Unit – I

Human life is built around work. People are engaged in some kind of work in order to earn their livelihood and to acquire wealth. Some activities are inspired by social, cultural, religious or sentimental requirements of human beings. All human activities can be classified into economic and non-economic activities. Economic activities include production, exchange and distribution of products etc. non-economic activities includes motives for social, religious etc.

The economic activities can be classified into three types. They are:

Profession:

A profession is an occupation which involves the rendering of personal service of a specialised nature. The service is based on professional education, knowledge, teaching etc. Before joining a profession a person has to acquire the educational qualification set for that profession.

Eg: Medical education, charted accountant etc..

Employment:

When a person undertakes to render personal service under an agreement of employment, he is said to be in service or employment. The service is rendered for a salary or wage and/or other benefits attached to that job. The service may be in a government or a private organisation.

Business

Business may be defines as an activity concerned with the production and exchange of goods and services with the objective of earning profits. The word 'Business' literally means ' a state of being busy'. An entrepreneur runs a factory, a trader sells goods, a banker lends money, etc. all these activities are related to business. These activities are undertaken to earn a profit or a living out of them. People remain busy one thing or theother.

Definitions:

According to **L.H. Haney**, "Business may be defined as human activities directed towards providing or acquiring wealth through buying and selling goods."

According to **Wheeler,** "An institution organised and operated to provide goods and services to the society under the incentive of private gain."

According to **Urwick and Hunt,** "Business is any enterprise which makes, distributes or provides any article or service which the other members of the community needs and are able and willing to pay for."

Characteristics / features of business:

The following are the characteristics or features of the business:

1. **Entrepreneur:**
   There must be someone to take initiative for establishing a business. The person who recognizes the need for a product or service is known as entrepreneur. The entrepreneur visualises a business, combines various factors of production and puts them into a going concern.
2. **Economic activities:**
   Business includes only economic activities. All those activities relating to the production and distribution of goods and services are called economic activities. These are undertaken with economic motive. Business is carried on with a profit motive.
3. **Exchange of goods and services:**
   A business must involve exchange of goods and services. The goods to be exchanged mat either be produced or procured from other sources. The exchange of goods and services is undertaken with a profit motive. The transactions is happened in the market at one time is not a business. It means the purchasing and selling of products is always exchanged from one person to another person or one place to another place is known as business
4. **Profit motive:**
   The profit motive is an important element of business. Any activity undertaken without profit motive is not business. A businessman tries to earn more and more profits out of his business activities. The incentive of earning profits keeps a person in a business and is also necessary for the continuity of the business. The object of starting of business is to earn profit though there may be losses. The business activity will flourish more when the business serves the society.
5. **Risk and uncertainty:**
   The business involves a large element of risk and uncertainty. In fact, a business man to foresee the future uncertainties and plans his business accordingly. The factors on which business depends are never certain, so the business opportunities will also be uncertain. There may be a shift in demand, strike by employees, floods, war, fall in prices, fluctuations in money market etc.
6. **Continuity of transaction:**
   In business, only those transactions are included which have regularity and continuity. An isolated transaction will not be called business, even if the person earns profit from that deal. So, the transactions should have continuity and regularity otherwise they will not be a part of money.
7. **Creation of utility:**
   The goods are provided to the consumers as per their likings and requirements. Business creates various types of utilities in goods so that consumers may use them. The utility may be form utility, place utility, time utility, etc. The process of storing goods

when they are not required and supplying them at a time when they are needed is called creation of utilities. So the business creates many utilities in goods so that the consumer may use them according to their preference and needs.

8. **Organisation:**
   Every enterprise needs an organisation for its successful working. Various business activities are divided into departments, sections and jobs. An organisation creates the framework for managerial performance and helps in co-ordinating various business activities.
9. **Financing:**
   Business enterprises cannot move a step without finance. The finance are required for providing fixed and working capital. The availability of other factors of production also depends upon the availability of finances. A proper capital structure is a must for the success of the business.
10. **Consumer satisfaction:**
    The ultimate aim of business is to supply goods to the consumers. The goods are produced for the consumers. If the consumer is satisfied then he will purchase the same thing again. The businessmen should try to satisfy the consumers so that the demand for his products is maintained. The businessman should try to produce goods according to the likings and tastes of consumers.
11. **Satisfying social needs:**
    The business should aim at serving the society at large. The business is a socio-economic institution. Now-a-days, on the social aspect of business and social obligations of business. It is not only the public which needs business but business also needs public support. So, business enterprise must serve public purpose.

Objectives of a business:

1. **Economic objectives:**
   a. **Profit earning:**
      It cannot be denied that business is started for earning profits. Profit is the basic incentive to business pursuits. Profits are needed to face various uncertainties like trade cycle, change in demand pattern, fluctuations in money markets. The businessmen should charge a reasonable profit and it will be beneficial both to the business and society.
   b. **Production of goods:**
      The profit can be earned only when exchange of goods and services takes place. So, the next objective is to produce more goods and sell them to the consumers. The tastes, preferences and paying capacity of the consumers must be taken into account. A businessman creates form, place and time utilities and meets the requirements of the society.

c. **Creating markets:**

The aim of businessman is to sell products. Marketing consists of those efforts which effect transfers in ownership of goods and care for their physical distribution. Marketing covers all those activities which relate to the creation of time, place and possession utility. An effort is made to retain old consumers by supplying them better quality of goods at reasonable prices.

d. **Technological improvement:**

A businessman should always strive to use latest methods of production. In the world of competition, everybody tries to sell its products by offering good quality products at lower prices. This is possible when latest technology is used for producing goods. There should always be an endeavour to increase production and reduce costs.

2. **Human objectives:**

a. **Welfare of employees:**

The employees should be looked upon as human beings. The employees of an enterprise help in increasing the profitability and they should also be given a due share in profits. It may be in the form of bonus, increased allowances or spending money on their welfare.

b. **Satisfaction of consumers:**

The consumers should be provided quality goods at reasonable prices. The tastes, likings and requirements of the consumers should be given due weightage. The business meant for consumers and their satisfaction should be the main objective of the business.

c. **Satisfaction of shareholders:**

In the present world ownership and management are in two different hands. The shareholders are spread all over the country and they have no hand in the day-to-day working of the business. The management should give reasonable return on the money invested by the shareholders. The money is not misused by the management.

