange function is the means to an end of maximizing profits.

Scanned with CamScanner

➲ **Forecasting:** Forecasting is indispensable for growth and survival of a business. Some of the factors that a businessman must have to predict are :

❒ Demand and supply of the product
❒ Qualities of the product
❒ Existing and potential customers of product
❒ Observation of the competitors' movement
❒ Technological changes
❒ Economic and political changes etc.

➲ **Rendering service to the society :** Rendering service to the society is another important feature of business. Business must have some responsibility towards society as well as the whole community. The responsibility of businessman is to deliver the goods and services in way that is beneficial to the society.

1.5 Objectives of Business

Success in business cannot be achieved without the setting of right objectives. Objectives may differ from one unit to the other in view of the nature of an organization. All businessmen do not have the same objectives to run the business. Sometimes some of the objectives are social welfare oriented; and some of the objectives are profit oriented. Objectives must be cleared and consistent to achieve the mission of an organization. Lists of business objectives generally include such factors as profit, survival, growth and social responsibility.

➲ **Profit :** The main objective of business is to earn profit. The profit objective plays the major role in business. However, profit means different things to different people because of their values, attitudes, and perceptions. Profit may be of two types-

➲ **Business profit :** The difference between business income (revenue) and business expenses (cost); selling price minus all costs of making and selling a product including taxes.

➲ **Economic profit :** What remains after expenses and opportunity costs are subtracted from income. Opportunity cost indicates the cost of choosing to use resources for a purpose, which results in sacrificing the next best alternative for the use of those resources.

➲ **Survival:** Survival is the prime objective of business. Survival is very essential to ensure other objectives of business and to compete in the competitive global market.

➲ **Growth :** Growth is inevitable for a firm to be successful. The following indicators can measure growth of a firm:

❒ Increasing market share
❒ Increasing productivity
❒ Long term relationship with customers, suppliers, competitors, and marketing intermediaries.

Scanned with CamScanner

- Harmonious labor relations
- Good corporate culture.

Social Responsibility : Profit earning cannot be the sole motive of business activity. Businessmen have a social responsibility that must be met. Moreover, business organization produces goods and services to generate profit. At the same time, it must have some impact on society as well as the whole community. The responsibility of businessman is to provide the goods and services in that way, which are not harmful to the society. Besides another responsibility of businessmen is to supply goods and services at a fair price.

In addition to fulfilling numerous roles, businessmen need to perform some specific objectives such as-

- Creation of employment
- Creation of markets
- Using creativity
- Investment of capital
- Exploitation of resources

1.6 Why We Study Business?
Or, Importance of Studying Business

The study of business will help us to increase our skills, sharpen our knowledge and understand the business and economic links among nations. There are some other reasons for which we study business:

1. Increasing dependence on others : Over the years, people have become more and more dependent on others. The knowledge of business is increasing the understanding of mutual dependence through business system. For example—you drive a car that is manufactured in Japan

2. International opportunities : In the 21st century, it has become indispensable for every one especially individuals educated in business to take exiting opportunities that will exist around the world. By studying business they can know how to start, operate, and sustain business successfully in the competitive world.

3. Improving standard of living : Standard of living indicates measure of how well a person or family is doing in terms of satisfying needs and wants with goods and services. This is possible through their knowledge of business. So we must study business to develop our standard of living.

4. Coping with change : As like as the world itself, business is also dynamic—always changing. Coping with both predictable and unpredictable events we must have to study business. If a man doesn't study business, he/she is sure to fail to fit himself/herself in the business world.

Scanned with CamScanner

5. Preventing misconceptions : Understanding business also prevents us accepting isconceptions, misinformation, and inaccurate data as truths.

6. Creating employment: Business creates more and more employment opportunities in arious industries and trades for skilled as well as unskilled workers.

7. Division of labor: Division of labor implies the distribution of manpower in a ommunity for obtaining the maximum production and for improving the quality of output.

8. Utilization of resources: A country's resources are used to produce goods and services hat will meet the needs and wants of people. By studying business, we can easily know how to se properly our resources such as capital resources (fuel, raw materials, paper and money), atural resources (oil, natural gas, mineral, timber, and water) and human resources (human lent, skills and competence, available in the nation).

.7 Meaning of Plant, Firm and Industry

➲ **Plant :** The term plant refers to a place or establishment where goods are produced. or example-Aziz Pipe Factory, Coca-Cola etc.

Characteristics :

❒ Where goods are produced?

❒ From where goods are distributed and

❒ From where goods are supplied?

So plant means a factory, shopping center, or any other establishment. The plant includes ot only the building and machinery but also the workers employed therein.

➲ **Firm :** The term firm refers to the business unit or undertaking which owns the plant, ontrol and manage it. The firm is essentially a unit of control, ownership, and management. firm may own only one plant or more than one plant. The various plants owned by a firm ay be engaged in the production of the same product or products. For example—Lever rothers, Bashundhara etc.

➲ **Industry :** Industry includes all the firms owning, controlling and managing the plants ngaged in the production of similar products. For example, sugar industry, jute industry etc. another way, the industry refers to that part of business activity, which is engaged with the ising, producing, processing, fabricating, extracting, and conversion of goods.

.8 Different Types of Industries

Industry is the process of producing something with a view to earning profit. It is rdinarily viewed as the work of creating form utility. Industry can be classified into two ain headings:

➲ Primary industry

➲ Secondary industry

Scanned with CamScanner

1. Primary Industry : Primary industry can be classified into two groups :

(a) Extractive industriy : Its engaged in the extraction of the wealth from the land, sea, and air or from beneath the surface of the earth. Example: mining, fruit gardening, farming, fishin, hunting, and so on.

(b) Genetic Industry : It is engaged in the reproduction, breeding, multiplication of certain species of plants and animals. Example—nurseries, hatcheries, poultry firms, etc.

2. Secondary Industry: Secondary industries are the followings :

a. Manufacturing Industry : Industries which produce goods through the creation of form utility / utilities are called manufacturing industries. They are engaged in the conversion, or transformation of raw materials into finished goods. Examples—Flour mills, Cotton mills, Steel mills, Bakery, Bricks etc.

b. Construction Industry : These industries include construction activities. Construction industries use the products of manufacturing industries. Examples— construction of bridge, road, building and so on.

c. Processing Industry : Industries, which are engaged in the processing of certain raw materials to make them fit for final consumption.Examples—Dairy, Backery etc.

d. Service Industry : Industries, which are engaged in rendering service only. Example- Insurance, Bank etc.

1.9 Concepts regarding Input and Output of Business

❒ **Input:**

All the things that any organization put into work in order to make it succeed, such as :

→ **Human resource :** Total labor force in an organization.

→ **Capital :** Amounts of money required to operate business. Such as fixed capital and working capital.

→ **Managerial resource :** Here managers put their total efforts to achieve organizational goal.

→ **Technological resource :** Company uses different types of technology to accommodate the changes in the environment.

❒ **Output :**

The amount of something that a person, a machine or an organization produces, such as :

→ **Product :** Product is finished goods that are usually for sale.

→ **Service :** Any activity or benefit that one can offer to another.

→ **Profit :** The money that you make in business.

→ **Satisfaction :** The good feeling about product.

→ **Goal :** Achieving the organization objectives.

Scanned with CamScanner

❒ Questions to Answer :

1. Define business and discuss nature the and scope of business.
2. What is business? Discuss the elements / components of business.
3. What are the characteristics of business? Explain in brief.
4. Elaborate the features of business.
5. What is business? Why we study business?
6. Discuss the importance of studying business.
7. Distinguish among trade, commerce and industry.
8. What is business? Explain the objectives of business.
9. Explain different concepts about input and output of business.

❒ Multiple Choice Questions (MCQ) :

1. What is the main purpose of business?
(a) Profit earning (b) Risk taking
(c) Social welfare (d) All of the above

2. Business refers to an activity of people working for the purpose of producing and distributing goods and services at a :
(a) Profit (b) Risk
(c) Decision making (d) All of the above

3. What are the components of business?
(a) Trade (b) Commerce
(c) Industry (d) All of the above

4. Which is the final stage of business?
(a) Trade (b) Commerce
(c) Industry (d) All of the above

5. Which is the example of extractive industry?
(a) Mining (b) Farming
(c) Poulty to tirm (d) Both a and b

6. Hatchery is the example of :
(a) Extractive industry (b) Genetic industry
(c) Constractive industry (d) All of the above

7. Which is the example of constructive industry?
(a) Cement (b) Bridge
(c) Road (d) All of the above

8. Butter is a example of a :
(a) Processing industry (b) Manufacturing industry
(c) Extractive industry (d) All of the above

9. Which one is an input of business?
(a) Human resource (b) Product
(c) Profit (d) All of the above

10. Which one is not an output of business?
(a) Satisfaction (b) Goal
(c) Capital (d) None of the above

❒ Indicate True or False :

1. Business is a term with a very wide meaning.
2. Business may be defined as any form of commercial activity to satisfy the econmic wants of people.
3. The scope of business is very comprehensive.
4. Profit earning cannot be the sole motive of business activity.
5. Commerce is the final stage of business.
6. The term plant refers to a place or establishment where goods are produced.
7. Industry can be classified under three main headings.
8. Bakery is a example of manufacturing idustry.
9. Bank is one kind of service industry.
10. Product is finished goods that are usually for sale.

References:

1. Steven J. Skinner & John M. Ivancevich, *Business for the 21st Century,*
2. Durgadas Bhattacharjee, *Intorduction to Business Organization- principles and practices.*
3. J. K. Mitra, *Principles of Commerce, Volume-1*
4. Susan Hammond, *Business Studies.*

Scanned with CamScanner

Business Environmen

Chapter Outline :

Importance of Organization's Environment, Types of Environment, External Environment, Internal Environme Importance of External Environment, Differences between Natural and Organizational Environmen Stakeholders of an Organization, Organizational Response to Natural Environment, Foundation of Busine Factors Determining the Type of Business to Start, Questions to Answer, Multiple Choice Questions, Idicate Tr or False & References.

2.1 Importance of Organization's Environment

Environmental factors play a major role in determining an organization's success failure. It's just like a swimmer who needs to understand conditions in the water. T organization must understand the basic elements of its environment to properly maneuv them for success.

All organizations have both external and internal environments. The extern environment is composed of general and task environment layers. The general environme includes nonspecific elements of the organization's surroundings that might affect its activiti in a broad and general sense. The task environment consists of specific dimensions of th organization's surroundings that are very likely to influence the organization in a more dire and immediate sense. The internal environment consists of conditions and forces within th organization. It includes owner, employees, board of directors and culture—each of whic play an important role in the internal environment of the organizations.

Organizations and their environments affect each other in several ways. Environment influences on the organization can occur through uncertainty, competitive forces, ar turbulence.

Uncertainty is a major force caused by change and complexity that affects mar organizational activities. A simple and stable environment creates the least uncertainty, and complex and dynamic environment creates the most uncertainty.

Competitive forces include the threat of new entrants, competitive rivalry, the threat o substitute products, the power of buyers, and the power of suppliers; all of which can pla important roles in shaping an organization's overall conditions.

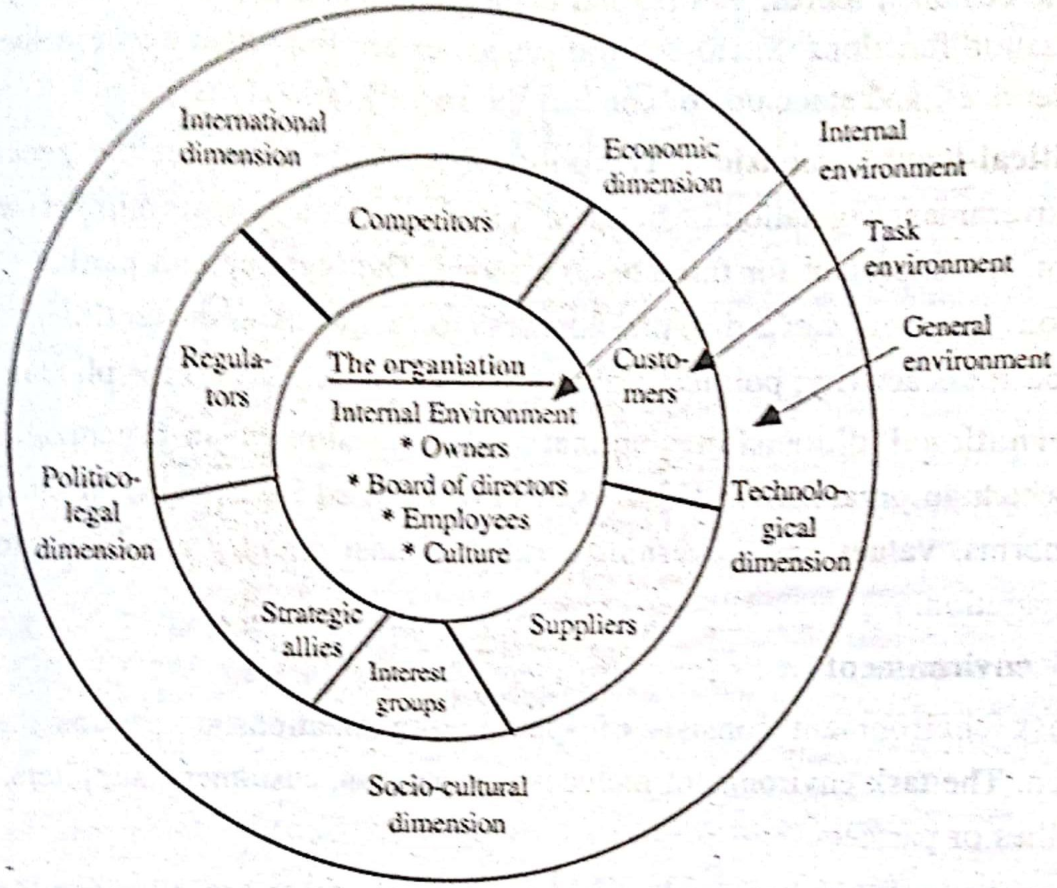
Environmental turbulence can cause a major disruption for organizations. Environmenta turbulence can often force an organization to respond to catastrophic events with little or n warning. Although organizations could have developed contingency plans for some of thes crises, many of them are events that would have been hard to anticipate.

