

3.8 ANSWERS TO CHECK YOUR PROGRESS

A 2 (i) False (ii) False (iii) True (iv) True (v) True (vi) True (vii) False

- 3 i) Sole trader, public limited company
ii) public limited company cooperative, sole trader
iii) sole trader
iv) cooperative
v) sole trade and partnership
vi) sole trade and partnership
vii) public limited company
viii) public limited company

B 2 (i) False (ii) True (iii) False (iv) False (v) True (vi) True (vii) True

- 3 (i) sole proprietorship (ii) company form
(iii) partnership (iv) sole trader form
(v) private limited company

3.9 TERMINAL QUESTIONS

- 1 Explain the features of an ideal form of business organisation. Which form can be considered to be an ideal in all respects?
- 2 None of the four forms of business organisations has all the features of an ideal form of organisation. Discuss.
- 3 Explain the factors determining the choice of the form of business organisation.
- 4 You plan to start a business. How would you choose the suitable form of organisation for your business?
- 5 Company form of organisation is the most ideal form for all types of businesses. Discuss.
- 6 A partnership firm has decided to expand its business which requires more capital and expertise. Should it take more partners or convert it into a private limited company? Give your advice with suitable arguments.

Note: These questions will help you to understand the unit better. Try to write answers for them. But, do not send your answers to the University. These are for your practice only.

UNIT 4 BUSINESS PROMOTION

Structure

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4.0 OBJECTIVES

- After studying this unit, you will be able to:
- explain who is an entrepreneur and what his characteristics are
 - describe the functions of an entrepreneur
 - distinguish between an entrepreneur and a promoter
 - explain the procedure for promoting sole proprietorship, partnership, joint stock company, and cooperative society.

4.1 INTRODUCTION

In the previous units you have learnt about the nature of business activities, the types of business in which individuals and groups of individuals may be engaged, and the different forms in which business activities may be organised. You know in business field a variety of goods and services are dealt with in small shops, large stores, small workshops and large factories. Have you ever enquired how these business activities were started? Who started them and what kind of ideas they had while taking their decision to set up a business? Certainly, some individuals or groups of individuals must have thought of those businesses to start with. If your family is running a business, it is possible that your father or grandfather thought about it and then took steps to set it up. If it is a manufacturing business, a factory building must have been constructed, machinery, supply of raw-materials must have been arranged, workers recruited and availability of power, water, etc., also assured. For all these purposes, those who started the business must have arranged capital to meet the necessary expenditure. In other words, every business is the brain child of someone. That someone is called 'entrepreneur'. In this unit, you will learn who an entrepreneur is, what are the characteristics and functions of an **entrepreneur**, the role of an entrepreneur in business promotion, difference between entrepreneur and promoter and various types of promoters. You will also learn how various forms of business organisations are promoted and what steps are taken by promoters to set up the business.

4.2 AN ENTREPRENEUR

An entrepreneur is one in whose mind the idea of doing business of a particular type first takes shape. He is on the look out for business opportunities and is a good judge of which products will sell. He is imaginative and is guided by a strong sense of achievement. He is not afraid of future uncertainties. He is prepared to take risk and face challenges. Above all, an entrepreneur is one who creates something new, something different. He innovates and combines resources in the form of men, materials and money and brings them together to make the business venture profitable.

4.2.1 Entrepreneurship

What the entrepreneurs do may be regarded as 'Entrepreneurship'. In other words, entrepreneurship is the act of being an entrepreneur. The word entrepreneurship is actually derived from the French term 'entrepreneur' which means to undertake, to pursue opportunities, to fulfil needs and wants of people through innovation and starting business. The entrepreneur is the person who does all this. He undertakes a venture, organises it, raises capital to finance it and assumes the whole or major part of the risk of business. Thus, 'entrepreneurship is the process of giving birth to a new business'.

Innovation and risk bearing are the two basic elements of entrepreneurship. Hence you must know the exact connotation of these terms.

Innovation: If a business activity does not require anything special to be done, it is not entrepreneurship. In fact a person cannot be called an entrepreneur unless he introduces something new, something different, in his venture. This is known as innovation, that is, doing something different from others. The entrepreneurs are constantly on the look out for something unique to fulfil the need or want of people. They may or may not be inventors of new products or new methods of production, but they are able to foresee the possibility of making use of the invention for business. Others who come to know about the same invention are not capable of thinking about its practical usefulness in business. Or, they may not have the ambition or self-confidence to take advantage of it.

In a competitive market, an entrepreneur can succeed in his business only through innovation. An innovation need not necessarily be something big or dramatic. A simple adjustment to something old, or giving a service without extra charge while selling a product, or a colourful packaging, or selling a product in packets of different weights, and such types of steps may be profitable innovations. Of course, if similar things are done by a number of producers and sellers, an entrepreneur has to think of other types of innovations. Thus some innovations may lead to other innovations. No wonder that imagination is sometimes more important than knowledge for innovative thinking. An entrepreneur must have imagination and also the ability to think creatively.

Take the case of fruit juice. Now a days, fruit juice is sold in small cartons instead of bottles so that you can carry it and throw away the container after drinking the juice. This is innovation. Let us take another example. You may have heard of Henry Ford who established the Ford Motor Company in the United States. He did not invent the automobile, but he applied new methods of mass production and turned out passenger cars at low cost so that many people could afford it.