3. **Social objectives:**

a. **Availability of goods:**

The business should ensure the supply of goods to meet the requirements of the society. The business should estimate the total demand for various commodities and adjust the production accordingly. This is done through various licensing laws. The licenses are issued according to the demand for various goods.

b. **Supply of quality goods:**

The supply of quality goods and services to consumers at reasonable price is the responsibility of the business. The business should aim at consumer satisfaction. In the present scarcity-ridden periods, the consumer is worst affected. A business cannot flourish in the long run if it ignores consumers. It is the duty of the business to study wants and needs of consumers and provide them with quality goods at reasonable prices.

c. **Co-operation with the government:**

Business should co-operate with the government in helping it to achieve the objectives of socialistic pattern of society. The government of India has devised rules both for public and private sectors. It is not uncommon on the part of Indian businessmen to adopt tactics and strategies that go counter to the declared policies of the government. The businessmen also try to evade various taxes.

d. **Creation of more employment:**

The business can help the society by creating more and more job opportunities. The expansion of business not only helps in employing more persons in the factory but it has a multiple effect. Persons are required at various levels in the channels of distribution from the producers to the consumers.

e. **Utilising national resources properly:**

The business should put the scarce national resources to the best possible use. Wastage of anything will not only be the loss of the enterprise but it will be a national loss. The use of improved technological methods for the production of goods can be helpful in raising production and reducing costs.

4. **Organic objectives:**

a. **Survival:**

The first objective of business is to survive. It has to ensure that only those activities are taken up which are beneficial to the society. Various factors of production are paid out of profits. A losing concern cannot survive for long.

b. **Growth:**

A business enterprise may be compares to human anatomy. As through various stages, that is, from infancy to childhood , childhood up to maturity level, a business unit also passes through various phases during its existence. Every business house aims at its proper growth. A number of plans and policies are framed to facilitate future growth of every unit.

c. **Earn recognition and prestige:**

A business enterprise always aims to get recognition from those with whom it deals. This is possible only if it serves them well. It should have good rapport with the suppliers and dealers by keeping proper schedules of payments and supply of goods. The payment of various taxes, etc. to the government should be timely and produce the quality products/goods with reasonable prices to the consumers.

5. **National objectives:**

a. **Helping national efforts:**

A business aims at helping the national efforts of improving economic position of the society. Every government fixes national priorities for the nation. Rural industrialisation and balanced regional growth are the priorities of Indian government. Business should set up new units in backward and under-developed areas so that people living there get employment opportunities and resources available there are fully utilised.

b. **Development of small entrepreneurs:**

Big business houses should help in the development of small undertakings. They should not treat small-scale as their competitor. Big units may also help by encouraging ancillary units to sell their products to them and arranging industrial inputs for them.

c. **National self-sufficiency and export development:**

Business can play an important role in making the country self reliant. It should produce all those goods which are imported from outside. Efforts should also be made to produce those goods which find ready market in foreign countries. This will help in earning foreign exchange.

d. **Development of skilled personnel:**

Every country needs trained and skilled personnel for the development of its industry. Business houses can provide technical knowledge and training to their employees. This helps in skill formation for the country's growth and development. In India, some business houses have set up engineering institutes which supply trained personnel to the nation.

Functions of business:

A business has to perform a number of functions in order to achieve its objectives. Various business functions are inter-dependent and the efficient performance of all of them is necessary to run the enterprise effectively. The integration of various functions will be necessary to run an enterprise efficiently. Some of the factors are given below:

1. **Production function:**

   Production function involves transformation of raw materials into goods and services and making them useful. A number of inputs such as labour, capital, machinery will also be necessary to carry out this function. It has become a specialised function in modern business.

2. **Marketing function:**

   Marketing is a process involving activities ranging from getting from producers and sending them to ultimate consumers or users. It involves all efforts to create customers for the products and provide maximum satisfaction to them. This function involves various marketing mix elements are product, price, promotion and physical distribution. It also involves decisions like product design, package brand name, pricing policies etc.

3. **Personnel function:**

   Personnel function is concerned with people at work and with their relationship with in an enterprise. It aims to bring together and develop in to an effective organisation. This function is concerned with employment, development and compensation of the personnel and the provision of working conditions and welfare measures to maintain a good working force in organisation.

4. **Finance function:**

Finance function is the important of all business functions. It remains in focus of all activities. It is not possible to substitute to eliminate this function because the business will close down in the absence of finance function. The funds will have to be raised from various sources. The receiving of money is not enough, its utilisation is more important.

5. **Purchase function:**

Traditionally, purchase was considered to be a part of production function. However, big organizations have a separate department for undertaking purchase activities. The purchase department is entrusted with such activities are by inviting the tenders, locating the sources of supply, placing order for right quantity at right time, importing raw materials, machines and equipment etc..

6. **Public relations function:**

Modern business houses are becoming more of consumer-oriented the public relations department is concerned with creating a favourable impression of the business organization on the government agencies, employees, suppliers, shareholders, consumerists, environmentalists and others, which may include present and potential customers.

7. **Legal function:**

Some big business houses have a separate legal department in order to advice business on legal issues. The legal department ensures that the business unit comply with various rules and regulations framed by the local, state and central governments from time-to-time.

8. **R&D function:**

Research and Development (R&D) is an important activity in the modern competitive business world. R&D has become so significant that many industrial houses have established a separate R&D department. R&D department consists of experts from various areas, whose primary job is to experiment new methods and processes.

9. **Advertising and sales promotion function:**

Although advertising and sales promotion are the part of marketing functions but they assumed a great importance in the wake of increasing competition.