2.2 Types of Environments

Organizations have both an external and internal environment. Both environments consis of various dimensions and elements, which are shown in the following diagram:

Scanned with CamScanner

Diagram : 2-1 Different Types of Environment



1. External Environment:

The external environment is everything outside an organization that might affect it. It is composed of two layers: the general environment and the task environment.

A General Environment :

The set of broad dimensions and forces in an organization's surroundings that create its overall context. The general environment of most organizations has economic, technological, socio-cultural, political-legal, and international dimensions. Each dimension of the general environment embodies conditions and events that have the potential to influence the organization in important ways.

➲ **Economic dimension:** The economic dimension of an organization's general environment is the overall health of the economic system in which the organization operates. Particularly important economic factors for business are inflation, interest rates, and unemployment, all of which affect demand for different products. During times of inflation, a company pays more for resources and must raise its prices to cover the higher costs. With the rise in interest rates consumers are less willing to borrow money and the company itself must pay more when it borrows. High unemployment reduces consumer's purchasing power and thus lowers the market demand.

➲ **Technological dimension:** The technological dimension of the general environment refers to the methods available for converting resources into products or services. Although technology is applied within the organization, the forms and availability of that technology come form the general environment.

Scanned with CamScanner

➲ **Socio-cultural dimension:** The socio-cultural dimension of the general environmen includes the customs, mores, values, and demographic characteristics of the society in whic the organization functions. Socio-cultural processes are important because they determine th products, services, and standards of conduct the society is likely to value.

➲ **Political-legal dimension:** The political-legal dimension of the general environmer refers to government regulation of business and the general relationship between business an government. It's important for three basic reasons. The legal system partially defines what a organization can and can't do; pro-business or anti-business sentiment in governmer influence business activity; political stability that has ramifications for planning.

➲ **International dimension:** International dimension of an organization refers to th extent to which an organization is involved in or affected by business in other countries. Th customs, norms, values and government rules of host country are likely to affect foreig business operation.

B.Task environment

The task environment consists of specific organizations or groups that influence a organization. The task environment includes competitors, customers, suppliers, regulators, an strategic allies or partners.

➲ **Competitors :** An organization's competitors are other organizations that compete wit it for survival and growth. The most obvious resources that competitors vie for are custome dollars. Organizations may also compete for different kinds of resources like- quality labo technological breakthroughs, patents, and scarce raw materials.

➲ **Customers :** A second dimension of the task environment is customers, or whoev pays money to acquire an organization's products or services. Dealing with customers ha become increasingly complex in recent years. New products and services, new methods o marketing and more discrimination customers have all add uncertainty to how business relate their customers.

➲ **Suppliers:** Suppliers are organizations that provide resources for other organization It's obvious that an organization that has strong relationship with its supplier helps to stimula production and also pay off.

➲ **Regulators:** Regulators are units in the task environment that have the potential t control, legislate, or influence an organization's policies and practices. There are tw important kinds of regulators.

i. Regulatory agencies: Agencies created by the government to regulate busines activities. For example- Environmental Protection Agency (EPA), Occupational Safety an Health Administration (OSHA), Securities and Exchange Commission (SEC), Food & Dru Administration (FDA), Equal Employment Opportunity Commission (EEOC) etc.

Scanned with CamScanner

ii. **Interest Group:** Groups formed by its own individual members to attempt to influence business. For example- National Organization for Women (NOW), Mothers Against Drunk Drivers (MADD), National Rifle Association (NRA) etc.

⊃ **Strategic Allies :** A final dimension of the task environment is strategic allies, which mean that an organization works together with one or more other organizations in a joint venture or under similar arrangement. Strategic alliances help companies get from other companies the expertise they lack. They also help spread risk. Managers must be careful, however, not to give away sensitive competitive information of them.

2. **Internal Environment :** An organization's internal environment consists of conditions and forces within the organization. The major elements of internal environment consist of owners, board of directors, employees, culture etc.

⊃ **Owners :** The owners of a business are the people who have a legal property right to that business. Owners can be a single individual who establishes and runs small business, partners who jointly own the business, individual investors who buy stock in a corporation, or company.

⊃ **Board of Directors:** Not all organizations have board of directors. Corporations, of course, are required to have them but non-incorporated business and many non-business organizations may go without board of directors. Board of directors may be called as board of regents, board of trustees, syndicate, committee etc. as per the act and conduct of the organization. The board plays a major role in helping set corporate strategy and seeing that it is implemented properly. The board also reviews all important decisions made by top management and determines compensation for top managers.

⊃ **Employees:** An organization's employees are also a major element of its internal environment. When managers and employees embrace the same values and have the same goals, everyone wins. When managers and employees work toward different ends, or when conflict and hostility pervade the organization, everyone suffers.

⊃ **Culture:** The culture of an organization is the set of values that helps its members understand what the organization stands for, how it does things, and what it considers important. Culture is an especially important environmental concern for organizations. Managers must understand that culture is an important determinant of how well their organization will perform. Culture can be determined and managed in a number of different ways.

Finally, we can say environment is an essential part of any organization's operations. One important indicator of how well an organization deals with its environment is its level of effectiveness. Achieving organizational effectiveness is not an easy task. The key to doing so understands the environment in which the organization functions. With this understanding as a foundation, managers can then chart the 'correct' path for the organization as it positions itself in that environment.

Scanned with CamScanner

2.3 Importance of External Environment

The rapid changes taking place in the external environment of organizations requ increasing attention from managers. The external environment contains numerous resour upon which organizations rely. This means that organizations are inevitably affected by wl goes on in the environment.

2.4 Differences between Natural and Organizational Environments

Managers must recognize the elements of internal organizational environments, such stakeholders. In addition, managers must also understand the relationship of elements of t natural environments that can affect the organization.

2.5 Stakeholders of an Organization

Stakeholders are the people and groups of people who have an interest in what goes on the organization. Stakeholders are of two types-

❒ **External Stakeholders :** It includes customers, suppliers, government, special intere groups, the media, labor unions, financial institutions and competitors.

❒ **Internal Stakeholders :** It includes- employees, owners, shareholders, and board directors.

2.6 Organizational Response to Natural Environment

Some organizations can take on active roles in promoting environmental awareness. Son managers choose merely to adhere to the legal requirements, while others go so far as assert environmental values through their organization's product and marketing. Manager especially at higher levels- must monitor the external environment and try to forecast change that will affect the organization. They may use strategic planning and organizational desig to adjust to the environment.

2.7 Foundation of Business

For understanding business, understanding economics is essential. Economics is the stud of how a society (people) chooses to use scarce resources to produce goods and services an to distribute them for consumption. This definition raises certain issues that are key t understanding economics : (1) resources (2) goods and services, and (3) allocation of both resources and products.

1. Resources:

A nation's resources consist of three broad categories like-

❒ **Natural resources** are provided by nature in limited amounts; they include—oil, natural gas, minerals, timber, and water.

❒ **Capital resources** are produced goods for the purpose of making other types of goods and services. Some capital resources are called current assets, have a short life and are used up in the production process. For example—fuel, raw materials, paper and money. Some assets are also considered as fixed capital like- factory buildings, machineries, personal computers, etc.

❒ **Human resources are** the human talents, skills and competence, available in the nation.

2. Goods and Services:

A nation's resources are used to produce goods and services that will meet people's needs and wants. Needs lead to wants. For example, we use food and for that matter we want rice.

3. Allocation:

The process of choosing how resources will be used to meet a society's needs and wants; includes the distribution of products to consumers.

2.8 Factors Determining the Type of Business to Start

A person thinking about owning a business should examine the following factors:

- **Capital Requirements:** The starting of funds necessary to finance the operation.
- **Risk :** The amount of risk a person is willing to undertake by starting the business.
- **Control :** The amount of authority the owner can exercise.
- **Managerial abilities :** The skills needed to plan, organize, and control the business.
- **Time requirements :** The time needed to operate the business and provide guidance to the employees.
- **Tax liability :** The amount of taxes a business must pay to governments on earnings of the business.

❒ Questions to Answer :

1. What is business environment?
2. Discuss the importance of organization's environment
3. What are the determinants of business environment?
4. Discuss in brief, external environmental factors.
5. Discuss in brief, internal environmental factors.
6. Explain the importance of the external environment in business.
7. Distinguish between natural and organizational environments.
8. Identify the stakeholders of an organization.
9. How organizations can respond to the natural environment?
10. What are the foundations of business? Discuss in details.
11. What factors are to be considered to start a business?

❒ Multiple Choice Question (MCQ)

1. The organization must understand :

(a) environmental factors
(b) basic elements of environment
(c) success or failure
(d) all of the above

2. Uncertainty is a major force caused by :

(a) dynamic environment
(b) change and complexity
(c) organizational activities
(d) all of the above

Scanned with CamScanner

3. **External environment is composed of :**
   (a) two layers (b) three layers
   (c) four layers (d) seven layers
4. **Technological dimension refers to the methods available :**
   (a) for production (b) for converting resources
   (c) services (d) for conventing raw materials
5. **Which of the followings affect foreign business?**
   (a) customs (b) norms
   (c) values (d) all of the above
6. **The task environment includes :**
   (a) stragegic allies (b) governmnet rules
   (c) employees (d) none of the above
7. **Which is the second dimension of the task environment?**
   (a) regulators (b) customers
   (c) interest groups (d) suppliers
8. **A final dimension of the task environment is—**
   (a) competitors (b) regulatory agencies
   (c) regulators (d) none of the above
9. **Regulatory agency is created by the :**
   (a) securities & exchange commission (SEC) (b) food & drug administrations
   (c) government (d) environmental protection agency (EPA)
10. **Internal stakeholders includes :**
   (a) labor unions (b) board of directors
   (c) interest groups (d) none of the above

❒ **Indicate True or False :**

1. Environmental influences on the organization can occur through interest groups.
2. The general environment includes specific elements of the organization.
3. External and internal environments consist of various customer groups.
4. High unemployment reduces consumers' purchasing power.
5. The legal system partially defines what an organization can do.
6. Al times of inflation a company must raise its price.
7. Socio-cultural processes determine the products, services and standards.
8. Strategic alliances help companies get from other companies the expertise they lack.
9. Dealing with customers had become increasingly complex in recent years.
10. Allocation is the process of collecting resources.

References:

1. Steven J. Skinner & John M. Ivancevich, *Business for the 21st Century,*
2. Durgadas Bhattacharjee, *Intorduction to Business Organization- Principles and Practice,* 1st Edition.
3. J. K. Mitra, *Principles of Commerce,* Volume-1, 1st Edition
4. Susan Hammond, *Business Studies,* Third Edition
5. James A F Stonner and R Edward Freeman, *Management,* 5th Edition
6. F. Maidnent, *International Busuness,* 5th Edition

===

Scanned with CamScanner

Forms of Business: Sole Proprietorship

Chapter Outline :

Definition of Sole Proprietorship, Characteristics/ Features of Sole Proprietorship Business, Advantages of Sole Proprietorship, Disadvantages of Sole Proprietorship, Suitability of Sole Proprietorship Business, causes of survival small business side by side large scale business, Questions to Answer, Multiple Choice Questions, Idicate True or False & References.

3.1 Definition of Sole Proprietorship

Sole proprietorship is the oldest and the most common form of business organization. "Sole" means single and "proprietorship" means ownership. It means only one person or an individual becomes the owner of the business. Thus, the business organization in which a single person owns, manages and controls all the activities of the business is known as sole proprietorship from of business organization. The individual who owns and runs the sole proprietorship business is called a 'sole proprietor' or 'sole trader'. A sole proprietor pools and organizes the activities with sole objective of earning profit.

Is there any such shop in your locality where a single person is the owner? Small shops like vegetable shops, grocery shops, telephone booths, chemist shops, etc. are some of the commonly found sole proprietorship form of business organizations. Apart from trading business, small manufacturing units, fabrication units, garages, beauty parlors, etc., can also be run by a sole proprietor.

Various authors have defined sole propertorship business in different way :

According to James L. Lundy, "Sole proprietorship is an informal type of business owned by one person."

According to J. L. Hanson, "Sole proprietorship is a type of business unit where one person is solely responsible for providing the capital, for bearing the risk of the enterprise and for the management of the business."

According to Kimbell and Kimbell, "Sole proprietorship is a form of business where the individual proprietor is the supreme judge of all matters pertaining to his business."

According to J. M. Shubin, "Under the sole proprietorship form of ownership, a single individual organizes and operates the business in his own name. He is not only responsible for its management but also for its risks."

Sole proprietorship is a 'one-man show' where an individual by his cleverness, courage, ability, honesty, education and co-operation tries to make his business a success. A sole proprietor is an individual who carries on business exclusively by and for him. The proprietor not only bears all the risks but also receives the entire gains from the business.