Risk Bearing: Risk bearing is another aspect of entrepreneurship that every entrepreneur has to cope with. One who is an entrepreneur must be a risk taker, not a risk-avoider. In fact, starting a new business always involves risk because money is invested for profits in future. To try anything new is also risky. A new venture may not bring the expected profits or may fail and run into losses. It may happen because of increasing competition, a change in customer preferences, shortage of raw material supply, or sudden unexpected calamities. But an entrepreneur is bold enough to assume the risks. He is prepared to take risks for the reward. Even if he fails in one venture, he persists, and this helps him to succeed.

4.2.2 Characteristics of an Entrepreneur

If you read business history, you will come across the names of many persons who may be called entrepreneurs. Rockefeller and Henry Ford of the United States, Karl Benz and Gottfried Daimler of Germany, Soichiro Honda of Japan, are well-known names of entrepreneurs, who started industrial organisations and made fortunes. In our country, J.N.

Tata, G.D.Birla, Kirloskar and others have set up successful manufacturing industries. Small business firms have often succeeded because of the part played by entrepreneurs. It may be useful to know whether they had anything common as regards their personal characteristics. It has been found that there are certain elements in the character of entrepreneurs which are usually prominent in them.

- 1 Independence: Many entrepreneurs who started their businesses resisted being pigeonholed or Following routine habits. In fact, entrepreneurs become frustrated when they have to follow someone else's direction. They have to be the boss. They like to be in control. They find it difficult to work under the direction of others.
- 2 Hard Work: Willingness to work—and work hard—is an outstanding trait of entrepreneurs. You can bet that the successful business owner has paid with tedious, sweat-filled hours, emotional stress, and perseverance. Most likely the business verged on failure many times in the beginning, but the owner simply would not let it die. A successful entrepreneur described his early experiences that they worked endless, twelve hour days and sometimes seven days a week. You might say it was his whole life.
- 3 Desire to Achieve Goals: They have a strong desire to overcome problems and setting up successful business ventures which eventually give adequate profits. They considered profit as a measure of their achievement and performance rather than making money alone.
- 4 Foresight and Dynamic Outlook: Basically, these people have wide knowledge about business environment i.e., market, consumer attitude, technological development, etc. Further, they are dynamic in forecasting business uncertainties and risks, accordingly, they take quick and sound decisions.
- 5 Open-mindedness: They are intelligent in predicting changes in business environment. However, they never resist changes because they know that they cannot stop it. Therefore, they are habituated to open-mindedness even though sometimes they lose crores of rupees due to changes in consumer tastes which ultimately forced them to change their technology, etc.
- 6 Optimistic Outlook: They are generally inclined to believe that present problems are of a temporary nature and conditions will be more favourable in due course. Entrepreneurs are always eager to achieve their goals in the best possible manner, to get outstanding results which they can be proud of.
- 7 Working Relationship : The success of a business mostly depends upon its workers first and then their links with other business undertakings. Most of the successful business entrepreneurs have had harmonious relationships with others. This builds up their reputation in the market.
- 8 Good Organisers : They are good at bringing together different types of resources needed for starting a business and making it operationally efficient. They can convince people about the prospects of business, get their cooperation, raise funds, procure machinery, arrange supply of materials, select right type of employees and coordinate various activities relating to the business.
- 9 Innovative Aptitude: Most of the successful entrepreneurs have innovative aptitude. They spend part of their income on research and innovative activities so that they offer suitable products to meet the demands of consumers. Some of our industrialists like Tata, Birla, Kirloskar, etc. have established their own research centres.

4.2.3 Functions of an Entrepreneur

Having read the preceding pages of this unit, you must have started thinking about the functions of an entrepreneur. Essentially, what the entrepreneur does is to recognise the possibility of starting a business which may be profitable. Then, he prepares a plan of action, and steps to be taken to set up the business, and eventually undertakes the operation of the business. Of course, depending upon the nature of business that is in view, the functions will differ. Let us see functions of an entrepreneur who is looking for opportunities to engage in production activity.

- 1 Develops an idea and explores opportunities: The idea of forming a business unit is first formed in the creative mind of the entrepreneur. On the basis of the idea he

perceives opportunities for profitable investments and explores the prospects of starting a manufacturing enterprise.

- 2** Product analysis **and** market survey: He collects data on consumer preferences and needs through market research techniques and to find **out** the saleability of the proposed product. Further, he collects consumer preferences in respect of design, colour, size, **and** shape. In addition, the entrepreneur gathers the total demand and the degree of competition for the proposed product.
- 3** Decides form of organisation: He decides the **form** of business ownership, i.e. **whether** it should be a sole proprietorship, a partnership firm, a company or a cooperative society.
- 4** Decides location: He decides location of the factory at a suitable place taking into account the available facilities of transport, power-supply, fuel, water, labour, supply of raw-materials, nearness of market, etc.
- 5** Collects necessary capital: He makes available sufficient amount of capital for the initiation and continuation of the business. He gives personal guarantees to the financiers who contribute capital. Otherwise, he promises to invest capital himself or **arrange** the necessary amounts from friends and relatives. In case of **small** enterprises, the promoters can provide funds from their own savings. But in case of large enterprises, funds have to be raised from various sources like general public, **commercial** banks, financial institutions, etc.
- 6** Places orders for machinery: He places orders for machinery, **equipments** and other requirements. He takes decision about the installation of equipment and machinery in the process of production.
- 7** Recruitment of labour: As an entrepreneur he makes an estimate of skilled and unskilled workers of **different** categories required for various departments. Accordingly, the entrepreneur arranges their recruitment.
- 8** Designs internal organisation structure: He designs internal organisation structure for his proposed concern. This involves breaking up of the total work of the enterprise into major functions like production, marketing, finance, personnel, purchase, engineering, etc. and the dividing of each of them into sections. He stipulates the functions of different departments and their inter-relationships.
- 9** Fulfils formalities and launches enterprise: Every type of business has **some** procedural formalities while starting a new enterprise. The formalities are different for different types of business organisations. Unless you fulfil them you cannot **simply** launch an enterprise. You will learn about procedural formalities later in this unit.