Qualities of a successful businessman:

A number of factors have been considered essential before a concern can be successfully launched. The quality and type of leadership available to a concern directly affect its working. The entrepreneur plans and executes various business policies. A properly managed concern is generally a reflection of leadership qualities of the businessman. Some of the important qualities which the businessman should possess are discussed as follows:

1. **Knowledge of business:**
   The businessman should have a thorough understanding of his business. He should be clear about the aims and objectives of the organisation. The knowledge of all these aspects like trade, finance, marketing, mercantile laws etc. is essential to tackle complex business problems.
2. **Impressive personality:**
   A pleasing personality is always an asset. personality includes various qualities and talents which are necessary for making businessman successful. The pleasing manners of a person also encourage others to have business dealings with him.
3. **Hard working:**
   A businessman should be hard working. There is no substitute for hard work. Success and hard work go together. He should be dedicated to his work. A person who himself shirnks hard work will not be able to get more work from others.
4. **Co-operative:**
   A businessman has to deal with many complex problems. He has to seek the co-operation of a large number of persons in solving his problems. He should be able to adapt himself to all kinds of people and situations.
5. **Courageous:**
   One has to deal with a number of problems in the business. Sometimes, there are conflicting demands from different sides. The consumers, employees and government want the businessman to be considerate to their demands. The persons will be successful who will have the capacity to face the difficulties with a smiling face.
6. **Initiative and decision-making:**
   A businessman has to tackle many problems every day. He has also to take difficult decisions. He should have the ability to decide things at the proper time. He should take initiative in tackling various problems and should take them as a challenge.
7. **Cordial relations with employees and customers:**
   Customers and employees are an integral part of the business. He should tactfully deal with their problems. “Customer satisfaction” is essential to stay in business. Cordial relations with employees and customers will help him to build up goodwill for the business.
8. **Honesty:**
   This is one of the most essential qualities a businessman must have. He should be honest in his dealings with others. If a businessman sells his goods on false promises or on the basis of advertisement, he will not be able to retain the customers for long.
9. **Assumption and responsibility:**
   A businessman should assume responsibility of various activities of his subordinates. As a leader he exercises all authority and responsibility. This quality will give confidence to the employees and they will face things more courageously.

10. **Disciplinarian:**

    Discipline is an essential trait in the personality of successful businessman. He should give a lead to his employees. He should follow various rules and regulations strictly. No organisation can work without discipline.

11. **Adaptability:**

    A businessman should be able to adjust according to the situation. There may be a frequent change of situations. He is expected to face a few challenges with courage. The changing business world demands dynamism in the businessman. So, a good businessman should be able to adjust himself according to the necessities of the situations.

Industry

Industry is concerned with the making or manufacturing of goods. It is constituent of production which is involved in changing the form of goods at any stage from raw material to the finished product. The goods produced may be used by other enterprises as raw materials for further production, they are known as producer goods. When goods are finally used by consumers they are known as consumers goods. An enterprise may produce materials which will further be processed by yet another concern for converting them into finished goods. The following are the types of industries. They are:

Types:

1. **Genetic industry:**

   Genetic industry is related to the re-producing and multiplying of certain species of animals and plants with the object of earning profits from their sale. No doubt nature, climate and environment play an important part in these industries but human skill is also important. Examples for genetic industry are nurseries, cattle breeding etc.

2. **Extractive industry:**

   The extractive industry is engaged in raising some form of wealth from the soil, climate, air, water or from beneath the surface of the earth. Extractive industries supply basic raw materials that are mostly the products of the soil. Products are these industries are usually transformed into many useful products by manufacturing industries.

   Eg: Mining, crude oils etc..

3. **Construction industry:**

   This industry is engaged in the creation of infrastructure for smooth development of t he economy. It is concerned with the construction, creation or fabrication of products. Engineering, architectural skills and constructing firms play an important part in construction industry.

   Eg: construction of buildings, dams, roads. etc.

4. **Manufacturing industry:**

   This industry is engaged in the conversion of raw materials into semi-finished or finished goods. This industry creates form by making them suitable for human use. These industries supply machines, tools and other equipment to other industries too. The products of extractive industry are generally used as raw materials by manufacturing industry which may be classified as follows:

   a. **Analytical industry:**

      In this industry, a product is analysed and many products are received as final products. In the processing of crude oil we will get kerosene, petrol, gas and diesel etc.

   b. **Processing industry:**

      In this industry a product passes through various processes to become a final product. The raw materials can be converted into finished products. Examples for the processing industry are sugar industry, cotton industry, etc.

   c. **Synthetic industry:**

      In this industry many raw materials are brought together in manufacturing process to make a final product. Examples for synthetic industry are soaps making, paints, cements, rocks, coal, etc.

Commerce

Commerce refers to all those activities which are necessary to bring goods and services from the place of their origin to the place of their consumption. It is concerned to be a part of business. It is that activity of business which is concerned with the exchange of goods and services. Commerce includes trade and aids to trade. In the trade buying and selling is happening but aids to trade relates to provide the help to the trade. It means by using the various facilities the trade is happened in the right time.

Definition:

According to **James Stephenson**, "commerce is the sum of total of all those processes, which are engaged in the removal of hindrance of persons(trade), place (transport and insurance) and time(warehousing) in the exchange(banking) of commodities."

According to **Evelyn Thomas**, "Commercial occupations deal with the buying and selling of goods, the exchange of commodities and the distribution of the finished products."