3.2 Characteristics/ Features of Sole Proprietorship Business

A business enterprise exclusively owned, managed and controlled by a single person with all authority, responsibility and risk is called a sole proprietoship business. The main characteristics of sole proprietorship are that the proprietor bears all the risks, enjoys all the profits and takes all the decisions. Some characteristics of sole proprietorship are given below.

➲ **Easy formation :** The formation and operation of a sole proprietorship organization requires almost no legal formalities. He may be required to obtain a license from the local administration or from the health department of the government, whenever necessary.

➲ **Single ownership :** A single individual always owns sole proprietorship form of business organization. That individual owns all assets and properties of the business. Consequently, he alone bears all the risks of the business. Thus, the business of the sole proprietor comes to an end at the will of the owner or upon his death.

➲ **No sharing of profit or Loss :** The entire profit arising out of sole proprietorship business goes to the sole proprietor. If there is any loss it is also to be borne by the sole proprietor alone. Nobody else shares the profit or loss of the business with the sole proprietor.

➲ **Limited capital :** The capital required by a sole proprietorship form of business organization is totally arranged by the sole proprietor. He provides it either from his personal resources or by borrowing from friends, relatives, banks or other financial institutions.

➲ **Control :** The controlling power in a sole proprietorship business always remains with the owner. The owner or proprietor alone takes all the decisions to run the business. Of course, he is free to consult any body as per his liking.

➲ **Unlimited liability :** The liability of the sole proprietor is unlimited. This implies that, in case of loss the business assets along with the personal properties of the proprietor shall be used to pay the business liabilities.

➲ **Limited area of operation :** The scope of operation of a sole proprietor is limited because of limited capital, limited managerial ability and limited space.

➲ **Freedom in selection of trade :** A proprietor can start any business according to his own will. There is no binding on him. He is not supposed to consult any person while making a selection of his trade.

➲ **Secrecy :** The proprietor keeps all his trade secrets only to himself. In this way, he avoids competitors by retaining business secrets.

➲ **Personal relations :** A sole proprietor can maintain direct relations with his customers. The business, which requires personal service and attention is generally established under this form of organization.

3.3 Advantages of Sole Proprietorship

Sole proprietorship is a type of business unit where one person is solely responsible for providing the capital, for bearing the risk of the enterprise and for the management of the business. The sole proprietorship form of business is the most simple and common in our country. It has the following advantages.

Scanned with CamScanner

➲ **Easy formation :** The sole proprietorship business can be established very easily. The formation and operation of a sole proprietorship organization requires almost no legal formalities. The owner may be required to obtain a license from the local administration or from the health department of the government, whenever necessary.

➲ **Direct motivation :** The profits earned belong to the sole proprietor alone and he bears the risk of losses as well. Thus, there is a direct link between effort and reward. If he works hard, then there is a possibility of getting more profit and of course, he will be the sole beneficiary of this profit. Nobody will share this reward with him. This provides strong motivation for the sole proprietor to work hard.

➲ **Quick decision and prompt action :** In a sole proprietorship business the sole proprietor alone is responsible for all decisions. Of course, he can consult others. But he is free to take any decision on his own. Since no one else is involved in decision-making; it becomes quick and prompt action can be taken on the basis of this decision.

➲ **Better Control :** In sole proprietorship business the proprietor has full control over each and every activity of the business. He is the planner as well as the organizer, and co-ordinates every activity in an efficient manner. Since the proprietor has all authority with him, it is possible to exercise better control over business.

➲ **Maintenance of business secrecy :** Business secrecy is an important factor for every business. It refers to keeping the future plans, technical competencies, business strategies, etc., secret from outsiders or competitors. In the case of sole proprietorship business, the proprietor is in a very good position to keep his plans to himself since management and control are in his hands. There is no need to disclose any information to others.

➲ **Personal relations :** The sole proprietor is always in a position to maintain good personal contact with the customers and employees. Direct contact enables the sole proprietor to know the individual likes, dislikes and tastes of the customers. Also, it helps in maintaining close and friendly relations with the employees and thus, business runs smoothly.

➲ **Flexibility in operations :** The sole proprietor is free to change the nature and scope of business operations as and when required as per his decision. A sole proprietor can expand or curtail his business according to the requirement. Suppose, as the owner of a bookshop, you have been selling books for school students. If you want to expand your business you can decide to sell stationary items like pen, pencil, register book, etc.

➲ **Encourages self-employment :** Sole proprietorship form of business organization leads to creation of employment opportunities for people. Not only is the owner self-employed, sometimes he also creates job opportunities for others. You must have observed in different shops that there are a number of employees assisting the owner in selling goods to the customers. Thus, it helps in reducing poverty and unemployment in the country.

➲ **Incentives for hard work :** There is always a direct relationship between the efforts and the rewards in the case of sole proprietorship. Therefore, the more a proprietor will work, the more he will earn. It provides incentives to work hard, efficiently and sincerely.

Scanned with CamScanner

➲ **Minimum government regulations :** The business activities of a sole proprieto requires little governmental regulations. A sole proprietorship business has to comply wit mainly labor laws and tax laws. There is no other interference in the day to day running o the business from the Government.

➲ **Tax advantage :** A sole proprietorship business enjoys the minimum tax burden a compared to other forms of organizations. A proprietor is taxed as an individual and not as business unit separately. Income tax authorities make no difference between the proprieto and the business regarding the assessment of income tax.

➲ **Better control of business functions :** A sole proprietor has an absolute control ove the affairs of his concern. The authority and responsibility lies with one person. He himsel takes decisions at the appropriate time. He controls all functions of the business in a effective way.

➲ **Social desirability :** Large-scale business leads to accumulation of wealth in the hand of a few in the society. Existence of sole- proprietorship business helps to avoid concentratio of national wealth. It generates large-scale employment opportunities and encourage decentralization of the economy.

➲ **Benefits of hereditary goodwill :** The goodwill of the business earned by one person during his lifetime also passes from generation to generation, unless and untill it is closed. Thus, a sole proprietor can enjoy the benefits of hereditary goodwill.

3.4 Disadvantages of Sole Proprietorship

One-man business is the best form of business organization because of the above-discussed advantages. Still there are certain disadvantages too. Let us discuss them here.

➲ **Limited capital :** In sole proprietorship business, it is the owner who arranges the required capital of the business. It is often difficult for a single individual to raise a huge amount of capital. The owner's own funds as well as borrowed funds sometimes become insufficient to meet the requirement of the business for its growth and expansion.

➲ **Unlimited liability :** If the sole proprietor fails to pay the business obligations and debts arising out of business activities, his personal properties may have to be used to meet those liabilities. This restricts the sole proprietor from taking risk and he thinks cautiously while deciding to start or expand the business activities.

➲ **Lack of continuity :** The existence of sole proprietorship business is linked to the life of the proprietor. Illness, death or insolvency of the owner brings an end to the business. The continuity of business operation is, therefore, uncertain.

➲ **Limited size :** In sole proprietorship form of business organization there is a limit beyond which it becomes difficult to expand its activities. It is not always possible for a single person to supervise and manage the affairs of the business if it grows beyond a certain limit.

Scanned with CamScanner

➲ **Lack of managerial expertise :** A sole proprietor may not be an expert in every aspect of management. He/she may be an expert in administration, planning, etc., but poor in marketing. Again, because of limited financial resources it is also not possible to employ a professional manager. Thus, the business lacks benefits of professional management.

➲ **Limited scope for employees :** A sole proprietor cannot attract and retain qualified personnel for reasons of limited career opportunities. Moreover, a proprietor cannot offer financial incentives to attract skilled employees because his activities are on a small scale.

➲ **Limited scope of expansion :** Due to limited capital, limited managerial capability and unlimited liability, a sole proprietorship business cannot grow and expand to a large size. Its goodwill and bargaining position are also weak.

➲ **Risk of wrong decisions :** Any wrong decisions taken by the proprietor may bring disaster to his business fortunes. As any person does not assist him, it may lead to wrong decision.

3.5 Suitability of Sole Proprietorship Business Or,

Causes of Survival of Small Business Side by Side Large Scale Business

A sole proprietor is an individual who carries on business exclusively by and for him. The proprietor not only bears all the risks but also receives the entire gains from the business. Let us consider the type of business where sole proprietorship form is most suitable. Sole proprietorship form of business organization is suitable where :

➲ The market for the product is small and local. For example, selling grocery items, books, stationery, vegetables, etc.

➲ Customers are given personal attention, according to their personal tastes and preferences. For example, making special type of furniture, designing garments etc.

➲ The nature of business is simple. For example, grocery, telephone booth etc.

➲ Capital requirement is small and risk involvement is not heavy. For example, vegetables and fruits selling, tea stall, etc.

➲ Manual skill is required. For example, making jewelry, hair-cutting or tailoring, cycle or motorcycle repair shop, etc.

Every business is different. What may be advantageous to you may be disadvantageous to someone else. However, because significant tax and legal repercussions flow from your decision to conduct your business as a sole proprietor, you should be aware of them. By being aware, you can best avoid unexpected and unintended consequences. Sole proprietorship is the oldest, the simplest, and in some respects, the most natural form of business organization. Here, the proprietor uses his own skill and intelligence in the management of its affairs with almost unlimited freedom. The proprietor is, in fact, the sole organizer, manager, controller and master of his business. Sole proprietorship is a 'one-man show' where an individual by his entrepreneurship, courage, ability, education and co-operation tries to make his business a success.

Scanned with CamScanner

❒ Questions to Answer :

1. What is sole proprietorship business?
2. What are the characteristics/ features of sole proprietorship business? Discuss.
3. Discuss the advantages of sole proprietorship business.
4. Briefly discuss the disadvantages of sole proprietorship business.
5. What reasons justify suitability of sole proprietorship business in Bangladesh?
6. What are the causes of survival of small business side by side large scale business?

❒ Multiple Choice Question (MCQ)

1. Sole proprietorship business is a types of :
(a) formal business (b) informal business
(c) both a & b (d) none of them

2. Which is not the characteristic of sole proprietorship business?
(a) limited capital (b) control
(c) broader area of operations (d) secrecy

3. Direct contact enables the sole proprietor to know the individual :
(a) likes (b) dislikes
(c) tastes of the customers (d) all of the above

4. A sole proprietor has always direct relations with :
(a) suppliers (b) customers
(c) market situation (d) all of the above

5. The formation and operation of a sole proprietorship organization requires :
(a) legal formalities (b) no legal formatlities
(c) government acceptance (d) none of them

6. Business secrecy is not an important factor for :
(a) partnership business (b) sole proprietorship business
(c) corporate business (d) none of them

7. Which of the following is not a disadvantage of sole proprietorship business?
(a) limited size (b) unlimited liability
(c) social desirability (d) all of the above

8. Sole proprietorship business is suitable where :
(a) manual skill is required (b) customers are given personal attention
(c) capital reqirement is small (d) all of the above

9. Sole proprietorship business is the :
(a) oldest form of business (b) simplest
(c) most natural form of business (d) all of the above

10. The proprietor uses his own skill in the management of its affairs with :
(a) limited freedom (b) unlimited freedom
(c) cleverness (d) his ability & education

❒ Indicate True or False

1. Sole proprietorship is not a "one man show."
2. The formation of sole proprietorship business requires legal formalities.
3. The scope of the operation is not limited in soleproprietorship.
4. A proprietor can't start any business according to his own will.
5. The sole proprietor is not free to change the nature and scope of business.
6. A sole proprietor has an absolute control over the affairs of his concern.
7. Taking a decision is very difficult for the proprietor.
8. The proprietor is the planner as well as organizer.
9. A sole proprieor is an expert in every aspect of management.
10. The activities of the sole proprietor are on a large scale.

References:

1. Steven J. Skinner & John M. Ivancevich, *Business for the 21st Century.*
2. Durgadas Bhattacharjee, *Intorduction to Business Organization- Principles and Practice, 1st Edition.*
3. J. K. Mitra, *Principles of Commerce,* Volume-1, 1st Edition
4. Susan Hammond, *Business Studies,* Third Edition

Scanned with CamScanner

Chapter Outline :

Partnership Business, Elements of Partnership Business, The Essence of Partnership Business, Types of Partnership Business, Characteristics / Features of Partnership Business, Partnership Agreement/ Deed, Importance of Partnership Agreement, Contents of Partnership Agreement, Formation of Partnership Business, Advantages of Partnership Business, Disadvantages of Partnership Business, Management of Partnership Business, Kinds of Partners, Who Can Be A Partner, Minor As A Partner, Registration of Partnership Business, Effects / Consequences of Partnership Registration, Dissolution of Partnership Business, Questions to Answer, Multiple Choice Questions, Idicate True or False & References.

4.1 Partnership Business

The disadvantages inherent in the sole proprietorship are, to some extent, overcome by the acquisition of partner. Partnership can be defined as 'an association of two or more persons to carry on as co-owners of a business for profit.' A partnership can be based on a written contract or a voluntary and legal agreement. Without contract there cannot be any partnership.

Under the Uniform Partnership Act (UPA) a general partnership is an association of two or more persons to carry on as co-owners of a business with a view to earning profit.

⊃ *According to Kent,* "Partnership is a contract of two or more competent persons to place their money, effort, labor and skill or some or all of them in lawful commerce or business and to divide the profit and bear the loss in certain proportions."

⊃ *According to Parson,* "Partnership is a voluntary undertaking by two or more persons who want to combine their capital and labors and skill for the purpose of conducting a business for earning profit."

