UNIT – 5

BUSINESS AND NEW ECONOMICS ENVIRONMENT

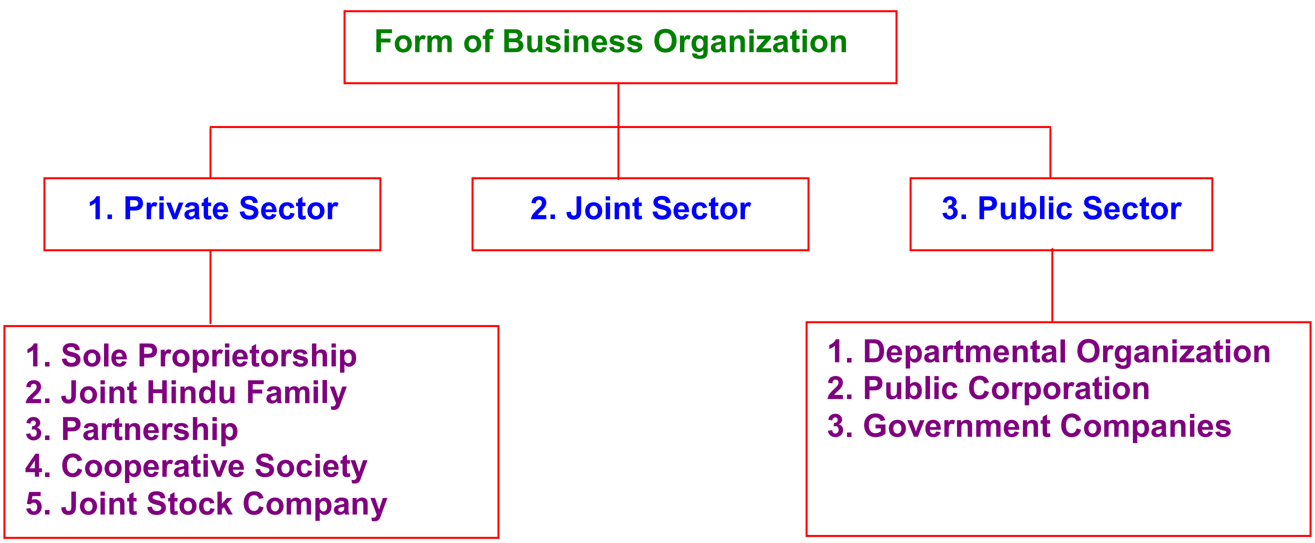
Business Activity : Activity connected with the production or purchases and sale of goods or service with the object of earning profit are called business activity.

Business Under taking :

Basis of size : According to size the business may be small, medium, and large.

Nature of activities : According to activities it is industrial, trading, service enterprises.

Ownership : According to ownership we can talk private, public and joint sector.



Form of Business Organization : Classified into three categories

Private Sector Enterprises: private sector enterprises is owned, managed and controlled by an individual or group. They are alone responsible for enjoyed the profit and also bear the losses.

Ex: Like TATA, BIRLA

Public Sector Enterprises: Public sector enterprises are one which is central government or any state government or local authorities. The government contributes the total capital.

Ex: Railways, Postal, Telephone, LIC, IFCI, SFC

Joint Sector Enterprises: It is owned, managed an controlled jointly by the private entrepreneur and government. It is also called mixed ownership enterprises. The government intention to encourage the private entrepreneurs in industrial activity, both parties share in profits and both bear the losses. These enterprises are managed and controlled by private entrepreneur or government representatives.

Ex: Maruthi Udyog Ltd., Gujarat State Fertilizer Company, Cochin Refineries.

Classification of Private Sector Enterprises:

1) Sole Proprietorship: The sole proprietorship is a form of business that is owned, managed and controlled by an individual. He has to arrange capital for the business and he alone is responsible for its management. He is only person to enjoy the profit and he is also bearing the losses if any. In running his business, however he can take the help of his family members and also make use of their services.

Advantages:

Simple and Easy: This type of ownership is simple in nature and easy to manage. The labour knows for whom they are working and to whom they are accountable.

Least legal formalities: It does not involve must legal formalities or other complicated procedure to start the business. Only a formal license from the local authority is necessary.

Quick decisions and Prompt Actions: The whole business is controlled by one man; therefore, he can take and implement the decisions quickly and in right time. Quick decisions and prompt action enable the entrepreneur to take advantage of business opportunities for gains.

Quality Production: Since the owner takes all the risks, he gives personal attention and supervision to the products made. This may result in reduction in waste and better quality products.