Components:

1. **Trade:**

   a. **Internal trade:**

      The purchase and sale of goods inside the country is called internal trade. Goods can be taken to any place but within the boundaries of the country. It may be divided as such:

- **Local trade:**

  When the demand for products is limited only to a particular place, it is called local trade. Goods are produced according to the local needs of the consumers. The producers and consumers belong to the same place. Examples for local trade are vegetables, milk etc.
- **State trade:**

  These goods are of a durable nature and sent throughout the state or province. The trade is limited to the boundaries of the state. Sometimes government puts some restrictions on the sale of goods outside the state.
- **Inter-state trade:**

  The trade conducted throughout the country but within the national boundaries is called inter-state trade. The goods traded are of durable nature and can be stocked for a longer period. The production of these goods is on a large scale basis and they are sent to all parts of the country. Examples are kerosene, petrol, iron etc.

b. **External trade:**

When trade takes place between two countries, it is called foreign trade. Two countries are involved in foreign trade. The hindrances of place, time, risk, exchange are overcome with the help of various agencies. External trade may be import trade or export trade. The goods are purchased from one country is called import trade and the goods are sold to other country is called export trade.

c. **Wholesale trade:**

In wholesale trade, goods are purchased in large quantities and are sold to retailers. A wholesaler is a link between the producer and the retailer. This helps the producers in making bulk production and selling in large quantities.

d. **Retail trade:**

Retail trade involves selling goods to the final consumers. The goods are sold in small quantities to the consumers. A retailer purchases goods from a wholesaler and sells them to the consumers.

2. **Aids to trade:**

Auxiliaries to business means activities which assist business and trade. They provide proper infrastructure for the smooth conduct of business and remove the obstacles in the exchange of goods and services. These services are discussed as follows:

a. **Transport:**

Goods may be produced at places where they are in less demand. These goods are to be taken to the places of consumption. The goods are taken from a place where there is less demand. With the help of transport facilities we can create ' place utility' in goods. The various modes of transport i.e., road, rail, sea, air have helped the growth of commerce and industries.

b. **Distribution:**

The producer of goods may not be able to come into direct contact with the consumers. In the present day world, the consumers are in millions and it is not possible for the producers to know the consumers. A chain of middlemen acts between the producers and consumers. The chain of wholesalers, retailers, brokers, agents etc. operate between the producer and the consumer and remove the hindrance of persons.

c. **Banking:**

There is always a time lag between the production and sale of goods. The traders purchase goods from the producers and then sell to the consumers. It takes time to collect money after sale. There is a need to finance trade activities for that purpose the financial institutions are providing the loans, overdrafts etc.. to the people.

d. **Warehousing:**

Goods are produced in anticipation of demand. They may also be produced at a time when they are not needed. So there is a need to store goods up to a time these are not required for consumption. There is a time gap in foreign trade because there is a delay in production and consumption. Agricultural products can be stored in the ware houses, because they are required throughout a year.

e. **Advertisement and salesmanship:**

The consumers may not aware of the availability of various goods in the market. The advertisement and salesmanship help in informing the consumers about the availability and usefulness of various products in the market.

f. **Insurance:**

There is a risk involved in transporting goods from one place to another. There can a risk due to fire or theft. The fear of loss of goods due to any cause acts as an obstacle in the development of trade. The insurance companies provide a coverage for all types of losses of goods.

g. **Communication:**

The buyers and sellers at wholesale level and retail level need the services of various agencies which communicate their message among themselves. The producers intimate to their customers about the production of goods. The services of post offices, telephones, etc. are utilised for communicating process.

Sole tradership/sole proprietorship

Sole-trade is the oldest and most commonly used form of business organisation. It is as old as civilization. With the development of science and technology the needs of the business also increased and new forms of organisation developed. This organisation is also known as sole proprietorship. He makes all investments, shares all risks, takes all profits, manages and controls the business himself. His powers are unlimited and his decisions are final. A sole-trader mainly depends upto his own resources, so the business is generally on a small-scale basis. He is, in fact, the sole organiser, manager, controller and master of his business. The business to be carried on should also be allowed by law. Normally, no other legal formality is essential for starting a sole-trade business as in the case of a company or a co-operative. Any person can start or wound up a sole-trade business any time. This type of business is a one man show and the capacities of that person may certainly be limited.

Definitions:

According to **L.H. Haney**, " the individual entrepreneurship is the form of business organisation on the head of which stands an individual as the one who is responsible, who directs its operations, wo alone runs the risk of failure."

According to **James Stephenson**, "a sole-trader is a person who carries on business exclusively by and for himself. He is not only the owner of the capital of the undertaking, but is usually the organiser and manager and takes all the profits or responsibility for losses."

Characteristics:

1. **Individual initiative:**
   This business is started by the initiative of a single person. He prepares the blue prints of the venture and arranges various factors of production. He may employ other persons for assistance but ultimate authority and responsibility lies with him.
2. **Unlimited liability:**
   In sole-trade business liability is unlimited. The proprietor is responsible for all losses arising from the business. The liability is not limited only to his investments in the business but his private property is also liable for business organisation.
3. **Management and control:**
   The proprietor manages the whole business himself. He prepares various plans and executes them under his own supervision. There may be some persons to help him but ultimate control lies with the owner.
4. **Motivation:**
   One person is the sole owner of the business. He takes all profits and bears losses, if any. There is a direct relationship between efforts and rewards. He is motivated to expand his business activities.
5. **Secrecy:**
   All important decisions are taken by the owner himself. He keeps all the business secrets only to himself. Business secrets are very important for small business. By retaining business secrets he avoids competitors entering the same business .
6. **Proprietor and proprietorship are one:**
   Legally, the sole trader and his business are separate entities. Loss in his business is his loss. Liabilities of the business are his own liabilities.

7. **Owners and business exist together:**
   In sole-trade business there is no separate existence of he business with the owner. The business and owner exist together. When the owner is dies, insolvent, or removed from the business then his business is dissolved.

8. **Limited area of operations:**
   A sole-trade business has generally a limited area of operation, the reason being the limited resources and managerial abilities of the sole-trader. He can arrange limited funds only and will be able to supervise a small business and the decisions are taken by him so the managerial abilities are limited.