Thus, the role of an entrepreneur is that of an initiator and promoter. In a sense, the role of an entrepreneur is also that of an expert having knowledge of product, market **conditions** and of the practical aspects of running a business. He should not be simply an imaginative thinker but also have the ability to judge what kind of business will click. His role is indeed crucial for the eventual success of a business. When an enterprise has been launched and it turns out to be profitable, the entrepreneur may decide to leave it, give up his ownership rights, and hand it over to others to run it. Many entrepreneurs in the past have done so. They have been attracted by new opportunity and more profitable lines of business. But many entrepreneurs have continued to run the business they started taking every opportunity of expanding the original venture, adding new activities, making **current** operations more efficient, and deriving satisfaction from their achievements.

But you will agree that it is the initial phase which is most important for the success of a venture. It is at this stage that the future of a business is decided. The basic responsibilities of an entrepreneur include the ability to seize an opportunity, to innovate, explore the , prospects of profitable business, and then to complete legal formalities, raise, funds and finally manage the business are the basic responsibilities of the entrepreneur. He has to face many obstacles, many problems and difficulties in the course of promoting business. He has . to take decisions which may have long-run implications. An entrepreneur has thus to undertake many things. But the most important of these are: **(i)** innovation, and **(ii)** risk- . bearing.

Check Your Progress A

- I Indicate whether each of these statements is True or False.
- i) An entrepreneur is an imaginative thinker and an innovator. ☐ True ☐ False
 - ii) An entrepreneur is on the Look out for opportunities of profitable ventures ☐ True ☐ False
 - iii) An entrepreneur may not have capital of his own to invest but he is a risk-bearer. ☐ Ture ☐ False
 - iv) Profits earned by the business are regarded as a measure of an entrepreneur's achievement and performance. ☐ Ture ☐ False
 - v) An entrepreneur does not raise initial capital and give personal guarantees to the financiers. ☐ True ☐ False
 - vi) An entrepreneur brings together everything required to start a business. ☐ True ☐ False
 - vii) An entrepreneur undertakes activities which are similar to others in the business field. ☐ True ☐ False
 - viii) Entrepreneurs are pessimistic in their outlook. ☐ True ☐ False
- 2 Read the following statements. Find out who is the entrepreneur and who is not.
- i) A person sets up a business with an improved quality and usefulness of an existing product or service.
 - ii) Mr Srikanth is running a spinning mill. He purchased it recently for Rs. 8 crore.
 - iii) Mr Harish raised finance and started a factory for producing mango juice in paper containers.
 - iv) Bata Shoe Company opened their showrooms in Andaman and Nicobar Islands in order to sell their products.
 - v) Ali decides to make alternative raw-materials on production.

4.3 PROMOTION

A business enterprise does not come into existence on its own. It is the result of the efforts of an entrepreneur who conceives the idea based on his knowledge of business opportunities and takes necessary steps to launch the business venture. He is also known as promoter. As a promoter, he assembles the required funds and people, and serves both as a mother and mid-wife to the enterprise. Thus, the promoter is the Kingpin of business as he/she undertakes the risk and gives a concrete shape to business propositions. Promotion may be undertaken for the purpose of setting up a new business, for the expansion of an existing business, or for combing two or more business firms.

4.3.1 Distinction between Entrepreneur and Promoter

Sometimes a distinction is made between 'entrepreneurs' and 'promoters' of business. Those who are innovators and risk-bearers are strictly known as 'entrepreneurs' while those who take steps to set up the business and make it operational are known as 'promoters'. In actual practice, however, this distinction does not hold good. Entrepreneurship (act of entrepreneurs) does not remain confined only to recognition of business opportunities and preparedness to do something new. It does not end with the entrepreneur undertaking to bear the risks of business. It includes planning for the business and taking necessary steps to put it into operation. After all, a business becomes a business only when it gets going. Thus, in a wider sense we cannot make a difference between the role of an entrepreneur and the role of promoter.

4.3.2 Types of Promoters

There are various types of promoters. They are classified as professional promoters, financial promoters, entrepreneurial promoters, institutional promoters and government.

- 1 Professional promoters: These are specialists in forming new business enterprises. After promoting an enterprise they eventually handover the control and management to the shareholders of the company.