Better Labour Relationship: Since the business is small, the numbers of workers are less and the owner comes in close contact with the workers. This helps to maintain good employer-employer relationship.

Personal Attention to Customers: Since the business is small it is possible to pay personal attention to customers and their requirements and to given them entire satisfactions by overcoming their complaints about the product.

Small Capital: Since capital required is small, talented men of small means can start independent business of their own and earn living.

Maintenance of Secrecy: The individual entrepreneur can easily maintain the secrets of the business as he only know everything of his enterprise.

Flexibility: The individual ownership is highly flexible as it is capable of adjustment to the requirements of changing business conditions.

Disadvantages:

Limited Capital: Due to limited capital it is not possible to expand the business even if it is much profitable.

Unlimited liability : In case the owner is not able to pay the debts, the same can be recovered out of the sale of his business assets and personal property. The individual owner will have to think twice before adopting new and risky vetures, latest and new methods etc. as his private property is constantly in danger of meeting the debts and obligations of his business.

Personal Limitations : The individual owner has to control all the aspects of his business alone. He cannot be expert in all techniques like management, sales, engineering, processes etc. Further growth and expansion of business may not be possible due to want of proper and adequate organizing power.

Small Income: Inspite of all efforts, such a business can yield only a small income. The resources are limited. Many profitable ventures are ruled out.

Cannot compete with a big business: Since the business is small it cannot compete with a big business producing the same articles

Lack of continuity: A sole proprietary organization suffers from lack of continuity. It the proprietor is ill this may cause temporary closure of business, and if he dies the business may be permanently closed.

No Economies of large scale: Economies of large scale manufacturing buying and selling cannot be obtained on account of small size organization.

Division of Labour is not possible: Economies of large scale manufacturing buying and selling cannot be obtained on account of small size organization.

2) Joint Hindu Family Business: The joint Hindu family business refers to a business which is owned by the members of a Joint Hindu Family business. It is governed by the Hindu law. This form of organization is created by the law of succession the Joint Hindu Family form is a form business organization in which the family possesses some inherited property. The inheritance of property is among the male member. The share of ancestral property is inherited by a member from his father grand father and great grand father. Thus three successive generations can simultaneously inherit the ancestral property for the purpose of running a Joint Hindu Family business, only male members are members in this business and oldest member is know as karta.

3) Partnership Business Organization: Partnership is an association of persons who agree to combine their financial resources and managerial abilities to run a business and share profits in an agreed ratio. A partnership firm can be formed with minimum of two partners and it can have a maximum twenty partners. (ten in case of banking business)

Definition: According to Indian partnership act 1932 defines partnership as partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any one of them acting for all.

Formation and Registration:

Partnership Deed: Partnership deed means an agreement among persons and lays down the terms and conditions of partnership and the rights, duties and obligations of partners.

The following points are generally covered in the deed.

1. The nature of business
2. Name of the firm and the place where its business will be carried on
3. How much capital to be contributed by each partner
4. Duties powers and obligations of all the partners
5. The ratio in which profits are to be shared
6. Method for the settlement of disputes
7. the deed has to be stamped and each partner should have a copy of its.

Registration of Firm: Registration of a partnership firm is not compulsory, but an unregistered firm suffers from certain disabilities. These disabilities made it virtually compulsory for a firm to get registered. A partnership firm may be registered at any time. A partnership firm desiring registration applies to the registrar of firms in prescribed form along with the registration fee. The application should state the following

1. Name of the firm
2. The place of business of the firm
3. The name of other place where the firm is to on business

4. Date of admission of the partners in the firm
5. Name and permanent addresses of the partners
6. Duration of the firm

Unregistered firm suffers from the following

1. A partner of an unregistered firm can not file a suit against the firm or any other partner for enforcing his rights arising out of the contract
2. An unregistered firm cannot file a suit against any third part for recovery of claims.
3. Such a firm also cannot file a suit against any partner.

Types of Partners:

General Partner: All the partners who participate in the working of the firm and are responsible jointly with other partners, for all liabilities, obligations and defects of the firm are the general partners.

Limited Partners: The liability for debts of the limited partners is limited to the extent o their contributed capital. They are not entitled to interfere in the administration of the firm.

Active Partner: Active partners are those who take active part in the management and formulation of policies. Some times they get salaries in addition to the normal profits as partners.

Sleeping Partner: They do not take any active part in the business. They simply contribute their capital in the business and get their share in the profit of the firm. They are liable for all liabilities of the firms partners.