Advantages:

1. **Easy in formation:**
   Sole-proprietorship is the only form of organisation where no legal formalities are required to be performed. This business is absolutely free from legal formalities. Anybody wishing to start a sole-trade concern can do so without loss of time.
2. **Better control:**
   In this form of organisation one man is responsible for all types of activities. He controls all functions of the business. He himself takes decisions at appropriate time. The authority and responsibility lie with one man. The owner is all in all and he cannot escape his work. The business is controlled in an effective way.
3. **Flexibility in operations:**
   A sole-proprietorship concern is generally run on a small scale basis. In case a change in operation is required, it can be possible without involving much expenditure. A small scale concern can adjust its production according to the changing demand pattern. It can increase and decrease its production as per requirements. Moreover, no legal formalities are required for making changes in operations.
4. **Retention of business secrets:**
   A sole trader can maintain business secrets. Being the sole proprietor, he is not expected to share his trade secrets with anybody else. He is not expected to publish his accounts.
5. **Easy to raise finance:**
   An individual entrepreneur is able to create goodwill for his business. This helps him to establish his creditworthiness in the market. The liability in sole-trade organisation being unlimited, the creditors can have a claim over the private property of the owner. He can repay the loans as quickly as possible so that he cannot lose his good will in the market.
6. **Direct motivation:**
   The proprietor takes keen interest in the working of the business. He tries to put his heart and soul in the business so to earn as much profits as he can. There is a direct relationship in efforts and reward.

7. **Promptness in decision making:**
   All important decisions are taken by one person. He can take prompt decisions. He will not let an opportunity slip away.
8. **Direct accessibility to consumers:**
   In sole-proprietorship the scale of operations is small. The owner can have direct contact with customers and employees. He can know the relations and preferences of consumers. It enables him to make necessary changes in the quality and design of his products.
9. **Inexpensive management:**
   The sole-trader is the owner, manager and controller of the business. He does not appoint specialists for his various functions. He personally supervises various activities and can avoid wastage in the business.
10. **No legal restrictions:**
   There are no legal requirements for starting a business. There is no special act governing the work of sole-proprietor. There is no restriction in changing the nature of business. The tax liability on a sole-trader is also low. He is taxed as an individual and not as a business unit.
11. **Socially desirable:**
   One man business is generally on a small scale basis. Large number of sole-traders have entered all types of business. It helps in avoiding concentration of wealth. Sole-trade business also provides competition to other businesses. The consumers will not be dependent upon big business houses.
12. **Self-employment:**
   The sole-proprietorship form of organisation offers the means of self-employment to those who do not want to serve others. As everyone cannot get a suitable job to earn his livelihood in a developing country, the individuals can easily start a small sized business unit as a sole-trader.
13. **Healthy relations with employees:**
   A sole-trader is in a position to maintain direct relations with his employees. This enables the employer and the employees to understand and appreciate the difficulties of each other. This results into healthy relations between employer and employers is leads to get the success of a business.
14. **Benefit of inherited good will:**
   A sole-trader passes on the business goodwill to his successor. Technically a sole-trade business is dissolved on the death of the owner but in reality the same business is continued by heir.

Disadvantages:

1. **Limited resources:**
   The resources of a sole proprietor are limited. He makes investments from his family sources only. There is a limit to which a single person can invest. He tries to raise

finances from financial institutions also. The capacity for expanding business operations is limited for want of resources even when there is a scope for expansion.

2. **Limited managerial ability:**
   One person may not be expert in each and every function of the business. He will not be able to devote sufficient time for all types of activities. He will have to depend upon paid employees. The sole proprietor may not be able to use the services of experts for want of resources. So one person will not be able to survive effectively. The limited resources will not allow him to use the professional people.
3. **Unlimited liability:**
   The liability of a sole proprietor is unlimited. His private property can also be assigned for meeting business losses. Unlimited liability also restricts his working. He tries to be cautious in taking risks.
4. **Uncertain continuity:**
   The business continues as far as sole proprietor is there. In case of his mobility or death, the business is discontinued. The closure of a business will cause inconvenience to the consumers. It will also result in social loss.
5. **Limited scope of employees:**
   A sole-trader cannot attract trained and qualified persons for reasons of limited career opportunities. A sole proprietor cannot offer financial incentives to employees because his activities are on a small scale. The employees will try to join good concerns whenever an opportunity arises.
6. **No large scale economies:**
   A small scale concern cannot economise in purchases, production and marketing. In a sole trade concern overhead expenses are also more. So this type of concern cannot enjoy the benefits of large scale economies.
7. **More risk involved:**
   A sole proprietor is to take all decisions by himself. So there is a possibility of taking wrong decisions. So the possibility of mistakes and wrong decisions is minimised . Lack of counseling may create difficult situations.

Partnership

A partnership is an association of two or more persons to carry on, as co-owners, a business and to share its profits and losses. The partnership may come into existence either as a result of the expansion. The need for partnership form of organisation arose from the limitations of sole-proprietorship. In sole-proprietorship, financial resources and managerial skills were limited. Moreover, risk bearing capacity of an individual was also limited. So, more persons were associated to form groups to carry on business and they brought their financial resources and also shared the risk in the business. Sometimes, the nature of business demands large amount of capital, effective supervision and greater specialisation. This form is not suitable for a business requiring big capital and expert managerial personnel.

Definition:

According to **L.H. Haney**, “the relationship between persons who agree to carry on a business in common with a view to private goals.”

According to **Section 4 of Partnership Act, 1932**, “ the relation between persons who have agreed to share profits of a business carried on by all or any of them acting for all.”

According **to English Partnership act, 1690**, “ partnership is the relation which subsist between persons carrying on a business in common with a view of profits.”

Characteristics:

1. **Association of two or more persons:**

   In partnership, there must be at least two persons. Partnership is the outcome of a contact, so there must be two or more persons. Minors cannot form a partnership firm as they Are incompetent to enter into a contract. According to section 11 of Contract Act, there is no maximum limit on partners in partnership Act, but according to Companies Act, the maximum number of partners engaged in a banking business cannot exceed ten and twenty in any another business.

2. **Contractual relationship:**

   The persons joining the partnership enter into a contract for running the business. According to Partnership Act, the relation of partnership arises from contract and not from status. The contract may be oral or written but in practice written agreement is made because it helps to settle the disputes if they arise later on.

3. **Earning of profits:**

   The purpose of the business should be to make profits and distribute them among partners. If a work is done for charity purposes or to serve the society it will not be called as partnership. So, the motive of the business should be to earn profits. It does not mean that there will not be losses but the motive should be the earning of profits.