- 2 Financial **promoters**: These promoters float new enterprises during favourable conditions in securities market. They are people who have financial stability and are looking forward to new opportunities for investment.
- 3 Entrepreneurial promoters: These promoters conceive the idea of a new business unit, do the necessary preliminary work in setting up the business unit and ultimately control and manage the same. In India most promoters belong to this category.
- 4 Institutional promoters: There are some specialised institutions like Industrial Development Bank of India, National Industrial Development Corporation, etc., which are providing technical, managerial and financial assistance for the promotion of new enterprises. These institutions collaborate with other entrepreneurs to launch the enterprises.
- 5 Government: Since independence, Government of India has emerged as a big promoter of enterprises. It has promoted several enterprises in different fields such as ordnance factories, heavy electricals, shipping, iron & steel, fertilizers and pesticides, oil and natural gas, etc.

4.4 PROMOTION OF DIFFERENT TYPES OF ORGANISATIONS

You have already studied the role of an entrepreneur in setting up a business. The promoter decides the product or service which has a market, and then takes necessary steps for launching a business venture. Before launching the business enterprise, the promoter takes decision about the form of business ownership. Will it be under single ownership or joint ownership? If it is to be under joint ownership, will it be a partnership organisation or a joint stock company? The steps that he has to take in launching the business will naturally depend upon the form of organisation. The formalities—particularly the legal formalities—necessary to start the business will be different in each case. Let us first see what is required to be done to promote a business venture under single proprietorship and partnership firm.

4.4.1 Proprietary Concern

When a business is decided to be set up under single ownership, there is practically no legal formality involved. Of course, to run certain types of business activities permission has to be obtained from the Government or local authorities. For instance, to open a restaurant, the individual proprietor has to get the permission from the Health Department of the Municipal Corporation. To start a workshop or factory, the proprietor must get the permission of the Director of Industries through the District Industries Centre.

A business may also be owned by a **Joint Hindu Family**. In such a business, the head of the family, known as **Karta** has full control over the income and expenditure of the business, and controls the business activities just like an individual proprietor. In fact, a joint Hindu family business generally comes into existence when the head of the family dies and the members of his family decide to continue the family business through the senior most member of the family. This form of organisation of business also does not require any legal formality.

4.4.2 Partnership Firm

You know that partnership is the relationship between two or more persons who have agreed to share the profits of a business. The business may be carried on by all or by any of them acting for all. Collectively those persons are known as 'a firm' and individually they are known as 'partners'. The agreement between the partners may be oral or in writing. A partnership business comes into existence as a result of an agreement between two or more persons. Hence, a partnership firm has no separate existence in the eyes of law. It has no independent legal existence. No legal formality is, thus, required to launch a partnership business and to run it.

However, if the partners desire, a partnership firm can be registered with the Registrar of Firms by filling up a form of application. A fee of Rs. 3 is to be paid for that purpose. Registration of partnership is not compulsory under the law. But it is desirable because an unregistered firm is not permitted to file a law suit or start other legal proceedings against any third party to recover its claims. Moreover, no partner of such a firm can file a suit to

enforce his rights against other partners under the partnership agreement, although third parties can, file suits against the firm as well as the partners.

Before starting a partnership business, the partners come to an agreement about their mutual rights and obligations. If it is an oral agreement there is always a possibility of misunderstanding or dispute among the partners as regards their respective rights and liabilities. To avoid any dispute in future, it is advisable that the agreement should be in writing. The written agreement is known as 'partnership deed'. It should be drawn on a stamped paper and signed by all the partners. The partnership deed should contain the nature and place of business, duration of partnership, capital to be contributed and share of profits of each partner, rights, duties and obligations of partners, salary payable to any partner, and all such clauses as may be agreed upon.

Check Your Progress B

State whether the following statements are True or False.

- i) Business promotion begins with the conception of an idea and ends with the setting up of the business unit. ☐ True ☐ False
- ii) Revival of existing sick units is called business promotion. ☐ True ☐ False
- iii) The Formalities required in proprietary concern are much less as compared to partnership firm. ☐ True ☐ False
- iv) Registration of partnership is compulsory. ☐ True ☐ False
- v) The partners cannot file suit against the other partners if the firm is not registered. ☐ True ☐ False
- vi) The senior member who manages joint Hindu family business is known as ‘Karta’. ☐ True ☐ False

4.4.3 Joint Stock Company

You have learnt that a company is an association of persons. So, there must be more than one person to start a company. A partnership firm also must have more than one person involved in the business. But legally speaking, a partnership firm has no existence apart from its partners. On the other hand, a company after it is formed acquires a separate legal identity. It is regarded in law as a separate entity distinct from the members who join it. Because of this feature, the promotion of a company requires a number of legal formalities to be completed before it can be established. One or more promoters can take the responsibility of bringing a company into existence.

The Indian Companies Act, 1956 contains provisions regarding the legal formalities for setting up a company. You know that from the point of view of ownership, mainly two types of companies can be formed under the Companies Act —private company and public company. The promoters have to decide which type of company they would prefer to form. For the purpose of running a business, promoters generally want that the liability of members should be limited to the amount of capital that they agree to contribute. Accordingly, the company decided to be set up may be a private limited company or a public limited company. Whether it is a private limited or a public limited company, it is necessary that the company is duly registered under the Companies Act. The official appointed for the registration of companies is the Registrar of Companies. For each State or group of States in India, there is a Registrar of Companies. For instance, there is a Registrar of Companies for the Union Territory of Delhi and Haryana. His office is in New Delhi. Let us see what the promoters have to do for the registration of a company,

Registration of a Company

Registration of a company is also known as incorporation. A company is said to be incorporated when it receives the certificate of incorporation from the Registrar of Companies. The certificate of incorporation is a conclusive proof of the fact that a company bearing a specific name has been lawfully formed. The promoter has to take the following steps for obtaining the Certificate of Incorporation——

- 1 Selecting a name for the company
- 2 Preparation and printing the documents to be filled
- 3 Filing the documents with the Registrar of Companies

Let us now take up these aspects one by one.