⊃ *British Partnership Act, 1890 defines it as,* "Partnership is the relation which subsists between persons carrying on a business in common with a view to profit."

⊃ *According American Partnership Act,* "Partnership is an association of two or more persons to carry on as co-owners of a business for profit."

⊃ *According to the 'Indian Partnership Act of 1932,* "Partnership is the relationship between persons who have agreed to share profits of a business carried on by all or any of them."

Thus, partnership is an association two or more persons who have joined together to share the profits of business carried on by all or any of them acting for all. On an agreed basis, partners contribute to capital and share the responsibility of running the business. The terms and conditions of a partnership are usually mentioned in the Partnership Deed (or Articles of Partnership).

4.2 Elements of Partnership Business

The essential elements of partnership contract are enumerated as follows:

⊃ **Lawful business :** The term 'business" includes all trades, professions or occupations. The purpose of partnership agreement is to carry on a lawful business and nothing else.

Scanned with CamScanner

➲ **Name of the business :** The partnership firm must have its own name. The name in which the business is carried on is called the 'firm name'.

➲ **Association of persons :** At least two persons are needed to make a partnership. The Indian Partnership Act is silent about the maximum number of members. The Indian Companies Act provides the maximum number of members as ten in case of banking business and as twenty in other cases.

➲ **Profit motive and sharing of profits :** Partnership business is formed with the object of earning profit. The earned profit is to be distributed among the partners as per an agreed ratio.

➲ **Contractual relationship :** Partnership is a contractual relationship between the persons who are competent to enter into a contract. Relationship between partners arises from contract and not from status.

➲ **Mutual trust and confidence :** The successful working of a partnership depends on mutual trust and confidence of its partners. Partners have the duty to observe utmost good faith in business dealings.

➲ **Principal-agent relationship :** It's not necessary that all the partners should manage the business. Any one or more partners can run the business on behalf of all the partners. Each partner is an agent of the firm and his activities bind the firm.

➲ **Restrictions on transfer of share :** No partner can transfer his share in the partnership without the prior consent of all the other partners. Thus, a partner cannot transfer his interest at his own will.

➲ **Unlimited liability :** Partnership is based on the principle of unlimited liability. The personal property of the partners can be attached to satisfy the claims of creditors of the firm. if the assets of the firm is insufficient to meet the claims of the creditors.

4.3 The Essence of Partnership Business

Contract is the essence of partnership. If there is no contract or agreement there cannot be any partnership. That's why partnership is very often described as a contractual relationship.

4.4 Types of Partnership Business

There are three types of partnership business. They are :

1. General Partnership Business:

In a general partnership, at least one partner has unlimited liability. A general partner has authority to act and make binding decisions as an owner. The general partner may be liable for all the debts of the business.

➲ **Characteristics of General Partnership Business :**

❒ Minimum number of members is 2 and maximum 20.

❒ All partners are legally equal.

Scanned with CamScanner

❑ All partners are liable for the business debts.

❑ No term of duration is fixed i.e. it may be dissolved by any partner at any time by giving a notice writing to all other partners of his intension to dissolve the partnership.

➲ **General partnership business can be divided into two types:**

a) **Partnership-at-will :** A partnership-at-will is one, which has been formed for a fixed term, or one, which was originally formed for a fixed term, but has been continued after the expiry of that term without further agreement.

b) **Specific partnership :** Specific partnership refers to that in which there is a partnership with regard to a solitary commercial undertaking or adventure. This partnership business has a limited life time.

2. **Limited Partnership :** A partnership with at least one general partner and one or more limited partners who are liable for loss only up to the amount of their investment is called limited partnership. In a limited partnership business the general partners arrange and run the business while the limited partners are investors only. The limited partners have limited liability.

➲ **Characteristics of Limited Partnership Business :**

❑ It consists of one or more general partners who are liable for all debts and obligations of the firm.

❑ It must have at least one limited partner who contributes a certain amount of capital. He shall be liable only for that amount of capital contributed by him.

❑ A limited partner is not entitled to take part in the management of the partnership business and can not bind the firm. He can simply inspect the books of accounts and offer advice.

❑ In case a limited partner takes part in the management of the firm, he shall be liable for all debts and obligations incurred when he so acted.

❑ Every limited partnership must be registered.

3. **Joint Venture :** A partnership established for a specific project or for a limited time.

4.5 Characteristics / Features of Partnership Business

There are some specific characteristics / features of partnership business; some of them are given below:

➲ **Existence of contract :** There must exist an agreement among the persons carrying on a business. This is the first criterion of partnership business, since partnership is a contractual relationship. It is the essence of partnership, which distinguishes it from other types of business organizations. Any person willing to carry on partnership business must enter into a contract, which may be oral or written.

➲ **Number of members :** There must be at least more than one member. At the same time the number of persons entering into a partnership agreement must not exceed twenty excepting banking business, where the number of members must not exceed ten. According to the partnership act, the minimum number of members of partnership business is 2 and the maximum is 20.

➲ **Distribution of profit & loss :** The distribution of profit and loss is the prima facie evidence of partnership. The amount each partner is to contribute is decided by the agreement. The profits and losses of the business are distributed equally among the partners.

➲ **Existence of trust and confidence :** Mutual trust and confidence is required throughout the continuance of the partnership. Since its inception to its termination each partner must have trust and confidence in his fellow partners.

➲ **Association of individuals :** The association of individuals in a partnership may be based on as simple an act as a handshake; however, it is preferable to state the agreement in writing since :

a. A partnership is a legal entity for certain purposes.
b. A partnership is an accounting entity for financial reporting purposes.
c. Net income of a partnership is not taxed as a separate entity.

➲ **Mutual agency :** Mutual agency means that each partner acts on behalf of the partnership when engaging in partnership business and the act of any partner is binding on all other partners.

➲ **Liability of partners :** Like sole proprietorship, the liability of ordinary partners is unlimited. For example, if the assets of the business are not sufficient to meet liability of creditors, his private property will be subject to obligation. But the liability of limited partner is limited to the amount he has invested and he cannot take active part in the management and administration of the business.

➲ **Capital :** All the partners usually supply capital of the business but, however, there is no hard and fast rule of how much capital a partner has to contribute.

➲ **Taking decision :** There can be some difficulties in taking any decision in partnership business because there is always a danger of disagreement among partners. Delay in decision-making is also a disadvantage of this business. In any emergency, one partner can't make any decision alone. He has to consult with other partners of the business. So, in order to take any decision they have to consult first.

➲ **Lawful business :** The term 'business" includes all trades, professions or occupations. The purpose of a partnership agreement is to carry on a lawful business and nothing else.

➲ **Registration :** The registration of partnership business is not compulsory in our country. It depends absolutely upon the sweet-will of the partners. Registration is not very hard. Any time a partner may get their business registered by fling with the Registrar a statement in the prescribed form.

➲ **Restrictions on transfer of shares :** No partner can transfer his share in the partnership without the prior consent of all the other partners. Thus, a partner cannot transfer his interest at his own will.

Scanned with CamScanner

4.6 Partnership Agreement/ Deed

Or, The Articles of Partnership Business

The partnership deed or articles refers to a document where all necessary terms and conditions are written. It is a written declaration of agreement or contract. The written contract often referred to as the partnership agreement, contains such basic information as the name and principal location of the firm, the purpose of the business, and the date of inception.

➲ *According to Sarker, Sharma and Gupta,* "Partnership agreement or Deed is a document which is prepared to explain important points so that the chances of conflict are minimized."

4.7 Importance of Partnership Agreement

A partnership agreement is very essential for a partnership business. Sound business practice dictates that a partnership agreement must be written and signed, although that is not a legal requirement. Such a contractual agreement is called articles of partnership. Written articles of partnership can prevent or lessen misunderstanding at a later time. From that each partner can also have the idea of his rights and obligations and the terms and conditions can be fulfilled to the best interest of all. Sometimes agreement is not written. Oral partnership, though legal, increases the possibilities of misunderstandings.

4.8 Contents of Partnership Agreement

A written partnership agreement includes the following main features:

(a) Name of the partnership business
(b) Type of business.
(c) Location of the business.
(d) Expected life of the partnership.
(e) Name of the partners and the amount of each one's investment.
(f) Procedures for distributing profits and covering losses.
(g) Amount that partners will withdraw for services.
(h) Procedure for withdrawal of funds.
(i) Duties of each partner.
(j) Procedures for dissolving the partnership.
(k) Interest on capital, if any, and the rate of such interest.
(l) Method of determining the capital in the event of death of a partner.

4.9 Formation of Partnership Business

Any two persons capable of entering into contract may form a partnership business. The first thing that they are to do is to enter into an agreement, which will contain all terms and conditions of carrying on business. At that stage they will decide the name of the business, the amount of capital to be contributed by each of them, the sphere of operation, the division of profit and losses.

Scanned with CamScanner

4.10 Advantages of Partnership Business

Some important advantages of the partnership organization are given below:

➲ **Easy formation :** It is fairly easy to start partnership because it involves a private contractual arrangement. The cost of starting a partnership is low. It usually involves only modest legal fee for drawing up a written agreement, which is highly desirable.

➲ **Combined managerial skill :** In a partnership, people with different talents and skills may join together. Combining these skills could provide a greater chance of success.

➲ **Sharing of risk :** Sharing of risk is another important advantage of partnership business. The partners can share the risk of the business with each other.

➲ **Tax advantages :** Partnerships generally have a tax advantage. Partnership business pays less income tax and do not pay a tax on their profits. However, each partner must pay an income tax on his share of profits.

➲ **Better public relation :** The partners may look after the needs of the consumers. As a result they can easily develop cordial relations with all interested groups such as employees, customers and society as a whole.

➲ **Sufficient capital :** In a partnership, the amount of capital may increase significantly. A person with a good idea but little capital can look for a partner with the capital or credit standing to develop and market the idea.

➲ **Facilities of loan :** The partners can enjoy the facilities of loan.

➲ **Facilities of division of labor :** For the smooth running of business, all the works are divided among the partners with a view to enjoying the facilities of division of labors.

➲ **Freedom from governmental regulations and restrictions :** Partnership business is nearly free from governmental regulations compared to Joint Stock Company.

➲ **Reduces autocracy :** All the partners of a partnership business usually take part in the management and administration of the business. This practice reduces autocracy.

4.11 Disadvantages of Partnership Business

There are also some disadvantages in partnership business. They are :

➲ **Unlimited liability :** According to law each member of the partnership has an unlimited financial liability for all the debts of the business. Each partner is liable for his share of the business debts.

➲ **Investment withdrawal difficulty :** A person who invests money in a partnership may have a hard time withdrawing the investment. The money, typically considered a 'frozen investment" is tied up in the operation of the business.

➲ **Instability :** The life of partnership is uncertain. If a partner dies or withdraws from the business, the partnership is dissolved. A new partnership or some other from of business organization must be legally established.

Scanned with CamScanner

➲ **Lack of trust and confidence :** Lack of trust and confidence is another vital disadvantage of partnership business. The successful working of a partnership business depends on mutual trust and confidence of its partners.

➲ **Lack of secrecy :** In some kinds of business the success of the business depends upon a secret process formula. But sometimes we find lack of secrecy in the partnership business.

➲ **Difficulty in decision-making :** There can also be some difficulties in decision making because there is always a danger of disagreement among partners. If the majority of the partners may want to change the nature of business they are unable to do so because of the refusal of one partner.

➲ **Obstacles in the transfer of share :** There are some obstacles in the transfer of shares. A partner is not entitled to transfer his rights to a third party without the consent of the other partners.

➲ **Delay in decision-making :** Delay in decision-making is another important disadvantage of partnership business. In emergencies, a partner cannot make decision alone. He has to consult with the other partners of the business. So, if there is a desire to make a change, they cannot do so quickly.

➲ **Risk of joint responsibility :** In partnership business there are also some risks of joint responsibility. Every partner has to take the risk for running the business smoothly.

➲ **Lack of legal base :** The registration of partnership business is not compulsory in our country. They may or may not be registered. So the lack of legal base is the disadvantage of partnership business.

4.12 Management of Partnership Business

All partners usually take part in the management and administration of the partnership business. Sometime for the smooth running of the business works are divided among them usually with a view to enjoying the economics of division of labor. Generally, no partner can claim any special remuneration for the services rendered by him.

4.13 Kinds of Partners

In view of the nature of work and rights and duties, partners may be classified into some categories, which are as follows:

1. **General partners :** General partners are those partners who actively take part in the management and administration of the business. Sometimes they are called active partners because they actively take part in the management

2. **Dormant partners :** Dormant partners are those who do not share in the management and administration of the business. They remain silent after contributing the agreed amount of capital.

3. **Nominal partners :** A nominal partner is a person who has permitted others to believe that he is a partner. He is not a partner by virtue of an agreement but by virtue of being

Scanned with CamScanner

represented to the outsiders as being a partner. He does not contribute any capital. He has no share in the management. He is also known as self-styled partner as he permits himself to be represented as a partner or hold himself to be a partner in a partnership business and is thereby liable to a creditor who granted credit believing him to be a partner.

4. Limited partners : A limited partner is a person whose liability is limited to the amount that he has paid to the business. He cannot be asked to pay the debts of the business.

5. Quasi partners : A quasi partner is a person who has retired leaving his capital in the business as a loan. On this loan he gets interest only. The rate of interest, however, varies with the amount of profit.