4. **Existence of business**:

   Partnership can only be for some kind of business. The term ‘Business’ includes any trade, profession or occupation. By business we mean all activities concerning production, distribution and rendering of services for the purpose of earning profits. It the work is related to social service, we do not call it a business and, hence, no partnership.

5. **Implied authority:**
   There is an implied authority that any partner can act on behalf of the firm. The business will be bound by the acts of partners.
6. **Unlimited liability:**
   As is the case of a sole-trade business liability of the partners of a firm is unlimited. In case some obligation arises then not only the partnership assets but also the private property of the partners can be taken for the payment of liabilities of the firm to the third parties. The creditors can claim their dues from any one of the partners or from all the partners. The partners are liable individually and collectively.
7. **Principal and agent relationship:**
   In partnership the relationship of Principal and Agent exists. It is not necessary that all partners should work in the business. Any one or more partners can act on behalf of the other partners. Each partner is an agent of the firm and his activities bind the firm. He also acts as a principal because he is bound by the activities of other partners.
8. **Utmost good faith:**
   The very basis of the partnership business are good faith and mutual trust. Every partner should act honestly and give proper accounts to other partners. The partnership cannot run if there is suspicion among partners, it6 is very important that partners should act as trustees and for the common good of all. Distrust and suspicion among partners lead to the failure of many firms.
9. **Restriction and transfer of shares:**

No partner can sell or transfer his share to anybody else without the consent of the other partners. In case any partner does not want to continue in the partnership, he can give a notice for dissolution of the firm.

10. **Common management:**
    Every partner has a right to take part in the running of the business. It is not necessary for all partners to participate in the day-to-day activities of the business but they are entitled to participate. Even if partnership business is run by some partners, the consent of all other partners is necessary for taking important decisions.
11. **Partners and partnership are one:**
    A partnership firm has no separate entity from the partners. A firm is only a name to the collective name of partners. No firm can exist without partners. The rights and liabilities of partners are the right and liabilities of the firm. Partners have implied authority to bind the firm for their acts.
12. **Capital contribution:**
    The partners contribute to the capital of the firm. It is not necessary to have capital in profit sharing ratio. A partner can be admitted to the firm even without contributing to the capital. It is not essential that all partners must contribute to the firm's capital.

13. **Protection of minority interest:**
    All important decisions are generally taken by consensus. It ensures protection of those who may not agree to the majority view point. A partner may even ask for the dissolution of partnership if he feels aggrieved.
14. **Continuity:**
    There is no true limit for the continuity of a partnership firm. It goes on only upto the time the partners want it to go. Any misunderstanding among partners, death or insolvency of a partner may dissolve the partnership. Dissolution of partnership does not necessarily mean dissolution of the firm. The remaining partners may continue the firm after meeting the claims of outgoing partners.

Advantages:

1. **Easy to form:**
   This is a suitable type of organisation requiring no legal formalities. No formal documents are required to be prepared as is necessary case pf joint stock company. A simple agreement among partners is sufficient to start partnership firm. A partnership deed is not necessary though it is advisable to prepare it. Even the registration of firm is optional.
2. **Large resources:**
   The resources of more than one person are available for the business. The partners can contribute to start a moderately large-scale concern can also arrange funds from the outside sources.
3. **Greater managerial talent:**
   The partners may be assigned duties according to their talent. Different functional departments may be managed and controlled by different partners. The talent expertise and knowledge of partners in different fields can be used for the welfare of the business. It will help to increase the efficiency of the business resulting in more profits.
4. **More credit standing:**
   The partners may have sufficient contacts in the market. They can offer more securities to the financial institutions. The liability of partners being unlimited, they will be able to raise more finances. As compared to a sole-trade business, partnership concern has more credit-worthiness.
5. **Promptness in decision making:**
   The partners meet frequently and they can take prompt decisions. The firm will not lose any business opportunities because of delay in taking a decision.
6. **Sharing of risk:**
   The risk of business is shared by more persons. The burden of every partner will be much less as compared to the burden of sole-trade. Furthermore, the business expansion will not be hampered for fear of risk.

7. **Relationship between reward and work:**
   The partners try to put more labor to earn more and more profits. There is a direct relationship between reward and work. The more they work, the more they be benefited.
8. **More possibility of growth and expansion:**
   As compared to a sole-trade business, partnership concern has more possibilities for expansion and growth of business activities. The partner can contribute more and manage the activities more systematically.
9. **Close supervision:**
   The partners themselves look after the business; so they can avoid wastages. They have direct access to the employees and can encourage them for more production. The management of partnership is much cheaper as compared to a joint stock company where experts are paid higher salaries.
10. **Flexibility of operations:**
    There is no statutory obligation to seek approval from government before making major changes in the business set-up, capital and scale of operations. These changes can be made easily depending upon the business opportunities
11. **Secrecy:**
    A partnership concern is not expected to publish its profit and loss account and balance sheet as is necessary for a joint stock company. The partners can keep the business secrets to themselves. The competitors don't know about the exact position of the business. The secrets of business are very important for a small concern.
12. **Protection of minority interests:**
    Every partner has a right to participate in the management of the business. All important decisions are taken by the consent of all partners. If a majority decision is enforced on minority then effected partners can get the business dissolved.
13. **Easy dissolution:**
    The partnership can be dissolved on insolvency, lunacy or death of a partner. If the partnership is at will, then any partner can get the firm dissolved by giving notice to other partners. No legal formalities are required at the time of dissolution. So it is easy to start as well as dissolve a partnership concern.
14. **Democratic administration:**
    All partners may take active interest in the working of the firm. All the partners are consulted on important decisions. Generally, strategic decisions are taken by coneensus only.
15. **Saving in managerial expenses:**
    There are savings in expenses of a partnership firm. The partners divide all important functions among themselves and look after them. In other forms like joint stock company managerial expenses are huge because they have to depend on hired employees.