- 1 Selecting a name: Every company to be registered should have a name by which it will be known for legal and business purposes. The promoters generally select a few names and ascertain from the Registrar's office whether these names are available. For this purpose an application on a prescribed form is submitted to the Company Law Administration, Government of India, through the Registrar of Companies for approval. The promoter can then adopt any name from the list of approved names. It is also necessary to include the words 'Limited' and 'Private Limited' in case of public limited company and private limited company respectively.
- 2 Preparation and printing of documents: After the name of the company has been approved and adopted, the promoters have to get the following two documents prepared and printed :
 - a) Memorandum of Association
 - b) Articles of Association

Memorandum of Association: It is the most important document of a company as it lays down the constitution of the company and states the relationship of the company with the outside world. It is a public document and each person who deals with the company is supposed to know the provisions contained in the memorandum. The purpose of memorandum is to enable the shareholder, creditors and those who deal with the company to know what is its permitted range of activities. Although the company is a legal 'person' its capacity to do business, unlike that of a real person, is restricted. If a company is engaged in any trade or business which is outside the provisions of the Memorandum of Association, such acts are regarded ultra *vires* of the company and therefore, void and inoperative.

The Memorandum of Association contains the following particulars under different clauses.

- i) Name of the company
- ii) Name of the state in which the registered office is to be located.
- iii) Objects clause—The nature of business activities which the company will undertake is to be stated in this clause.
- iv) A declaration that the liability of the members will be limited to the face value of shares subscribed.
- v) Capital clause—The total amount of capital with which the company is proposed to be registered and its divisions into different shares of a fixed amount are to be stated under this clause.
- vi) A declaration by signatories to the Memorandum that they are desirous of being formed into a company and agree to take the number of shares mentioned against their names.

The Articles of Association: It contains the rules and regulations relating to the management of its internal affairs. They define the rights, powers and duties of the management, the mode and form in which the business of the company is to be carried on and the manner in which changes in the internal regulations of the company may be made from time to time. Articles lay down the relations between the company and its members and between the members. A public company limited by shares may register its own Articles of Association or adopt Table A containing the model set of 99 articles given in Schedule I of the Companies Act. Other types of companies must prepare and file their own Articles of Association along with the memorandum at the time of incorporation. The Articles of Association must not contain anything contrary to the Companies Act, the public policy, the Memorandum of Association and the general law of the land.

- 3 Filing of documents for registration: After preparing and printing the Memorandum of Association and Articles of Association, the promoters make an application to the Registrar of Companies and file the following documents :
 - i) A copy of the Memorandum of Association
 - ii) A copy of the Articles of Association
 - iii) A list of persons who have agreed to become director of the company with their names, addresses, age and occupations. In case a separate list of directors is not filed, signatories to the Memorandum of Association will be deemed to be the directors.

- iv) Written consent of the directors to act in that capacity, duly signed by each director, along with a written undertaking to take the prescribed qualification shares, if any.
A company without share capital and a private company need not file this document.
- v) A statutory declaration stating that all the legal requirements with respect to incorporation have been duly complied with, This declaration should be signed by an Advocate of a High Court or of the Supreme Court, or by a practicing chartered accountant or by a person named as director, manager, or secretary of the company.
- vi) Notice of the registered office of the company. However, this notice may be filed within 30 days of incorporation.

Along with the above documents, the Memorandum of Association and the Articles of Association must bear stamp duty as per the Indian Stamps Act. The promoters have also arranged payment of registration fees and filing fees at the time of submitting the application. If the Registrar upon scrutiny of the documents finds them to be in order, he issues the certificate of Incorporation in favour of the company. The company becomes a separate entity in law when it gets the Certificate.

Commencement of Business

A private limited company can commence business activities as soon as it is registered. The promoters of such a company raise the amount of capital necessary from their friends and relatives either against shares issued or in the form of loan. The general public **cannot** be invited to contribute to the capital.

For a **public** limited company, however, business activities cannot be started immediately after registration. It has to obtain a Certificate of Commencement of Business from the Registrar of Companies for which a number of additional steps have to be taken by the promoters. They are as follows :

- 1 Preparation and registration of Prospectus or a Statement in lieu of Prospectus:
After the company has been incorporated, it is necessary for the directors to raise necessary capital for the company. Generally, **shares of** fixed amount are decided to be issued to the public to raise the amount of capital required. The document which is prepared to invite the public to subscribe to the shares of the company is known as Prospectus. In fact, the prospectus includes all such information about the company which may be of interest to the people who are likely to subscribe to the capital. The content of the prospectus have been specified in the Companies Act, so that the promoters may not suppress anything or mislead the public. A copy of the prospectus is required to be filed with the Registrar for registration before it is issued to the public.