Nominal Partner: They lend their reputed name for the company's reputation. They do not invest money and do not take any active part in the management.

Minor Partner: Minor partners are that whose age is below 18 years and associated with the business. Such partners can be allowed only with the consent of other partners. Their liability is limited to their investment only. Within six months of attaining the age of majority, they have to give public notice about their desire to serve or continue their connection with the firm.

Advantages:

Easy formation: The formation of partnership is easier as compared to joint stock companies. Voluntary mutual agreement is enough to start the partnership. Procedure for registration is simple and also registration is not compulsory.

Pooling of financial resources: A partnership commands more financial resources compared to sole proprietorship this helps in expanding business and earning more profits, if more capital is required admit more partners into the business

Pooling of managerial skills: A partnership facilitates pooling of managerial skill of all its partners, this leads to great efficiently in business operation for instance in a big partnership fir, one partner can look after and handle production function another partner can look after marketing activity and another partner can look after marketing activity and can attend to legal and personnel problems and so on.

Less possibility of error of judgment: A problem is examined from more than one point of view, therefore the decision arrived at is likely to be sounder than in one man business.

Prompt decisions: There are limited numbers of partners who are in continuous and intimate touch with each other. Therefore prompt decisions can be taken. It can decide on a suitable course of action before it is too late.

Large Economics: As compared in individual ownership, the advantage of division of labour, specialization standardization and economics of large purchasing are more.

Sharing of risks: In a partnership business the risks are shared by all partners on a predetermined basis, this encourages partners to undertaken risky but profitable business activities.

Disadvantages:

Unlimited Liabilities: Because of unlimited liability any one partner can be held liable for the whole debt of the firm. This frightens away the moneyed people. They are reluctant to join those who have ability, skill but no capital.

Short Life: After the death or retirement of any one partner, the partnership may come to an end.

Insufficient Capital: If can raise much less capital as compared to joint stock company. This prevents the expansion of the business to take advantage of increased demand.

Disagreement: Some times due to misunderstanding friction may arise between the partners which adversely affects the efficiency and expansion of the business.

Less Secrecy: A partner may withdraw from the firm and establish his own enterprise with the knowledge of the secrets of the business.

Non-Transfer of Partnership: No partner can transfer his interest in the firm to any body without the unanimous consent of other partners.

No direct relation between efforts and rewards: The profits are shared by the partners. So, there is no incentive for hard working. Sometimes it encourages lavish expenditure.

Lack of Public Confidence: As the financial matters are strictly confined to partners only, and in absence of any strict legal control over the affairs of partnership, there is much less public confidence in partnership. It creates suspension in the mind of the outsiders who are dealing with firm.

4) Co-Operative Societies: It is voluntary association of person with unrestricted membership and collectively own funds, consisting of wages earners and small producers, united on democratic basis for the establishment of enterprises under joint management for purpose of improving their household or business economy.

The main principle underlying cooperative organization is mutual help i.e. one for all and all for one. A minimum of 10 persons are required to form a co-operative society. If must be registered with the registrars of co-operative societies under the co-operative societies act.

Advantages:

Easy of Formation: A co-operative society is voluntary association and may be formed with a minimum of ten members. It registration is very simple and can be done without much legal formalities.

Open Membership: Membership in a co-operative organization is open to all having a common interest a person can become a member at any time he likes and can leave the society by returning his shares without affecting its continuity.

Democratic Management: A co-operative society is managed in a democratic manner. It is based on the principle of one man one vote. All members have equal rights and can have a voice in its management.

Limited Liability: The liability of the members of a co-operative society is limited to the extent of capital contributed by them. Them do not have to bear personal liability for the debts of the society.

Stability: A co-operative society has a separate legal existence. It is not affected by the death, insolvency of any of its members. It has a fairly stable like and continues to exist for a long period.

Economical Operation: The operation of a co-operative society is quite economical due to elimination of middlemen and the voluntary services provides by its members.

Disadvantages:

Limited Capital: Co-operatives are usually at a disadvantage in raising capital because of the low rate of return on capital invested by members.

In Efficient Management: The management of a co-operative society is generally inefficient because the managing consists of part-time and inexperience people qualified managers are not attracted towards co-operative on account of its limited capacity to pay adequate remuneration.

Absence of Motivation: A co-operative society is formed for mutual benefit and the interests of individual are not fully satisfied. There is no direct link between effort and reward. Hence members are not inclined to put in their best efforts in a co-operative society.