4.14 Who Can Be A Partner?

Any person who is qualified to make a contract can be a partner of a partnership business. But some people cannot be partners. They are :

1) A minor
2) A man of unsound mind
3) Mentally sick person
4) Insolvent person, etc.

4.15 Minor As A Partner

Generally a minor cannot be a partner. But if a partner is dead, his / her sons or daughters can be partners of the business. They can enjoy the facilities and profits. But as they are minors they do not need to bear the responsibilities of the business.

4.16 Registration of Partnership Business

The registration of partnership business is not compulsory in our country. It depends absolutely of upon the sweet-will of the partners. Registration is not very hard. Generally registration partnership business means the registration of the registered office. For the purpose registration of this business there shall be a registered office and the partners should register their business in that office by collecting the form and filling it up. In the form the following things should be included:

a. Name of the partnership business.

b. Address of the head office.

c. If there is any branch of the business address of such branch.

d. Purpose of the business.

e. Starting time of the business.

f. Partners' name, address and occupation.

g. Joining date of each partner in partnership.

h. Duration of the business (If there is any).

Scanned with CamScanner

This form must be signed by all the partners. In the Partnership Act it is specificed that the section 58 is followed sincerely and if the registror is satisfied he will write down the business name in the register book. Then it should be mentioned that the business is registered properly.

4.17 Effects / Consequences of Partnership Registration

Registration is the way people make their business legal.Thus partners get the permission from the government to start their business. This registration makes their way easier to :

- Take exciting opportunities and offers from government and abroad.
- Having loans from the bank.
- Face legal, political, natural and such kinds of problems.
- Pay the taxes.
- Use the port.
- Export or import goods and other services, thereby meaning that by registering the business all the partners get a special power to make their business healthier.

In short, registration is very effective to make business lawful and it plays the role of anti-virus for the business concerned

4.18 Dissolution of Partnership

Dissolution of partnership may occur when one of the partners ceases to be a partner in the firm. Dissolution is distinct from the termination of partnership and the "winding up" of partnership business. Although the term dissolution implies termination, dissolution is actually the beginning of the process that ultimately terminates a partnership. It is, in essence, a change in the relationship between the partners. Accordingly, if a partner resigns or is expelled, the partnership is considered legally dissolved. Other causes of dissolution include the bankruptcy or death of a partner, an agreement of all partners to dissolve, or an event that makes the partnership business illegal. For instance, if a partnership operates a gambling casino and gambling subsequently becomes illegal, the partnership will be considered legally dissolved. In addition, a partner may withdraw from the partnership and thereby cause dissolution. If, however, the partner withdraws in violation of the partnership agreement, the partner may be liable for damages as a result of the untimely or unauthorized withdrawal. Broadly there are three different modes or ways in which dissolution of a business may take place. They are.

1. Dissolution by the court :

In case, any partner brings a suit against one or more of his co-partner, the court may dissolve the partnership on any of the following grounds :

- If a partner becomes of unsound mind.
- If a partner becomes permanently incapable of doing work.

Scanned with CamScanner

❒ If a partner frequently commits breaches of the partnership agreement.

❒ If a partner has transferred the whole or part of his interest to a third party, which he cannot do according to law.

❒ When the court is satisfied that the business cannot be carried on except at a loss.

❒ If it appears to the court that a situation contrary to good faith and essence of agreement between the partners has arisen.

2. Compulsory dissolution:

It takes place under the following circumstances.

❒ By the adjudication of all the partners or of all the partners but one as insolvent.

❒ By the happening of an event which makes it unlawful for the business.

3. Dissolution on the happening of certain contingencies:

❒ When the partnership is for a fixed term, the business gets dissolved at the end of the period.

❒ The completion of a particular adventure.

❒ By the death of one or more of the partners, unless there is a contract to the contrary.

❒ By the adjudication of a partner as an insolvent.

❒ By the retirement of a partner the business will be dissolved if there is no agreement to the contrary.

❒ Questions to Answer :

1. What is a partnership business?
2. Discuss the elements of partnership business
3. Contract is the essence of partnership business—Explain briefly
4. What are the types of partnership business? Discuss.
5. What are the characteristics / features of partnership business? Explain.
6. Discuss the essentials of partnership agreement/ deed.
7. Explain the importance of partnership agreement.
8. What are the contents of partnership agreement?
9. What are the procedures of formation of partnership business?
10. What are the advantages of partnership business? Explain
11. What are the disadvantages of partnership business? Discuss.
12. Howpartnership can be dissolved?
13. Briefly discuss the different kinds of partners in partnership business
14. Who can be a partner?
15. What are the procedures of registration of partnership business?
16. What are the effects / consequences of partnership registration? Explain.
17. Briefly discuss the method of dissolution of partnership business.

❒ Multiple Choice Questions (MCQ)

1. **Generally services are rendered by a patner in exchange of what?**
   (a) Special remuneration (b) Wage
   (c) Profit (d) All of the above
2. **Sometimes active patners actively take part in :**
   (a) Administration (b) Management
   (c) Administration & Management (d) Economics

Scanned with CamScanner

3. **The rate of interest on quasi-patner's loan is given on what basis?**
(a) Bank interest rate
(b) Rate agreed in the deed
(c) Varies with amount of profit
(d) None of them

4. **To be a nominal partner which type of formality is required?**
(a) By virtue of an agreement
(b) Contribution in capital
(c) No agreement & no contribution
(d) Both a & b

5. **Patnership business pays——— on their profits.**
(a) Less income tax
(b) No tax
(c) Sales tax
(d) All of the above

6. **A partnership can be based on a written contract or :**
(a) Deed
(b) Illegal agreement
(c) Government rules
(d) Byclaws

7. **A patnership created for a definit project and for a limited time is called.**
(a) Limited partnership
(b) General partnership
(c) Joint venture
(d) Specific patnership

8. **Partnership Deed is a document which is prepared to minimize.**
(a) Profit earning
(b) Risk
(c) Conflict
(d) All of the above

9. **How many essential elements of partnership contract are enumerated?**
(a) Four
(b) Ten
(c) Nine
(d) Seven

10. **What is the essence of partnership?**
(a) Contract
(b) Registration
(c) Mutual trust
(d) Lawful business

❒ **Indicate True or False :**

1. The purpose of partnership agreements is to carry on a lawful business & nothing else.
2. Minimum number of members of partnership business is 2 and maximum 30.
3. Every limited partnership may or may not be registered.
4. Net income of a partnership is not taxed as a separate entity.
5. In any emergency, a partner can make any decision alone.
6. The registration of partnership business is not compulsory in our business.
7. In some cases, a minor can be a partner.
8. The registration form must be signed by the new partners.
9. Dissolution is distinct from the termination of a partnership.
10. Sharing of risk is a disadvantage of a partnership business.

References:

1. Steven J. Skinner & John M. Ivancevich, *Business for the 21st Century*:
2. Durgadas Bhattacharjee, *Intorduction to Business Organization*- Principles and Practice, 1st Edition.
3. J. K. Mitra, *Principles of Commerce,* Volume-1, 1st Edition
4. Susan Hammond, *Business Studies*, Third Edition

===

Scanned with CamScanner

Forms of Business: Joint Stock Compan

Chapter Outline :

Joint Stock Company, Definition of Joint Stock Company, Features/Characteristics of Joint Stock Compan Advantages of Joint Stock Company, Disadvantages of Joint Stock Company, Classification of Joint Stoc Company, Public and Private Limited Company, Definition of Memorandum of Association (M/A) and Article Association (A/A).Difference between Memorandum of Association and Articles of Association, Minimu subscription, Meaning of Prospectus, Definition of Share and Debenture, Differences between Share an Debenture, Questions to Answer, Multiple Choice Questions, Idicate True or False & References.

Joint Stock Company

The oldest form of business is sole proprietorship. The limitations inherent in sol proprietorship and partnership are, to some extent, overcome by forming a company Moreover, as soon as industrial revolution took place, the method of production changed production was started on a large scale, and huge amount of capital was invested to substitut the traditional method of production. In this situation, factory system emerged which helped to decrease the costs of production and to meet the requirement of total demand. These necessities inspired the formation of a type of business organization, called Joint Stock Company. In our country company operates according to the Companies Act-1994.

5.1 Definition of Joint Stock Company

A company may be defined as an artificial person recognized by law, with a distinctive name, a common seal, a common capital comprising transferable shares of fixed value, carrying limited liability and having a perpetual succession.

→ **According to Companies Act-1994 Sec. 2-1(d)**, "Company means a company formed and registered under this Act, or any existing company."

→ According to Indian Companies Act, "A company means an artificial entity which is formed and registered under this act or an existing company formed under any previous Companies Act."

→ According to Justice Lord Lindley, "A company is a voluntary association or an organization of many persons who contribute money's worth to a common stock and employs it for a common purpose."

→ According to M.H.Bukhari, "A company is an association of persons associated together for the purpose of carrying on a lawful business with a view to profit."

→ According to Justice John Marshal, "Corporation is an artificial being, invisible, intangible and existing only in contemplation of law."

Thus a joint stock company is an association or organization of many persons formed for the purpose of profit, possessing a common capital contributed by the members composing it; such capital being divided into shares of which each member holds one or more and the liability of each such member is limited to the face value of the shares he possesses.

Scanned with CamScanner

5.2 Features / Characteristics of Joint Stock Company

A company is an artificial person recognized by law, with a distinctive name, a common seal, a common capital comprising transferable shares of fixed value, carrying limited liability and having a perpetual succession. Some features of Joint Stock Company are given below:

→ **Created by law :** A company is created by law. There is no alternative way to form a company without law. It is operated and maintained according to Companies Act-1994.

→ **Corporate artificial personality :** A company is an artificial being invisible, intangible and existing only in contemplatation of law. It can make legal claim to others in its own name and vice versa.

→ **Number of shareholders :** In case of public limited company, the number of shares of that company restricts the maximum number of shareholders and the minimum number is seven. But in case of private limited company, the maximum number of shareholders is fifty and minimum two.

→ **Perpetual succession :** Joint stock company has a perpetual existence. A joint stock company survives, even if all members are willing to shut down the company or if all members die in natural calamities.

→ **Own seal :** Company has its own common seal which is to be used in preparing documents of the Company.

→ **Limited liability :** The liability of a shareholder is limited to the face value of the shares he holds. He has no further liability if he has paid the full value of the shares that he has subscribed.

→ **Tax payment :** In case of company, there are two system of tax payment. First, on the basis of profit earned by the company. Second, on the basis of dividend earn by the shareholders.

→ **Transferability of shares :** Public limited company can enjoy the benefits of transferability of shares. However a private limited company cannot do it.

→ **Enough capital :** Company has the opportinity to raise more capital than other forms of business because the number of shareholders is hunge. And if a company needs money it can sell its shares to the public.

→ **Separation of ownership from management and administration :** Partners in a firm are not only the owners but they also take part in the management and administration of the business. But this is not possible in a joint stock company where the number of owners is huge.

5.3 Advantages of Joint Stock Company

A joint stock company is an association or organization of many persons formed for the purpose of profit, possessing a common capital contributed by the members composing it; such capital being divided into shares of which each member holds one or more and the

Scanned with CamScanner

liability of such a members is limited to the face value of the shares he possesses. There are some advantages of joint stock companies which are given below:

→ **Adequacy of capital :** Generally a Joint Stock Company has the opportunity to raise huge capital than other types of business. If the company needs money it can selly its shares to the public.

→ **Limited liability :** The liability of a shareholder is limited to the face value of the shares he holds. He has no further liability if he has paid the full value of the shares that he has agreed to pay.

→ **Perpetual succession :** Perpetual succession is another important advantage of Joint Stock Company. A joint stock company survives, even if all members are willing to shut down the company or if all members die in natural calamities.

→ **Transferability of shares :** Shareholders have the right to sell the shares of a joint stock company to those who are interested to buy. This right to sell shares of Joint Stock Company gives an scope to attract large number of shareholders.

→ **Managerial efficiency :** A company can secure the services of highly qualified persons who are experts in different fields of business management. It is through the company that the capital and business ability can be linked together for the benefit of both the individual investor and the community as a whole.

→ **Tax relief :** A company enjoys greater tax relief as compared to other forms of business organizations. Company pays lower tax on a higher income as it pays tax on a flat rate. Moreover, a company gets some tax concessions, if it establishes operation in backward area. Some tax incentives are available for export promotion also.

→ **Advantages of large-scale business :** Since joint stock company has huge capital and large number of shareholders; it can invest in large scale production in order to meet the requirements of people at large.

→ **Stability :** Stability is one of the most important advantages of company. Shareholders' death, retirement, or sale of stock do not lead to dissolution of the business.

5.4 Disadvantages of Joint Stock Company

As was true with other forms of business organization, the company has also some disadvantages which are discussed below:

→ **Complexity in formation :** There are a lot of legal requirements to start a company. Since a company is created under law, its formation is a complex task.

→ **Lack of control :** The buying and selling of shares of a company is the only real control an owner has. Since the number of shareholders is determined by the number of shares of a company, control by the board of directors is difficult.

→ **Double taxation :** In case of company, there are two systems of tax payment. First, on the basis of profit earned by the company. Second, on the basis of dividend earn by the shareholders. So the shacholders suffer from double taxation.

Scanned with CamScanner

→ **Lack of secrecy :** A company must provide each shareholder with an annual report. When a large number of reports are issued, the reports become public. These reports present data on sales volume, profit, total assets, and other financial matters. Public disclosure of these data enable competitors and other outsiders to see the company's financial condition.