A private limited company does not have to issue a prospectus to raise its capital since it is not permitted under law to invite the public to subscribe to its shares. However, it is not **compulsory** even for a public limited company to issue prospectus unless it decides to approach the public for raising its capital. If the promoters decide not to approach the public for raising the necessary capital but to arrange subscription of capital by their friends or relatives or through underwriters, it is not necessary for them to issue a prospectus. In that case, a Statement in **lieu of** Prospectus must be filed with the Registrar. The contents of such a statement are virtually the same as those of a Prospectus. The Statement must be signed by all the directors of the company and filed with the Registrar.
- 2 Subscription and Allotment of Shares: If public offer for sale of shares and debentures exceeds Rs. 1 crore, the company must obtain the permission of the Controller of Capital Issues, New Delhi. After obtaining such permission and the registration of prospectus with the Registrar, the company can invite public to subscribe to its shares. The companies usually appoint brokers through whom they approach the public for **subscription**. The brokers issue prospectus and application forms to the prospective investors. The company also appoints some banks who receive the applications from the public along with the application money and credit the amount to company's account specially opened for the purpose. After the issue is closed, the Board of Directors decide the basis of allotment in consultation with the stock exchange authorities and **pass** a formal resolution for allotment. On the basis of the resolution the Secretary of the company issues letters of allotment to the subscribers. If the subscription exceeds the amount of capital to **be** raised, the excess is refunded to the subscribers **involved**. After the allotment exercise is over, the Secretary submits a Return of Allotment to the Registrar of Companies.

One of the important conditions to be fulfilled by a public limited company before it can apply for the Certificate of Commencement of Business is that it must have received share applications for the **minimum subscription** as indicated in the prospectus. Minimum subscription is defined as the minimum amount which in the opinion of the directors (or the signatories to the **Memorandum**), must be raised by issue of shares to meet the following expenses :

- i) purchase price of any property bought or to be bought which is to be paid out of the proceeds of the share issue;
- ii) preliminary expenses;
- iii) repayment of money borrowed in respect of the above matters;
- iv) working capital required; and
- v) any other payment that may be specified.

If the amount of capital subscribed by the public is less than the minimum subscription or the company could not obtain minimum subscription within 120 days of the issue of prospectus, all money received from the applicants have to be refunded and no allotment can be done.

3 Declaration of Compliance: When all the formalities in respect of the public issue have been completed, the company will have to file a statement with the following declarations with the Registrar :

- i) That the shares payable in cash have been allotted up to the amount of minimum subscription as stated in the prospectus.
- ii) That every director has paid in cash the application and allotment money on his shares in the same proportion as others.
- iii) That no money is liable to become refundable to the applicants by reason of failure to apply for permission for shares and debentures to be dealt in on any recognised stock exchange.
- iv) The statutory declaration by the Secretary or one of the directors that the above requirements have been complied with.

A company which has not issued a prospectus can submit the declaration immediately after the statement in lieu of prospectus has been filed and other conditions have been fulfilled. A private limited company is not required to submit any declaration, as it is permitted to commence business, immediately after incorporation of the company.

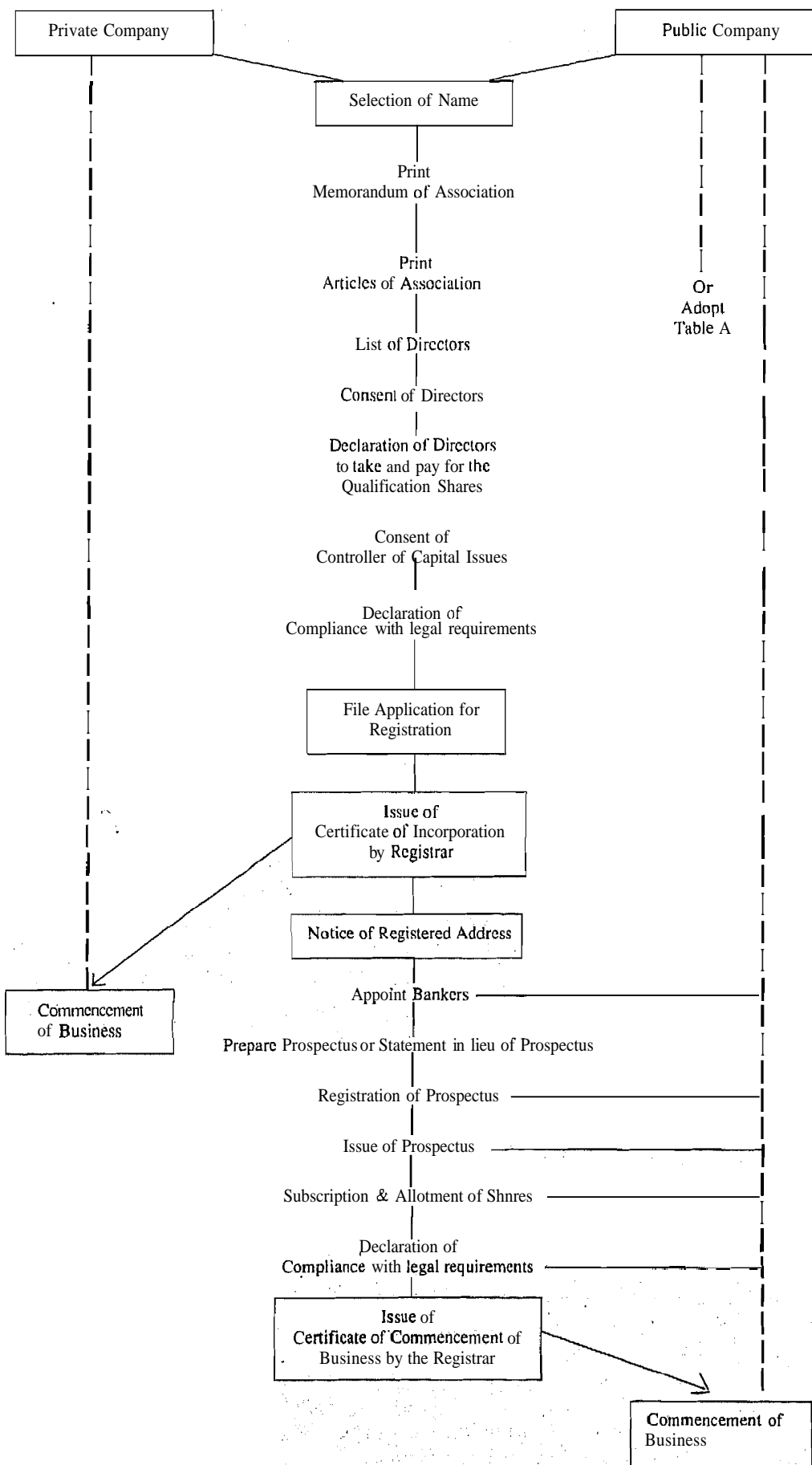
The Registrar of companies will scrutinise all these documents and if satisfied, he shall issue a 'Certificate of Commencement of Business'. After this, the company is entitled to commence business and borrow money from the date of issue of the certificate.