Rigid Rules and Regulations: Excessive government regulation and control over co-operative affect their functioning. For example, a co-operative society is required to get its accounts audited by the auditors of the co-operative department and to submit its accounts regularly to the registrar.

Type of Co-operative Societies:

1) Consumer's Co-operative Society: These societies are organized by consumers to eliminate middlemen and to establish direct relations with the manufactures or wholesalers. There societies are formed by consumers to ensure a steady supply of goods and services of high quality of reasonable prices. It purchases goods either from the manufacturers or the wholesalers for sale at reasonable prices. The profit if any, is distributed among members as dividend in the in the ratio of capital contributed by them.

2) Producer's Co-operative Society: Producer's co-operative are formed to help the members in procuring inputs for production of goods or services. These societies generally provide raw material, tools and equipment and other common facilities to its members. This society provides inputs to the members and takes over their output for sale to outsiders.

3) Co-operative Marketing Societies: Co-operative marketing societies are voluntary associations of small producers, who find it difficult to individually sell their products at a profit. The main purpose of such a society is to ensure a favorable market for the output of its members.

4) Co-operative Credit Society: This society provides financial help to the members. The funds of these societies consist of share capital contributed by

the members and deposit made by them from outsiders. The funds are utilized in giving loans to needy members on easy terms with low interest rate. Thus the member protected from the exploitation of money lenders, who charge very high rates of interest.

5) Co-operative Housing Society: This society is formed to provide residential accommodation to the members. They under take the purchase and development of land and for construction of houses/flats on the land some housing co-operatives provide their members with necessary loans at low rates of interest to build houses. These societies are gaining popularity in big cities.

Types of Companies:

1) Private Company:

a) Has minimum of 2 and maximum of 50 members

b) Does not invite the public to subscribe to its capital

c) Restrict the right of members

All these three restrictions must be continuously observed by a company to be called a private company such a company can managed its affairs with a minimum of 2 directors only. It must include the work private limited as apart of its name.

2) Public Company:

a) Has a minimum of 7 members

b) It is not prohibited from inviting the general public to subscribe to its shares and debentures.

c) Does not restrict the right of its members to transfer their shares freely.

In a public company, the maximum number members depends upon the numbers of share issued. A public company can managed its affairs with a minimum of 3 directors. Since the liability of members is limited these companies must add the word limited to their name large company organized as public company. **Ex**: BATA India Limited, MRF Tires Limited.

Government Company: A government company is which is started by government and of which majority of capital is subscribed by the Central and/or State governments. Some of the well known government companies are BHEL, HMT< Indian Oil Corporation (IOC).

Multinational Company:

a) Operates in more than one country

b) Carries out production marketing and research activities in those countries

c) Attempts to maximize profits world-wide.

A multinational company is of giant size some the well known multinational companies are General Motors (USA), Sony (Japan), Coco Cola (USA), Lipton (UK), Indian MNC like TATA, BIRLA and so on.

Formation of Joint Stock Company:

1) promotion : Promotion is concerned with bringing a business into existence. It involves identification of some business opportunity of idea and taking steps to implement it through the incorporation and floatation of a company. The person who identify a business idea and under take to start a company to give a practical shape to the idea are known as promoters. The process of promotion begins when the promoters feel that business activity can be profitable undertaken by a company

Promoter: The promoter role is vital role in company business, which steps he can take to form a company with reference to the business opportunity.

a) Selling a product by new methods

b) Manufacturing a product by new method

c) Introducing a product with new uses

d) Introducing a new type of package

2) Incorporation or Registration: A company comes into existence only when it registered with the registrar of companies under companies' act 1956, the stage followed by two sub stages.

Filling of documents: The promoter takes an application for the incorporation of the company. The application must be submit to the registrar of companies in the state in which the registered office of the company is to be situated and accompanied by the following documents.

1. Memorandum of Association
2. Articles of association
3. Written consent of the persons who have agreed to become director of the company
4. Notice of address of the registered office of the company. It may however be filed with in 30 days of incorporation.
5. A statutory declaration stating that all the legal requirements of the companies act with regard to incorporation have been complied with this declaration may be made by the company secretary, managing director, a chartered account, advocates of high court or any other person associated with formation of the company before filling the above documents necessary filing fees and

registration fees at the prescribed rates are also to be deposited.

Certificate of Registration: The registrar will scrutinize the above documents. It he is satisfied he will enter the name of the company in the register of companies and will issue a certificate of registration. The certificate of incorporation bears the serial number, date of incorporation and signature and seal of the registrar at companies.