Disadvantages:

1. **Unlimited liability:**
   The liability of partners is unlimited. They are not only liable for their business investments but their private properties can also be taken for business liabilities. Partners try to avoid risks and it restricts the expansion and growth of the business.
2. **Limited resources:**
   There is a limitation in raising additional resources for expansion purposes. The business resources are limited to the personal funds of the partners. Borrowing capacity of the partners is also limited. The number of partners to be added to business is also limited. So, there is a limit beyond which partners cannot be added.
3. **Instability:**
   The partnership concern suffers from the uncertainty of a duration because it can be dissolved at the time of death, lunacy or insolvency of a partner. The lack of trust among partners can also lead to dissolution. The discontinuity of the business is a social loss and it causes inconvenience to the consumers and workers.
4. **Mutual distrust:**
   The mutual distrust among partners is the main cause for the dissolution of partnership concerns. It is difficult to maintain harmony among partners because they may have different opinions and may not agree on certain matters . Lack of confidence in each other can be a cause for quarrels and it may lead to the dissolution of the firm.
5. **Limitations on transfer of share:**
   No partner can transfer his share to a third party without the consent of the other partners. If a partner wants his share back it will not be possible without the approval of other partners or without dissolution of the firm. In partnership, a partner is permanently wedded to it.
6. **Burden of implied authority:**
   A partner can bind the business by his acts. He can act as an agent of the business. A dishonest partner may lead the business in difficulties. The provision for implied authority may create problems for the business.
7. **Lack of public faith:**
   The accounts of partnership concerns are not published. So public is unaware of the exact position of the business. There is no legal binding for the publication of accounts. So partnership concerns lack of public confidence.
8. **Lack of prompt decision:**
   All important decisions are taken by the consent partners so decision making process becomes time consuming. There may be possibility of losing business opportunities because of slow decision making.
9. **Cautious approach:**
   Unlimited liability of partners leads to cautious approach on the part of partners. They try to avoid decisions where some sort of risked involved. Moreover, risk bearing capacity of partners may also be limited.

Kinds of Partners:

The different kinds of Partners that are found in Partnership Firms are as follows!

Active or managing partner:

A person who takes active interest in the conduct and management of the business of the firm is known as active or managing partner. He carries on business on behalf of the other partners. If he wants to retire, he has to give a public notice of his retirement; otherwise he will continue to be liable for the acts of the firm.

Sleeping or dormant partner:

A sleeping partner is a partner who 'sleeps', that is, he does not take active part in the management of the business. Such a partner only contributes to the share capital of the firm, is bound by the activities of other partners, and shares the profits and losses of the business. A sleeping partner, unlike an active partner, is not required to give a public notice of his retirement. As such, he will not be liable to third parties for the acts done after his retirement.

Nominal or ostensible partner:

A nominal partner is one who does not have any real interest in the business but lends his name to the firm, without any capital contributions, and doesn't share the profits of the business. He also does not usually have a voice in the management of the business of the firm, but he is liable to outsiders as an actual partner.

Partner by estoppel or holding out:

If a person, by his words or conduct, holds out to another that he is a partner, he will be stopped from denying that he is not a partner. The person who thus becomes liable to third parties to pay the debts of the firm is known as a holding out partner.

There are two essential conditions for the principle of holding out : (a) the person to be held out must have made the representation, by words written or spoken or by conduct, that he was a partner ; and (6) the other party must prove that he had knowledge of the representation and acted on it, for instance, gave the credit.

Partner in profits only:

When a partner agrees with the others that he would only share the profits of the firm and would not be liable for its losses, he is in own as partner in profits only.

Minor as a partner:

A partnership is created by an agreement. Thus, at the time of creation of a firm a minor cannot be one of the parties to the contract. But under section 30 of the Indian Partnership Act, 1932, a minor 'can be admitted to the benefits of partnership', with the consent of all partners. A minor partner is entitled to his share of profits and to have access to the accounts of the firm for purposes of inspection and copy. He, however, cannot file a suit against the partners of the firm for his share of profit and property as long as he remains with the firm. His liability in the firm will be limited to the extent of his share in the firm, and his private property cannot be attached by creditors.

Secret partner:

The position of a secret partner lies between active and sleeping partner. His membership of the firm is kept secret from outsiders. His liability is unlimited and he is liable for the losses of the business. He can take part in the working of the business.

Sub- partner:

A partner may associate anybody else in his share in the firm. He gives a part of his share to the stranger. The relationship is not between the sub-partner and the firm but between him and the partner. He is not liable for the debts of the firm.

Partnership deed:

In a partnership firm, there is a collective and separate responsibility of partners. The acts of the partners in usual course of business bind the firm. If the partners work with understanding and co-operation, then the partners will work smoothly. If there is a suspicion among them, then conflicts among partners are bound to be there. If the areas of dispute, conflict or suspicion are spotted earlier and a clear understanding is reached, then the business can run smoothly. So, partnership agreement or deed is a document which is prepared to explain important points so that the changes of conflict are minimized. Partnership deed forms the basis of partnership. It includes all important clauses like name of business, contribution of capital, sharing of profits, mode of management etc. the deed must be signed by the partners. The partnership deed can both be oral or in writing. A written agreement, however, should be preferred because nobody can dispute the contents.

Contents:

Some of the important clauses to be included in a partnership deed are:

a. The name of the firm;
b. Names and addresses of partners;
c. Nature of business proposed to be carried on by the firm;
d. The total amount of capital and contributions by each partner;
e. The extent to which partners are to take part in the management of the business;
f. Amount of withdrawals to be allowed to each partner;
g. The profit sharing ratio;
h. The amount of salary or commission payable to any partner for the services rendered to the business;
i. Rate of interest to be allowed on capital as well as rate of interest to be charged on drawings;
j. Division of power and duties among partners;
k. The method of evaluating goodwill at the time of admitting a new partner or at the time of retirement or death of a partner;

l. Procedure for dissolution of the firm and settlement of accounts;
m. Maintenance of books of account and audit of accounts; and
n. Arbitration clause for settlement of disputes among the partners.