Look at Figure 4.1. It gives a bird's eye view of the procedure involved in the formation of private and public limited companies.

Figure 4.1

Stages in Company Promotion

Promoter's Decision



Check Your Progress C

- 1 Answer the following by putting 'Yes' or 'No' against each question.
- i) Does a partnership firm have legal existence apart from its partners?
 - ii) Is registration of firm compulsory?
 - iii) Is any legal formality required to launch a sole proprietary concern?
 - iv) Is it necessary for every public company to prepare its own Articles of Association?
 - v) Can a private limited company commence business after receiving Certificate of Incorporation?
 - vi) Is it necessary for every public limited company to issue a prospectus?

- 2 Fill in the blanks.
- i) One or more persons who undertake to bring a company into existence are known as
 - ii) The official appointed by the Government for the registration of companies is known as
 - iii) The Memorandum of Association should mention the where the registered office of the company is to be located.
 - iv) At least persons must subscribe to the Memorandum of Association of a public limited company.
 - v) The Articles of Association are the rules and regulations for of the company.
 - vi) The name of a public limited company should end with the word

- 3 List the documents to be filled for registration of a company.
-
-
-
-

4. State whether the following statements are 'True' or 'False'.
- i) Prospectus is a document containing an invitation to public to subscribe to the shares or debentures of a company. ☐ True ☐ False
 - ii) It is compulsory for every public limited company to issue a prospectus. ☐ True ☐ False
 - iii) Prospectus can be issued to the public only after it has been registered. ☐ True ☐ False
 - iv) The contents of the statement in lieu of prospectus are virtually the same as those of prospectus. ☐ True ☐ False
 - v) If minimum subscription is not received, all application money has to be refunded. ☐ True ☐ False

4.4.4 Cooperative Society

We have so far discussed the promotion of business organisations of three types: **proprietary** concerns, partnership **firms** and companies, There is another form of organisation which is quite common these days, **i.e.** cooperative society. **A** cooperative society is a form of organisation wherein persons voluntarily associate together on the basis of equality, **They** pool their resources and work together. They undertake production or distribution of goods and services with the motive of mutual benefit rather than profit.

You know that at least ten persons are required to form a cooperative society. Every cooperative society must register itself with the Registrar of Cooperative Societies, appointed by the Government under the Cooperative Societies Act. The promoters of a Cooperative Society have to take the following steps to get it registered :

- 1 Make an application to the Registrar of Cooperative Societies stating in it the name of the proposed society, its objects, and particulars about its share capital.
- 2 Prepare the Bye-laws (rules and regulations) of the Society (similar to the Articles of Association of a Company) to be submitted along with the application for registration of the society.
- 3 The application and the Bye-laws have to be signed by the promoters.

The Registrar scrutinises the objects and bye-laws and, if he is satisfied, issues a 'Certificate of Registration'. The name of the society is entered in the Register of Cooperatives.

Thereafter, the society becomes a separate legal entity just like a company. It can acquire assets in its own name, enrol new members, and engage in its business activities.

Thus, the promotion of a cooperative society does not require many legal formalities to be complied with. The promoters can set up a cooperative society with 'Limited' liability of its members. But it can be registered only if its object is to serve the economic interest of its members through mutual help. There is no maximum limit fixed as regards the number of members for the cooperative society. Its shares are not transferable. Since, the policy of Government is to encourage development of cooperative organisations, certain concessions are given to cooperative societies, such as exemption from registration fee and stamp duty, income tax, etc.