A private company or a public not having share capital can commence business immediately after its incorporation. But a public company having share capital has to pass, through another stage, namely, flotation stage, before actually starting its business operation.

3) Floatation: Floatation of a company means to get it going, for this purpose public company has pass through two sub stages, namely

Raising Capital: It is also known as capital subscription stage, in this stage leads to rising of necessary capital for meeting the financial requirements of the company. In order to raise capital, the director the company has to take the following steps

1. Permission from Securities Exchange Board of India of India (SEBI) for rising capital from public.
2. Filling of Prospectus
3. Allotment of Shares

Commencement of Business Certificate: A public company cannot start its business operations unless it has obtained the certificate of commencement of business from the registrar of companies.

Important Documents in Company Formation:

1) Memorandum of Association: The memorandum of association is the principle document of the company. It is its constitution and sets out the limits with in which the company must always function. The purpose of the memorandum is to enable the shareholders and outsiders who deal with the company to known the range of activities of the company. It is a public document and the parties dealing with a company may ask for its copies on payment of a nominal charge. This document contains following clauses:

Name Clause: Under this clause, the name of the company is stated. The name of the company end with limited in case of public company and private limited in case of private company.

Registered Office Clause: This clause contains the name to the state in which the registered office of the company is to be situated.

Object Clause: The objectives of the company, in the short run and long run, are furnished here. The promoters should take special care to draft the objects clause in particular. The objects should be drafted in such a way that they provide high degree of operational freedom.

Liability Clause: The clause state that liability of members is limited to the amount, which they have agreed to, contributed. This tells the outsiders as to how far can hold the members liable for the debts of the company.

Capital Clause: Every company having share capital must state the amount of its share capital with which the company is proposed to be register. It is also required to state the division of share capital into shared of fixed denomination.

Subscription Clause: Here a declaration has to be made the 'the persons signing this clause have interest to form this company and they have taken the number of shares as indicated against their name.

2) Articles of Association: The articles of association of a company contain the rules relating to the administration of its internal affairs, they define the duties, rights and powers of the management.

Content of Articles of Association: The articles of association of a company contain rules, regulation and by-laws for the management of the internal affairs of the company. Some of the more important matter are listed below.

1. The amount of share capital and different classes of shares
2. Rights of each class of shareholders
3. Procedure for making allotment of shares
4. Procedure for transfer to share
5. Procedure for issuing share certificate
6. Procedure for the conducting of meeting
7. Appointment, removal and remuneration of directors and their powers and duties
8. Procedure regarding alteration of share capital
9. Matters relating to distribution of dividend
10. Procedure regarding the winding up of the company

3) Prospectus: A prospectus may be defined as notice, circular, advertisement or any other document inviting offers from the public for the purchase of its shares or debentures or for making deposits with it. Thus, a company issues a prospectus to the public to raise funds.

Public Sector Enterprises: A public sector enterprise or a public enterprise is one which is owned, managed and controlled by the Central Government or any state Government or any Local authority.

Objectives:

- To bring about rapid industrial development by setting up large industries which require huge capital investment and may not be profitable in the short-run
- To develop those industries which facilitate the growth of other industries like transport, power generation
- To correct regional imbalance in the growth of industries
- To ensure adequate supply of essential goods at a fair price

Public sector enterprises are classified as follows:

1) Department Undertakings: Departmental undertakings is a public enterprises which is organized, controlled and financed by the government in the same way as any other government department. For example, Railways, Post and Telegraphs, Public work department etc.

Advantages:

Easy to form: It is easy to from such undertaking since no registration or special legislation is required to bring it into existence.

Easy to financing: It is wholly and directly financed through annual budget appropriations from the concerned ministry.

Secrecy: It is suitable where secrecy and control is very important such as atomic energy, defense industries.

Accountability to people through Parliament: The overall responsible rests with the minister under whose ministry the undertaking function, the concerned minister is answerable to the Parliament for the efficient operation of the undertaking. Any matter relating to such undertaking can be raised in the parliament.

Disadvantages:

Lack of flexibility: Departmental undertaking suffers from lack of flexibility since it is subject to rigid rules and regulations of government which do not allow any flexibility in the operations of the undertakings

Lack of professional Management: It also suffers from lack of professional management since the civil servants who manage it do not possess business experience and professional skill necessary for the management of a business.

Lack of quick decision making: It also suffers from lack of quick decision making, since it runs on bureaucratic lines where number of files are handled by several persons.