→ **Lack of personal interest :** In most corporations, except the small ones, management and ownership are separate. This separation can result in a lack of personal interest in the success of the company.

→ **Credit limitations :** Bank and financial institutions have to consider the fact of limited liability of shareholders of a company. If a company fails, its creditors can look only to the assets of the business to satisfy claims.

5.5 Classification of Joint Stock Company

A company may be defined as an artificial person recognized by law, with a distinctive name, a common seal, a common capital comprising transferable shares of fixed value; carrying limited liability and having a perpetual succession. The classification of Joint Stock Company is shown below:

❒ There are three types of Joint Stock Companies. They are:

a. Chartered Company
b. Statutory Company
c. Registered company

❒ Registered company can be of two types :

a. Limited company
b. Unlimited company

❒ Again limited company can be of two types :

a. Private limited company
b. Public limited company

❒ Public limited company can also be of two types :

a. Company limited by shares
b. Company limited by guarantee

❒ Other kinds of Joint Stock Company:

a. Government company
b. Non-government company.

Different types of Joint Stock Companies are described below.

1. Chartered Company: Formerly in Great Britain, the government, through Royal Charter formed companies for specific purposes, e.g. East India Company. A chartered company is regulated by the terms of its charter. In India such companies are foreign companies.

2. Statutory Company: A company or corporation, formed by an act of the legislature, is called statutory company. Examples are Reserve Bank of India, Industrial Finance Corporation, Life Insurance Corporation, etc.

3. Registered Company: A company must be registered under the Companies Act. After registration the Registrar of companies issues a certificate of incorporation. After that the company becomes a registered company. Broadly there are two types of registered companies, such as :

4. Limited Company: A limited liability company is a company whose liability of each member is limited to the face value of the shares held by him and the capital of the company is divided into a number of shares. This type of company is of two types, viz-private limited company and public limited company.

a. Private Limited Company: A Private Limited Company means a company which by its articles of associations :

(i) Restricts the right to transfer the shares;

(ii) Limits the number of its members to fifty excluding persons who are in the employment of the company; and

(iii) Prohibits any invitation to the public to subscribe for the share or debentures of the company.

b. Public Limited Company: It is a voluntary association of at least seven or more persons, authorized and recognized under the law as a separate legal entity apart from its owners who agree to supply capital and share the profits and losses. A public limited company may be of two types, viz. a company limited by shares and a company limited by guarantee.

(i) Company Limited by shares: In this company there is a share capital, and each share has a fixed nominal value, which the shareholder pays at a time or by installments. A shareholder is not liable to pay anything more than the fixed value of the shares subscribed whatever may be the liabilities of the companies. Most of the companies in Bangladesh belong to this class.

(ii) Company Limited by Guarantee: In such a company, each member promises to pay a fixed sum of money in the event of liquidation of the company. This amount is called the guarantee. Sometimes the members are required to buy a share of a fixed value and also give a guarantee for a further sum in the event of liquidation. There is no liability to pay anything more than the value of the share (where there is a share) and the guarantee.

5. Unlimited Company: In these companies the liability of the shareholder is unlimited as in partnership firms. Such companies are permitted under the Companies Act but are non-existent.

5.6 Private and Public Limited Companies

❑ Private Limited Company

There is no statutory minimum or maximum capital for a private limited company. It is now possible to set up such a company with only two members and for those members to have only one share each, but this is exceptional. There must be at least two people involved in running a private limited company. The company's articles may require that there are at least two directors, but if this is not the case and there is just one director, a separate person must be as appointed secretary.

Private Limited companies can be registered with varying Memorandum and Articles of Association so that a company can be used as:

An ordinary trading company with power to engage in any legal commercial activity.

A flat management company with specially written objects that enable it to carry on the business of the management of shared domestic or commercial property.

A company limited by guarantee does have specially written objectives that establishes it for charitable purposes and not to make any distribution of profits to members. Many of these types of companies exist and a good example she Trusts whose objects are generally so constructed that they offer support to the self-employed. These companies do not have any share capital; rather there exists a guarantee that members will contribute a fixed amount should the company go into liquidation.

❐ Public Limited Company

The key difference between public and private companies is that a public company may offer to sell its shares to the public. It may be quoted on the Stock Exchange or the Alternative Investment Market. A public company must have at least three directors and a suitably qualified secretary. It will have a name ending with Public Limited Company or PLC.

↪ Differences:

There are some differences between a Private and a Public limited company such as :

Minimum number of members:

a. The minimum number of persons who may form a private limited company is two.

b. Minimum seven promoters are required.

2. Maximum number of members:

a. A private limited company limits the number of its member to fifty.

b. A public limited company limits the number of maximum members by its share.

3. Invitation to buy shares:

a. A private limited company prohibits any invitation to the public to subscribe for the shares or debenture of the company.

b. A public ltd. company can invite for parchase of shares to the general public.

4. Share transfer:

a. A private limited company restricts the right to transfer the share.

b. Shares of a public ltd. company are transferable.

5. Qualification of director:

a. There is no requirement of buying qualifying shares by the directors of a private limited company.

Scanned with CamScanner

b. The directors of public limited companies have to purchase a minimum number of shares.

6. Minimum number of directors:

a. Minimum number of directors are two (2) in private ltd.company.

b. Minimum numbers of directors are three (3) in public ltd. company.

7. Incorporation:

a. A private company can commence business immediately on geting certificate of incorporation.

b. In case of a public company both the certificate of incorporation and certificate of commencement are needed to start business.

8. Prospectus:

a. A Private ltd. company need not issue or file with the registerar a prospectus or statement in lieu of prospectus.

b. Whereas it must be done in the case of public limited company.

9. Minimum subscription:

a. A private limited company can commence allotment of shares before the minimum subscription is raised.

b. But a public limited company cannot commence allotment of shares before the minimum subscription is raised.

5.7 Memorandum of Association (M/A) and Articles of Association (A/A)

❒ Memorandum of Association (M/A)

The act defines Memorandum of Association to mean the Memorandum of Association of a company as originally framed or as altered in pursuance of the provisions of the act. It is the main document of Joint Stock Company. It mainly includes name, address, purpose, capital, liability, etc.

❒ Articles of Association (A/A)

The Articles of Association indicate how the company is operated and maintained. It is the regulations or byelaws for carrying into effect the objectives defined in its Memorandum of Association and for the management of its internal affairs. The articles mean the articles of association of a company as originally framed and as altered by special resolution.

5.8 Difference between Memorandum of Association and Articles of Association

The following are the points of distinction between the Memorandum and Articles of Association of a company:

❑ Condition:

➲ The memorandum contains the conditions upon which alone the company is granted incorporation. These conditions are fundamentals and unalterable.

Scanned with CamScanner

- The articles are the internal regulations of the company and over these the members have full control and they can be easily altered.

Power:

- The memorandum cannot give the company power to do anything contrary to the provision of the companies act.
- The articles are not only limited by the act, but they are also subsidiary to the memorandum and cannot exceed the powers contained there in.

Contract:

- The memorandum is in the nature of a contract between the company and the outsiders dealing with it.
- The articles do not create a contract between the company and the outsiders.

Objectives:

- The memorandum contains the objectives and powers of the company.
- The articles provide the regulations by which those objectives and powers are to be carried into effect.

Provision:

- A person dealing with a company is supposed to know the provisions of its memorandum.
- A person dealing with a company is supposed to know the provision of its articles, if there is a breach of those provisions.

Alteration :

- The memorandum cannot be altered except as regards certain specified particulars and in accordance with the provisions of the law.
- The articles can be altered by a special resolution at any time.

Relation:

- The memorandum limits the area beyond which articles cannot go.
- In this sense, articles is subsidiary to the memorandum.

Validity:

- The memorandum is the dominant instrument and controls articles.
- Any provision, contrary to memorandum of association, is invalid.

Deed of the company:

- Every company must have its memorandum of association.
- A company limited by shares may have its own articles of association.

Registration :

- Memorandum must be registered at the time of incorporation.
- The articles may or may not be registered.

Scanned with CamScanner

❑ **Scope :**

➲ The Memorandum is the charter, which defines and confines powers and limitation of the company.

➲ The articles indicate duties, rights and powers of members, who are entrusted with the responsibility of running the administration and management.

5.9 Definition of minimum subscription

Minimum subscription is the amount of money to be raised by share subscription in order to provide for specified matters such as -

➲ The price which is to be paid for acquiring any property or for repaying a loan incurred for the property or paying for property already purchased;

➲ Preliminary expenses, or any loan in connection therewith, and

➲ Working capital.

This minimum amount is stated by the promoters of the company in the Articles of Association and prospectus according to the Companies Act. Unless the minimum subscription is raised the company cannot make allotment of shares.

In case, the minimum subscription as stated in the prospectus, is not raised within 180 days after the issue of the prospectus the entire amount received from the share applications must be returned. In default of such a repayment within ten days, the directors make themselves jointly and severally liable for repaying the full amount with interest a 7% per annum from the expiry of 190 days after the first issue of the prospectus. Moreover, any allotment in violation of Companies Act shall be void.

5.10 Meaning of Prospectus

It is an appeal to the public to subscribe shares or debentures offered to them. The Companies Act defines it as any prospectus, notice, circular, advertisement or other invitation offering to the public for subscription or purchase of any shares or debentures of a company. Here it is to be noted that the prospectus shall not include any trade advertisement. The main objectives of prospectus is to persuade the people to purchase shares and to give all necessary information to guide the potential investors.

A public limited company, after its registration, issues the prospectus to the public with a view to drawing their attention and creating confidence in their minds for subscribing shares on behalf of a company. It shall be dated and the date shall be taken as the date of publication of the prospectus. A copy of every prospectus, signed by every person who is named therein as a director or proposed director or by his agent authorized in writing, shall be filed for registration with the register on or before the date of its publication. No such prospectus shall be issued until a coy thereof has been so filed for registration.

A prospectus should disclose all material facts and figures of a company. Every person who is a director of the company at the time of the issue of the prospectus or any person

Scanned with CamScanner

connected with the issue of the prospectus shall be liable to pay compensation to all persons who subscribe for any shares or debentures on the faith of the prospectus for all loss or damage they may have sustained by reason of any or untrue statement therein.

❒ **Contents of Prospectus :**

- The contents of the memorandum, with the names, descriptions and addresses of the signatories of the memorandum and the number of shares subscribed by them.
- The names, description and address of the directors, managers, managing agents (if any) or proposed directors and the remuneration payable to them.
- The minimum subscription on which the company may proceed to allot shares and the amount payable on application and allotment on each share.
- Where any issue of shares or debentures is underwritten, the names of the underwriters and an assurance that the underwriters are ready to discharge the underwriting obligations.
- The names and addresses of the vendors of any property purchased or acquired by the company or proposed to be purchased.
- The amount or estimated amount of preliminary expenses.
- The names and addresses of the auditors, or bankers of the company.
- Full particulars of the nature and extend of the interest of every director; in the promotion of, or in the property proposed to be acquired by the company.
- A statement that a copy of the prospectus has been filed with the register.

These points have been considered necessary so that there may not be any suppression or exaggeration of facts regarding the company. Although these provisions are not enough, yet they act as a sort of warning to the potential investors.

5.11 Shares and Debentures

❒ **Share**

Share means a share in the capital of the company and includes stock except when a distinction between stock and share is expressed or implied. (Companies act-1994)

❒ **Debenture**

Any instrument under seal evidencing a deed; the essence of it being the admission of indebtedness.

"Debenture" includes debenture stock, bonds and any other securities of a company constituting a charge on the assets of company or not. (Company act-1994)

5.12 Differences between Share and Debenture

❒ **Position:**

- Shareholders supply cpital of the company
- Debenture holders provide debt to the company.

❒ **Ownership :**

- Shareholders are the owners of the company
- Debenture holders are the creditors of the company

Scanned with CamScanner

❐ **Profit:**

→ Shareholders enjoy profit

→ Debenture holders get a limited rate of interest

❐ **Liability:**

→ Share holders are concerned about loss and profit

→ Creditors are not concerned about loss and profit

❐ **Managing the company:**

→ Shareholders do have a say in the management of the company.

→ Debenture holders do not have any say in the managment of the company.

❐ **Meeting and election:**

→ Shareholders have a right to join in the company meeting and can take part election.

→ Debenture holders do have no right to join in the company meeting or take part election.

❐ **Rights and obligations :**

→ Share holders' rights and obligatious are written in the memorandum.

→ Creditor's rights and obligations are written in the articles.

❐ **Sale of shares :**

→ A company can issue can shares at the start of the company or when it needs fund.

→ Generally after formation a company can issue debenture to enhance loan.

❐ **Indicate:**

Share is not a unique deed. Share certificate or warrant indicates its owner.

Debenture is a unique deed. It indicates its ownership.

❐ **Security:**

For selling a share it does not need any security.

For selling a debenture it needs to deposit a security.

❐ **Expresion of decision :**

→ Share holders can express their decision to the company.

→ Creditor's cannot express their decision to the company.

❐ **Winding up :**

A company has to return all the debts first and at last shareholders get their money.

At first the creditors get their money and at last the shareholders are paid.