4.5 LET US SUM UP

Entrepreneur is a person who undertakes the risk of starting and managing a business by bringing together necessary resources. He conceives the idea of starting an enterprise and explores the prospects of starting a new enterprise. He **arranges** everything required to set up a business unit i.e., funds, land, people, machinery. The entrepreneur retains strong values of independence and is motivated to work harder than the most people. He is not **afraid** of future **uncertainties**. He is always optimistic in outlook and dynamic in taking decisions. He always tries to introduce something different from others in his venture. Innovation and **risk-bearing** are the two basic elements of entrepreneurship.

Promoters can be divided into professional promoters, **financial** promoters, entrepreneurial promoters, institutional promoters and Government. Entrepreneur decides the form of business ownership and takes necessary steps in launching the **enterprise**.

The formalities required to start an enterprise are different for different organisations. The promotion of a sole trading concern does not involve many legal formalities. The same thing is true of a partnership firm. The registration of firm is not compulsory but it is considered desirable because otherwise it suffers from certain disabilities.

Promotion of a joint-stock company involves a number of legal formalities. It must be registered with the Registrar of Companies. After **selecting** a name for the proposed company and getting it approved by the Government, the promoter has to arrange the preparation and printing of the Memorandum of Association and Articles of Association for the **company**. Then he files an application submitting these two documents, a list and the consent of directors and a statutory declaration to the effect that all formalities have complied with. He also pays the registration fee. If everything is in order, the Registrar **issues** a Certificate of Incorporation. A private limited company can commence business as **soon** as it receives this certificate. But a public limited company cannot start its business until it gets the Certificate of Commencement of Business. For this again the company has to comply with a **number** of formalities including issue of prospectus, raising the capital, submitting returns of allotment and a statutory declaration that all conditions have been duly satisfied.

A cooperative society is also a corporate body and involves certain legal formalities before it is registered by the Registrar of Cooperative Societies. But as compared with a company the procedure for its registration is much simpler.

4.6 KEY WORDS

Articles of Association: A set of rules and regulations for internal management of the company.

Certificate of Incorporation: Certificate issued by the Registrar of Companies showing that the company has been duly registered. The date mentioned in the certificate will be taken as the date of birth of the company.

Entrepreneur: One who takes the risk of starting and managing business.

Entrepreneurship: The process of giving birth to a new business enterprise.

Innovation: Doing something different or introducing something new from others in the business.

Memorandum of Association: A document defining its constitution and objects. It lays down the fundamental conditions upon which the company is allowed to be formed.

Promoter: One who undertakes to form a company with reference to a given project and to get it going, takes the necessary steps to accomplish that purpose.

Promotion: Discovery of business opportunities and subsequent organisation of funds, property and managerial ability into a business concern for the purpose of making profits therefrom.

Prospectus: An invitation issued to the public to subscribe to shares or debentures of the company giving full information about the company.

Statement in lieu of **Prospectus**: A document submitted in place of prospectus if the company decides not to approach the public for raising the capital.

4.7 SOME USEFUL BOOKS

Burch, John G., 1986, *Entrepreneurship*, John Wiley & Sons: New York (Part-III, Chapter 5 and Part V, Chapter 12).

Sharma R.A., 1985, *Entrepreneurial Performance in Indian Industry*, Inter-India Publications: New Delhi. (Chapters 1, 2)

Shukla, M.C., 1983, *Business Organisation and Management*, S. Chand & Company: New Delhi. (Chapters 3-5)

Ghosh, Prasanta K., 1986, *Company Secretarial Practice*, Sultan Chand & Sons: New Delhi. (Chapter 3-5)

Bhushan, Y.K. and G.L. Tayal, 1984, *Business Organisation & Management*, Sultan Chand & Sons: New Delhi. (Chapters 6, 8, 10)

4.8 ANSWERS TO CHECK YOUR PROGRESS

- A 1 (i) True (ii) True (iii) True (iv) True (v) False (vi) True (vii) False (viii) False
2 (i) Entrepreneur (ii) Not an entrepreneur (iii) Entrepreneur (iv) Entrepreneur (v) Entrepreneur
- B (i) True (ii) False (iii) True (iv) False (v) True (vi) True
- C 1 (i) No (ii) No (iii) No (iv) No (v) Yes (vi) No
2 (i) Promoters (ii) Registrar of Companies
(iii) Name of state (iv) Seven (v) Internal Management (vi) Limited
4 (i) True (ii) False (iii) True (iv) True (v) True

4.9 TERMINAL QUESTIONS

- 1 What do you understand by the term 'entrepreneurship'? State the important characteristics of an entrepreneur.
- 2 Explain 'innovation' and 'risk-bearing' in about 100 words each.
- 3 Briefly describe the role of an entrepreneur in business promotion. How does an entrepreneur differ from a promoter?
- 4
 - a) No legal formality is required to launch a sole proprietary concern. Does it mean that the sole proprietor cannot be compelled to pay his business debts?
 - b) Registration of firms is not compulsory, but it is considered desirable. Why?
- 5 List the documents which must be filed for the registration of a company. Explain briefly the importance of Memorandum and Articles of Association.
- 6 Can a public company commence business immediately after its incorporation? If not, what else has to be done before it can commence business.
- 7 Write notes on the following :
 - a) Prospectus
 - b) Statement in lieu of Prospectus
 - c) Minimum subscription
 - d) Registration of a cooperative society

Note : These questions will help you to understand the unit better. Try to write answers for them. But do not send your answers to the University. These are for your practice only.