Low efficiency: It is not managed very efficiently due to lack of initiative on the part of the managers

2) Public Corporation: Public corporation is an autonomous organization, which is established by a special act of the center or State Legislature. This special act defines its powers duties, functions, immunities and the pattern of management. It is also known as statutory corporation.

Ex: LIC, Air India, SBI and etc.

Advantages:

Operational Autonomy: Public corporation works as an autonomous body within the provisions of the special Act. It enjoys considerable degree of autonomy, as there is no government interference in day-to-day affairs.

Public Accountability: The management keeps public interest in mind while functioning since it is accountable to the public through the legislature.

Flexibility in Operation: It enjoys flexibility in operations since it is not subject to budget audit and accounting procedures of the government

Easy to raise funds: It can easily raise funds by issuing bonds since it is government owned statutory body.

Disadvantages:

Lack of autonomy in practice: The autonomy available in the eyes of law is not in practice enjoyed by public corporation. Most of the decisions are required to be taken in consultation with the concerned ministry.

Unresponsive towards consumers interest: Since public corporations do no have to face any competition, they ignore commercial principles in their working. This may ultimately lead to inefficiency and losses to the corporation and neglect of consumer needs.

Difficulty in changing the act: It is usually difficult to bring a change in the act since a lot of procedural formalities are required to bring the changes and to get the changes approved.

3) Government Company: Any company in which not less than 51% of the paid up capital is held by central government of by any state government or government or partly by central government and partly by one or more of the state government and includes a company which is subsidiary of government company as thus defined.

Advantages:

Formation is easy: There is no need for an act in legislature or parliament to promote a government company. A government company can be promoted as per the provisions of the companies act, which is relatively easier.

Separate legal entity: It retains the advantages of public corporation such as autonomy, legal entity

Facilitates acquisition of private units: It facilitates the acquisition of private units by acquiring at least 51% of paid-up capital of such units.

Easy to amend documents: It can amend its memorandum and articles by following the procedure laid down in the companies act, no approval of parliament is required for such amendment.

Facilitates private participation: This form of organization facilities the private participation in the equity of public enterprises.

Disadvantages:

Lack of accountability: The government company evades constitutional responsibility because it is not subject to scrutiny of the parliament.

Absence of Real Autonomy: There is absence of real autonomy since the majority of directors are nominated by the government to represent the various ministries. The Board o Directors is required to consult the concerned government department on various policy matters.

Lack of professional skill and experience: Majority of the directors nominated by the government do not possess professional skill and experience required for managing commercial enterprises. As a result, it fails to achieve efficiency as required in private enterprise.

Lack of continuity in policies and Management: There is no continuity in policies and management since the management and chairman of these companies keep on changing and as a result the policies are also subject to change by these top officials.

Fear of public accountability: The top management may not take the initiative in entering into new areas of activities since they have the fear of public accountability.

Liberalization: It is the process of freeing the among from the licensing.

It measures taken since 1991 as following

1) Trade and Capital flow reforms:

- Devaluation of Indian, rupee
- Introduction of convertibility of the rupees on trade account and later, current account
- Allowing foreign equity participation up to 51 percent in service areas
- Delinking technology transfer from equity investment as a measure of flexibility in the choice of technology

Foreign companies could bring patented products for sale to India, they are now eligible for appointment as technical advisor or management consultants.

2) Industrial Deregulation: The industrial sector, which was tied up by many regulations, such as the MRTP act, etc., was free by appropriate deregulation in the new industrial policy 1991.

3) Financial sector reforms:

a) Financial sector reforms:

- To activate and mode rise banking operations in the country
- To enable financial institution, including banks, to seize upon and avail of the emerging opportunity resulting from economic reforms.

b) Financial sector reforms:

India owned both life and other insurance business India. The LIC and General Insurance Corporation (GIC) of India along with its four subsidiaries were the major players after than insurance sector opened to private players.

Privatization: It mean inducing private ownership in state owned public enterprises with a strategy to reduce the role of government in business. Privatization does not necessarily involve a change in ownership. A public enterprise is said to be privatize if private management and control figure on the board of directors.

Globalization: It means integrating the economy of a country with the world economy with a view to eliminating supply bottlenecks, improving investment climate, providing a wide choice of quality goods and services to the ultimate consumers. Through globalization India can attract huge foreign direct investment in different sectors of the economy including infrastructure.

Changing business environment to post liberalization scenario:

1) Attention to world market
2) Improvement in work culture
3) Focus on capital intensive technology
4) Downsizing and rightsizing
5) Awareness and stress on quality and R & D
6) Scale Economies
7) Aggressive brand building