Scanned with CamScanner

Questions to Answer :

1. What do you mean by Joint Stock Company?
2. What are the features/characteristics of Joint Stock Company? Explain.
3. What are the advantages of Joint Stock Company? Discuss in brief.
4. What are the disadvantages of Joint Stock Company? Elaborate in details.
5. Simplify the classification of Joint Stock Company.
6. Differentiate between public and private limited company.
7. What is Memorandum of Association (M/A) and Articles of association (A/A)?
8. Distinguish between Memorandum of Association and Articles of Association.
9. What is minimum subscription?
10. What do you mean by Prospectus? What are its contents?
11. What do you mean by Share and Debenture? Differentiate between Share and Debenture

Multiple Choice Questions (MCQ)

1. **Which one is the oldest form of business?**
   (a) Sole proprietorship (b) Partnership
   (c) Joint stock company (d) Cooperative society
2. **Which one is not a characteristic of a company-?**
   (a) Limited liability (b) Distinctive name
   (c) A common seal (d) None
3. **In our country which Act is followed by the companies?**
   (a) Indian Companies Act 1956 (b) Companies Act 1994
   (c) Industrial Relations Act 1961 (d) None of the above
4. **Tax relief is an advantage of :**
   (a) Joint stock company (b) Sole proprietorship
   (c) Partnership (d) Cooperative society
5. **How many kinds of limited companies are there?**
   (a) 2 (b) 3 (c) 4 (d) 5
6. **A company formed by an act of the legislation is called-**
   (a) Chartered company (b) Registered company
   (c) Statutory company (d) Limited company
7. **Which type of company can commence business immediately on in corporation?**
   (a) Public ltd. Company (b) Private ltd. Company
   (c) Chartered Company (d) Registered Company
8. **Which document discloses all material facts of a Company?**
   (a) Memorandum (b) Articles of Association
   (c) Share (d) Prospectus
9. **Who can't take part in the management of a company?**
   (a) Shareholders (b) Creditors (c) Owners (d) None
10. **The amount of money to be raised by share subscription in order to provide for specified matters is called :**
    (a) Share capital (b) Minimum subscription
    (c) Working capital (d) Investment funds

Indicate True or False :

1. The emerge of factory system helped to decrease the costs of production.
2. A corporation is an artificial being.
3. Managerial efficiency is a disadvantage of company business.
4. Multiple taxation is an advantage of company.
5. A private ltd. company restricts the right to transfer the share.
6. Minimum number of directors in public ltd. company is two.
7. The Articles of Association contains the objects and powers of the company.
8. The Articles limits the area beyond which Memorandum can't go.
9. Memorandum is the charter, which defines the power of the company.
10. For selling a share it does not need any security.

References:

1. Steven J. Skinner & John M. Ivancevich, *Business for the 21st Century,*
2. Durgadas Bhattacharjee, *Intorduction to Business Organization- principles and practice,* 1st Edition.
3. J. K. Mitra, *Principles of Commerce,* Volume-1, 1st Edition
4. Susan Hammond, *Business Studies,* Third Edition.

Scanned with CamScanner

Chapter Outline :
Co-operative Society, Features / Characteristics of Co-operative Society, Objectives of Co-operative So
Types of Co-operative Society, Importance of Co-operative Society, Principles of Co-operative So
Advantages of Co-operative society, Disadvantages of Co-operative society, Limitations of Co-oper
society, Questions to Answer, Multiple Choice Questions, Idicate True or False & References.

6.1 Co-operative Society

Co-operative is a voluntary association of persons who join together to safeguard t own interests. It is a business activity without having any profit motive, but for benef themselves through co-operation. The primary objectives of forming co-operative society to protect economically the weaker section of the society. It is a democratic organization by its members for serving their own interests. The basic philosophy of co-operative societ given below:

- Service in place of profits
- Mutual help in place of competition
- Self help in place of dependence
- Moral solidarity in place of unethical business practice

Various authors have defined co-operative society in different ways :

- According to Sherleker and Sherleker, "Co-operative society is a form of busin organization; the only system of voluntary organization suitable for poorer people."
- According to Y.K. Bhushan, "A co-operative society is essentially an association persons who join together on a voluntary basis for the furtherance of their comm economic interests."
- According to Sir Horace Plunkett, "Co-operative is an association of individuals secure a common economic goal by honest means."

At last we can say that a co-operative society is a union of individuals who generally jo together on the basis of democracy for the purpose of economic acts of common interests. primary goal is to render service to its members.

6.2 Features / Characteristics of Co-operative Society

A co-operative society is a special type of business organization, different from oth forms of organization you have learnt earlier. There are some important features of c operative society which are given below:

- **Open membership :** The membership of a co-operative society is open to all thos who have a common interest. A minimum of ten members is required to form a co-operativ society. The Co-operative Societies Act does not specify the maximum number of member for any co-operative society. However, after the formation of the society, the members ma specify the maximum number.

Scanned with CamScanner

❒ **Voluntary organization :** A co-operative society is totally based on voluntary membership. Persons having common interests can join as members. A member can join the society as and when he likes, continue for as long as he likes, and leaves the society at will.

❒ **State control :** To protect the interest of members, co-operative societies are placed under state control through registration. While getting registered, a society has to submit details about the members and the business it is to undertake. It has to maintain books of accounts, which are to be audited by government auditors.

❒ **Sources of finance :** In a co-operative society capital is contributed by all the members. However, it can easily raise loans and secure grants from government after its registration.

❒ **Democratic Management :** Co-operative societies are managed on democratic lines. A group known as "Board of Directors" manages the society. The members of the board of directors are the elected representatives of the society. Each member has a single vote, irrespective of the number of shares held. For example, in a village credit society a small farmer having one share has equal voting right as that of a landlord having 20 shares.

❒ **Service motive :** Co-operatives are not formed to maximize profit like other forms of business organizations. The main purpose of a co-operative society is to provide service to its members. For example, in a consumer co-operative society, goods are sold to its members at a reasonable price by retaining a small margin of profit. It also provides better quality goods to its members and the general public.

❒ **Distribution of Surplus :** Every co-operative society, in addition to providing services to its members, also generates some profit while conducting business. Profits are not earned at the cost of its members. Profit generated is distributed to its members not on the basis of the shares held by the members (like the company form of business), but on the basis of member's participation in the business of the society. For example, in a consumer co-operative society only a small part of the profit is distributed to members as dividend on their shares; a major part of the profit is paid as purchase bonus to members on the basis of goods purchased by each member from the society.

❒ **Self-help through mutual cooperation :** Co-operative societies thrive on the principle of mutual help. They are the organizations of financially weaker sections of society. Co-operative societies convert the weakness of members into strength by adopting the principle of self-help through mutual co-operation. It is only by working jointly on the principle of *"Each for all and all for each"* the members can fight exploitation and secure a place in society.

❒ **Nature of formation :** Some middle class and lower class people may form a society in order to active some goals according to the rules of co-operative society. It does not require long and complicated legal formalities at the time of formation. Any ten persons may form a co-operative society for the promotion of their economic interests.

Scanned with CamScanner

❒ **Number of members :** The minimum number of members required is ten but there is no limit to the maximum number of members. A member can leave the society by returning his share whenever he likes. Any person can become a member of the society following these rules and regulations.

❒ **Equality of voting rights :** Equality is the essence co-operative undertakings. Each member of has one vote, irrespective of the number of shares held by him. Thus, the management of a co-operative society is democratic.

❒ **Limited return on capital :** The members are given an incentive in the form of a percentage of interest on capital.

❒ **Legal entity :** A co-operative society is required to be registered under the *Co-operative Societies Act* . It has its separate legal entity and perpetual succession. With the change in the status of its members, the structure of a co-operative society is not changed.

❒ **Liability :** The liability of the members of the co-operative society is restricted to the extent of subscribed shares. But, for this purpose, the society will have to write the word 'Limited' after its name.

❒ **Transfer of shares :** The shares of a co-operative society are not freely transferable. A member can surrender his shares to the society with the permission of the society's office bearers.

❒ **Economic motive :** A co-operative organization is always formed with some economic motives for the arrangement of cheap credit facilities, providing consumer goods at reasonable rates, making available land for constructing houses, etc.

❒ **Cash trading :** Co-operative societies conduct business on a cash basis and allow no credit. Cash trading does not involve bad debts and credit collection expenses. Thus, it helps the society to have a good working capital and maintaining short-term solvency.

❒ **Elimination of middlemen :** The main objectives of co-operative societies is to eliminate middlemen and to establish direct contact between members and customers. This ensures availability of goods at fair prices and to minimize unhealthy competition.

❒ **Political and religious neutrality :** The membership of a co-operative society is open to all irrespective of religion, caste, political affiliations and beliefs. Co-operative societies are neutral as far as political and religious affiliations are concerned.

❒ **Government regulation and control :** Society is regulated by the Bangladesh Co-operative Societies Act, 1984. A society can be registered only if it satisfies the condition laid down by the status for this purpose. The co-operative societies are to follow certain rules and regulations formed by the Government of Bangladesh. A co-operative society is formed and directed by an association of users, applies within itself the rules of democracy and directly intended to serve both its own members, the community as a whole.

Scanned with CamScanner

6.3 Objectives of Co-operative Society

A co-operative society is essentially an association of persons who join together on a voluntary basis for the furtherence of their common economic interests. The main objectives of Co-operative Societies are given below :

❒ **Creating savings :** Co-operative society creates a tendency of savings to their members. Their small savings create the capital of co-operative society.

❒ **Bringing economic welfare :** Co-operative society is created not only for active profit but also for bringing economic welfare for its members. For this purpose it gives different facilities of buying and selling goods and also gives loan to members.

❒ **Creating unity and solidarity :** The moral of co-operative society is *"Unity is strength"*. So, one of the best objectives of co-operative society is to give the light to cross the poverty line and work together.

❒ **Organizing :** Co-operative society organizes all of its members. Some middle class and lower class people jointly form a society in order to reach some goods according to the rules of co-operative society.

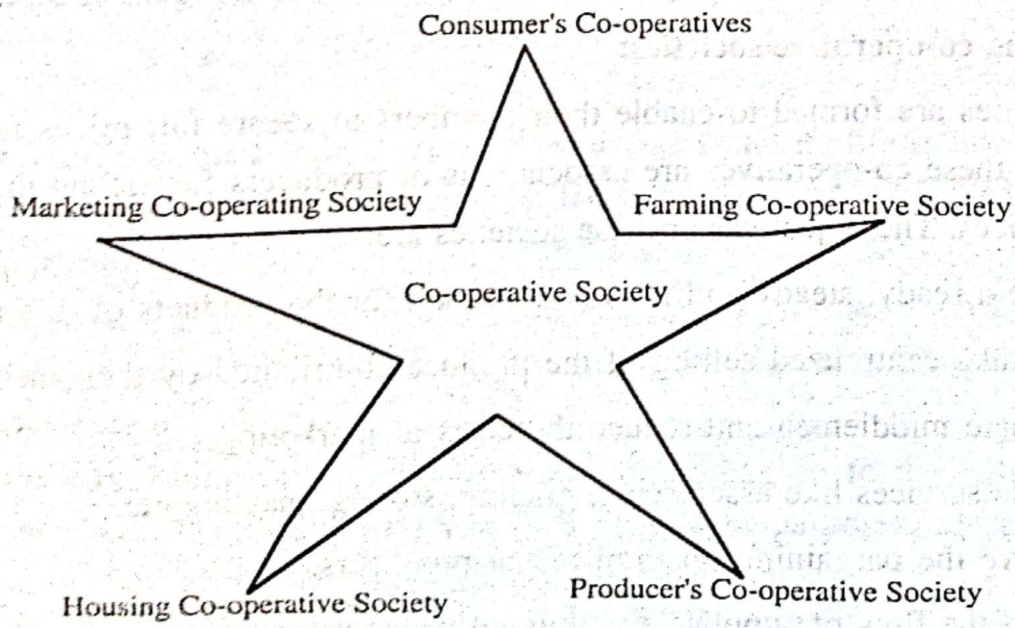
❒ **Development of efficiency :** It provides training opportunities to its members in the use of modern technology. Besides, it helps members grow in their own areas of operation.

❒ **Supply of goods at fair price :** One of the prime objectivs is to provide goods or services at fair prices to their members.

❒ **Defense against disturbance :** When small producers produce the product they face some problems. To protect themsleves from problems and to conduct the business smoothly they form co-operative society.

6.4 Types of Co-operative Society

A co-operative society is a voluntary association of persons who join together to safeguard their own interests. The primary object of forming co-operative society is to protect the weaker section of the society. The co-operative society can be classified from different points of view.



Figure–6.1 : Types of Co-operative Society.

Scanned with CamScanner

1. Consumer's co-operative societies :

Consumer's co-operative societies are established by the consumers of a certain locality for the purpose of economic and social upliftment of their members. These co-operatives are formed to ensure a steady supply of essential commodities of standard quality to the members at fair prices. The objectives of consumer's co-operative societies are:

- Availability of consumer goods of higher quality at a cheap rate.
- Eliminating the middlemen by establishing a direct link with the producers.
- Maintaining stability in the prices of essential commodities.
- Avoiding black marketing and hoarding practices.
- Avoiding the evil effects of inflation as far as possible.
- Establishing equality of status among the members.
- Enhancing the purchasing power of the members.

2. Producer's co-operative societies:

These societies are formed for the benefit of small producers, who have difficulty in collecting various factors of production and face market problems. The objectives of producer's co-operative societies are:

- To stimulate higher production.
- To improve quality of the products.
- To make full use of the available industrial skills of individuals.
- To utilize idle man-power.
- To strengthen the position of small scale artisans or crafts

3. Marketing co-operative societies:

These societies are formed to enable their members to secure fair prices for their goods. In other words, these co-operatives are associations of producers for selling their products at remunerative prices. The objectives of these societies are:

- To ensure a ready, steady and favorable market for the products of different members.
- To undertake centralized selling of the produce contributed by their members.
- To eliminate middlemen and reduce the costs of marketing.
- To provide services like assembling, grading, storing, packing etc.
- To improve the bargaining position of the producers.
- To control the flow of supplies and thus influence prices.

Scanned with CamScanner

4. **Housing co-operative societies:**

These societies are organized to provide residential accommodation to their members, either on an ownership basis or at fair rents. The members of the society contribute their savings to the common fund of the society with borrowed money from banks to buy a plot of land in order to construct a building for their dwelling purposes.

5. **Farming co-operative societies:**

These societies are voluntary associations of small farmers, who join hands with the objectives of achieving the economics of large scale farming and maximizing agricultural output. Scientific agriculture involves mechanization of farming, provision of improved seeds, fertilizers, improved methods of cultivation, irrigation, soil conservation etc. which can be ensured through farming co-operative societies.

6.5 Importance of Co-operative Society

A co-operative society is a union of individuals who generally join together on the basis of democracy for the purpose of economic acts of common interests. The importance of co-operatives societies are given below:

- **Easy formation :** A co-operative society is voluntary association of persons. Any ten persons may form a co-operative society for the promotion of their economic interests.
- **Limited liability :** The liability of the members is limited to the extent of capital contributed by them as mentioned in the bye-laws of the society.
- **Open membership :** Any person can become a member of the society with all of its advantages. The minimum number of members required is ten but there is no limit to the maximum member of members. A member can leave the society by returning his share whenever he likes.
- **Democratic management :** A co-operative society is managed in a democratic way on the basis of equal voting rights. Every member has an equal say in formulating the policies of the society.
- **Perpetual succession :** It is a separate legal entity and its life is not affected by the death, insolvency or conviction of its members. It has a fairly stable life and it continues to exist for a long period.
- **Service motive :** The formation of co-operative society is based on a service motive rather than a profit motive. It is basically formed with the objective of rendering maximum services to its members.
- **Economic advantages :** It provides financial assistance to agriculturists and low income group members. It also provides loans for productive purposes. Moreover, credit co-operatives protect the members from exploitation by money lenders.
- **Social advantages :** With the establishment of co-operative societies, the feeling of co-operation and democracy increases in the society. Economic power is decentralized. The

Scanned with CamScanner

poor people can get the advantages of their efficiency by becoming members of a co-operative society.

❒ **Moral advantages :** Mutual help, self help, hard work, education, self dependence, savings etc. are considered as the principles of co-operative societies.

❒ **Political advantages :** Operations of co-operative societies are based on the principle of equal distribution of wealth. It puts effort to eliminate vested interests to create delegated leadership and teach members the need of self governance.

❒ **Low management cost :** Some of the expenses of the management are saved by the voluntary service of the members. Members take active interest in the working of the society.

6.6 Principles of Co-operative society

Co-operative is a voluntary association of persons who join together to safeguard their own interests. The primary object of forming a society is to protect economically, the weak section of the society. Principle is the guideline of action. For achieving the objectives of the society the following principles should be followed:

❒ **Unity :** *"Unity is strength"* is the main principle of co-operative society and based on this principle a society is formed. Each and every member should have the mentality to work together to serve their own interest.

❒ **Co-operation :** Members help each other. Every member is required to work in such way that his efforts should provide maximum benefit to other members.

❒ **Honesty :** For the development of the organization every member should be sincere and honest. The members of the managing committee should be dedicated to the development of the society.

❒ **Trust and confidence :** Trust and confidence are related to honesty. The member should have mutual trust to others.

❒ **Democracy :** The members should have respect on democratic rules and regulations of the organization. For this reason they elect the board of directors for running the society.

❒ **Equality :** Equality is the essence of co-operative undertakings, irrespective of the number of shares held.

❒ **Friendship :** The members should have friendly mentality among themselves. They should minimize unhealthy competition.

❒ **Economy :** It is an organization of people of lower income. It can not raise its capital in huge amounts like other business organizations. It should follow the principle of economy to control the cost of the organization.

❒ **Peace and discipline :** The members should maintain peace and discipline for the development of the organization.

❒ **Stability :** Co-operative organization is for poor and lower class people. The organization should be stable in nature to earn profit for the society.

Scanned with CamScanner

❑ **Service :** The co-operative society provides service to the members of the society. The formation of co-operative organization is based on service motive rather than profit motive.

❑ **Voluntary association :** A co-operative organization is totally based on voluntary membership. Persons having common interests can join as members.

❑ **Distribution of surplus :** A co-operative society does not distribute its entire surplus in the form of dividend on shares held by its members. One fourth of the surplus is transferred to the statutory reserve fund and the other three-fourths is used to pay dividend on share capital.

❑ **Neutrality :** The membership of a co-operative society is open to all, irrespective of religion, caste, political affiliation and beliefs.

6.7 Advantage of Co-operative Society

Co-operative society is the only form of voluntary organization suitable for poorer people. Advantages of co-operative forms of organization can be enumerated as follows:

❑ **Easy formation :** Formation of a co-operative society is very easy compared to a joint stock company. Any ten adults can voluntarily form an association and get it registered with the Registrar of Co-operative Society.

❑ **Open membership :** Persons having common interest can form a co-operative society. The minimum number of members required is ten but there is no limit to the maximum member of members required. A member can leave the society by returning his share whenever he likes. Any competent person can become a member at any time he/she likes and can leave the society at will.

❑ **Democratic control :** A co-operative society is controlled in a democratic manner. The members cast their vote to elect their representatives to form a committee that looks after the day-to-day administration. This committee is accountable to all the members of the society.

❑ **Limited liability :** The liability of members of a co-operative society is limited to the extent of capital contributed by them. Unlike sole proprietors and partners the personal properties of members of the co-operative societies are free from any kind of risk because of business liabilities.

❑ **Elimination of middlemen's profit :** Through co-operatives the members or consumers control their own supplies and thus, middlemen's profit is eliminated.

❑ **Stable life :** A co-operative society has a fairly stable life and it continues to exist for a long period of time. Its existence is not affected by the death, insolvency, lunacy or resignation of any of its members.

❑ **Perpetual succession :** It is a separate legal entity and its life is not affected by the death, insolvency or conviction of its members. It has a fairly stable life and it continues to exist for longer period.

Scanned with CamScanner

❒ **Service motive :** The formation of co-operative society is based on service moti rather than a profit motive. It is basically formed with the object of rendering maxim services to its members.

❒ **Economic advantage :** It provides financial assistance to agriculturists and the peop of low income group. It also provides loans for productive purposes. Moreover, credit c operatives protect the members from exploitation by money lenders.

Social advantages : With the establishment of co-operative societies, the feeling of c operation and democracy increases in the society. Economic power is decentralized. Th poor people can get the advantages of their efficiency by becoming members of a c operative society.

❒ **Moral advantages :** Mutual help, self help, hard work, education, self dependenc savings etc. are considered as the principles of co-operative societies.

❒ **Political advantages :** It is based on the principles of equal distribution of wealth. puts effort to eliminate vested interests to create delegated leadership and teach members th need for self governance.

❒ **Low management cost :** Some of the expenses of the management are saved by th voluntary service of the members. Members take active interest in the working of the society.

6.8 Disadvantages of Co-operative Society

Co-operative undertakings suffer from the following drawbacks:

❒ **Limited resources :** Co-operative societies always suffer due to lack of capital Societies are not able to raise huge amounts of capital because their members are persons o meager income. Therefore, societies are not able to take advantage of large scale production.

❒ **Inefficient management :** The societies are not managed efficiently because they do not get specialized and professional managers as they can not affort to pay high remuneration. The members usually lack experience and managerial capability.

❒ **Lack of direct incentive :** There is no direct relationship between effort and reward Honorary office bearers often do not have incentives to work hard.

❒ **Lack of secrecy :** The affairs of co-operatives are generally exposed to the members. It becomes quite difficult for them to maintain secrecy in business affairs. Business secrecy is leacked out to the members and office bearers of the society.

❒ **Lack of business elasticity :** There is a lack of business elasticity in a co-operative society. Thus a society is unable to compete with other private enterprises.

❒ **Lack of savings by the members :** The progress of co-operatives mainly depends on savings but in our country, the members are not in the habit of savings.

❒ **Lack of competition :** Co-operatives, generally, do not face any stiff competition. Markets for their goods and services are more or less ready and assured. Hence, there is possibility of slackening of efforts.

Scanned with CamScanner

❑ **Limited consideration :** Profits earned by societies are very low. The proper and adequate returns on capital employed are not possible. That is why people are not interested in becoming members of a society.

❑ **Corruption :** One of the most important drawbacks of co-operatives is the prevalence of corrupt practices in the management and functioning of such societies. Corruption is an obstacle in the growth, progress and development of a co-operative society.

❑ **Other drawbacks :**

- Non co-operation among members
- Absence of motivation
- Inflexibility in operations
- Grouping in management
- Conservatism and illiteracy of the members
- Improper maintenance and cheking of account

6.9 Limitations of Co-operatives Society

A co-operative society is a union of individuals who generally join together on the basis of democracy for the purpose of economic activities of common interests. In our country co-operative societies face a lot of problems. The limitations of co-operatives are the following:

❑ **Limited capital :** The amount of capital that a co-operative society can raise from its members is very limited because the membership is generally confined to a particular section of the society. Again due to low rate of return the members do not invest more capital. Government's assistance is often inadequate for most of the co-operative societies.

❑ **Problems in management :** Generally it is seen that co-operative societies do not function efficiently due to lack of managerial talent. The members or their elected representatives are not experienced enough to manage the society. Again, because of limited capital they are not able to get the benefits of professional management.

❑ **Lack of motivation :** Every co-operative society is formed to render service to its members rather than to earn profit. This does not provide enough motivation to the members to put in their best effort and manage the society efficiently.

❑ **Lack of co-operation :** The co-operative societies are formed with the idea of mutual co-operation. But it is often seen that there is a lot of frictions between the members because of personality differences, ego clash, etc. The selfish attitude of members may sometimes bring an end to the society.

❑ **Dependence on government :** The inadequacy of capital and various other limitations make co-operative societies dependent on the government for support and patronage in terms of grants, loans subsidies, etc. Due to this, the government sometimes directly interferes in the management of the society and also audits their annual accounts.

Scanned with CamScanner

Conclusion : A co-operative society is a voluntary association of individuals having common needs who join hands for the achievement of common economic interest. Its aim is to serve the interest of the poorer sections of society through mutual help. Membership of co-operative societies is voluntary and open to all. It is democratically managed and it has a separate legal existence. The main motive is to provide service to the members. It works on the principle of self-help through mutual cooperation of members. A co-operative society can be formed under the Co-operative Societies Act, 1984. For registration, an application along with byelaws of the society has to be submitted to the Registrar of Co-operative Societies.

❒ **Questions to Answer :**

1. What do you mean by co-operative Society?
2. What are the features / characteristics of co-operative Society? Explain.
3. Discuss in brief, what are the objectives of co-operative society?
4. Simplify the types of co-operative Society.
5. What are the advantages of co-operative society? Discuss in details.
6. What are the ideologies or principles of co-operative society? Discuss in brief.
7. What are the advantages of co-operative society? Explain in short.
8. What are the disadvantages of co-operative society? Elaborate.
9. What are the limitations of co-operative society? Discuss.

❒ **Multiple Choice Questions (MCQ)**

1. The basic philosophy of co-operative society is :
(a) mutural help in place of competition (b) service in place of profits
(c) self help in place of dependence (d) all of the above

2. The membership of co-operative society is :
(a) open to all (b) open to specific person
(c) not open to all (d) none of the above

3. Co-operative societies improve :
(a) weakness of members (b) strength of members
(c) mutual co-operation (d) all of them

4. Co-perative societies are managed on :
(a) autocratic lines (b) democratic lines
(c) both a & b (d) none of them

5. The shares of a co-operative society are :
(a) freely transferable (b) not freely transferable
(c) always transferable (d) none of them

6. Which may be the objective of a co-operative society?
(a) not creating unity (b) supply of goods at high price
(c) organizing (d) none of them

7. The minimum number of members of a co-operative society is—
(a) 5 (b) 10
(c) 15 (d) 8

8. Which of the following is considered as principles of co-operative society?
(a) education (b) mutual help
(c) self dependence (d) all of the above

Scanned with CamScanner

9. **Which is the main principle of co-operative society?**
(a) self dependence (b) mogivation
(c) unity is strength (d) mutual help

10. **Economic power in a co-operative society is :**
(a) decentralized (b) centralized
(c) depending on situation (d) all of them

❑ Indicate True or False.

1. The liability of the members is limited in a co-operative society.
2. Any person can become a member.
3. Co-operative is not a voluntary association of persons.
4. The members should follow peace for the development of organization.
5. Co-operative society is created for earning profit.
6. Co-operative societies conduct business on cash basis and allow credit.
7. Co-operative society is not so popular now-a-days.
8. Members can not take active interest in working of the society.
9. Cooperative society is an organization of lower income people.
10. The formation of co-operative society is not only based on service.

References:

1. Steven J. Skinner & John M. Ivancevich, *Business for the 21st Century,*
2. Durgadas Bhattacharjee, *Intorduction to Business Organization- principles and practice,* 1st Edition.
3. J. K. Mitra, *Principles of commerce,* Volume-1, 1st Edition
4. Susan Hammond, *Business Studies,* Third Edition

===

Scanned with CamScanner