Ideal partnership:

1. **Understanding among partners:**
   There should be a perfect understanding among partners. They should not doubt each other. Every partner should try his best to promote a common cause. The partners should be persons who know each other well for fairly a long period.
2. **Good faith:**
   The partners should have faith in each other. No partner should try to deceive others. They should trust each other and should feel that their interests are common. It is necessary that the number of partners should be less.
3. **Sufficient capital:**
   The capital requirements of the business should be met timely. Generally, long-term funds should be provided by the partners themselves and short-term funds may be arranged from other sources. There should be some check on personal drawings also.
4. **Long duration:**
   The duration of the partnership should be long so that the business may be properly set up. The partners get time to understand each other and can create a team spirit. It should be a constant endeavour of all the partners to extend the life of partnership and create an atmosphere of mutual faith and understanding.
5. **Balance of skill and talent:**
   The partners should have an experiences of all fields. One should be expert in financing, another in marketing and the third in production. There should be a balance in skill and talent so that all the functions are properly attended.
6. **Written agreement:**
   The agreement among partners should be in writing. The duties and powers of various partners should be clearly defined and should be in writing. This will help in avoiding the misunderstanding at a latter date.
7. **Registration:**
   Though the registration of a firm is not compulsory but still it should be got registered with the Registrar of Firms. An unregistered firm cannot sue outsiders, although the outsiders can sue the firm.

Rights and obligations:

The relationship of partners among themselves, their rights and obligations are generally given in the partnership deed. If partnership deed is silent about it, then the partners shall have rights and obligations mentioned in the Partnership Act.

Rights of a Partner:

A. Every partner has a right to take part in the conduct and management of the business.
B. Every partner has a right to be consulted before taking important decisions. The decisions should be taken by mutual consent.
C. If the decisions are unimportant, then they can be enforce by majority, but consensus of all partners is necessary for taking important decisions.
D. The partners have a right to inspect books of accounts.
E. Every partner will have an equal share in profits, unless otherwise mentioned, in partnership deed.
F. No new partner can be admitted into partnership without the consent of all partners.
G. Every partner has a right to receive interest at the rate of 6% per annum on the excess money supplied over his capital.
H. Every partner has a right to be indemnified by the firm in respect of expenses incurred or losses suffered for the normal conduct of the business.
I. A partner has a right to get the firm dissolved under appropriate circumstances.
J. The property of the firm shall be held and used exclusively for the purpose of the business

Obligations of a Partner:

i) Every partner should carry on the business to the greatest common advantage. He must perform his duties honestly and diligently.
ii) A partner is not entitled to get remuneration for the conduct of business, unless otherwise it is specially mentioned in the partnership deed
iii) A partner must indemnify the firm for loss suffered because of his fraudulent conduct or willful neglect.
iv) A partner is bound to keep and render true and correct accounts of the business.
v) A partner cannot carry on a competing business. If he carries on such business he shall account for and pay to the firm all profits made by him in that business.
vi) A partner is bound to act within the scope of his authority.
vii) No partner can make a secret partner of the partnership business by way of commission, etc. If he does so, he must return the money to the firm.

Joint Hindu Family

Another form of business organisation is Joint Hindu Family or undivided Hindu family. However, this form of organisation is prevalent in India only and that too among Hindus as the name itself is indicative. It also does not have separate and distinct legal entity from that of its members who constitute it. The membership in this can be acquired only by birth or by marriage to a male person who is already a member of a Joint Hindu Family. A Joint Hindu Family consists of common ancestor, which is a must to bring a J.H.F. into existence all his male descendants upto any generation along with their wives and unmarried daughters. The death of a common ancestor does not bring the Joint Hindu Family to an end. All the affairs of Joint Hindu Family are controlled and managed by one person who is known as 'Karta' or 'Manager'. He is having a very unique position which no other office of any organisation in the world is having. The liability of 'karta' is unlimited but the other members is limited. This type of business is based on two schools. They are Dayabhaga and Mitakshara. However, in Dayabhaga Joint Hindu Family the concept of birth right is unknown and the property devolves by inheritance. In mitakshara Joint Hindu Family, property cannot be alienated either by father or by any other coparcener ordinarily. Under the old Hindu Law, female was not entitled to any share in the property. But with the passage of Hindu succession act of 1956 even female have been included in the list of persons who acquire share in succession.

Characteristics:

1. **Governed by Hindu Law:**
   The control and management of the Joint Hindu Family firm is done according to the uncodified or codified Hindu Law. The uncodified Hindu Law consists of two schools, mitakshara and dayabhaga. In the same way rights and duties of its members are governed by uncodified Hindu Law.
2. **Membership by birth:**
   The membership of the family can be acquired only by birth. Whosoever is born in the family becomes a member. By adoption, an outsider can be admitted to its membership, because adoption is considered to be replantation in the family by which a person is being adopted. Marriage with the male member also confers membership. This is by virtue of the fact that they are married to a person who is having membership by birth.
3. **Management:**
   The family affairs are managed by the senior most male member of the family known as 'Karta' or 'Manager'. The powers of management are unlimited. But the management is more effective due to the natural and affection with the members of a family. The members also have full faith and confidence on ' karta'. Only karta is entitled to deal with third parties.
4. **Limited liabilities of others:**
   All the members in a Joint Hindu Family have limited liability to the extent of property which is jointly held by the family. The self-acquired property of any member cannot be taken in order to satisfy the loans taken by the family. However, karta is also personally liable for loan taken on promissory note.
5. **Continuity:**
   As it has already been discussed in the introduction, the death in the family does not brig the joint family firm to an end. It continues forever. There is no limit to its membership number also.

6. **Minor also a member:**
   In partnership firm minor cannot become a partner. This is an important feature of this business organisation that a person from its very birth becomes the member.
7. **Accounts:**
   As discussed earlier accounts are maintained by karta but this is not obligatory on his part. He is not accountable to any member and no member can ask what are the profits and losses of a transaction.
8. **Implied authority of karta:**
   There is implied authority in favour of karta to contract debts and pledge the credit and property of the family for ordinary purposes of family business. No other member is having such an authority.

Advantages:

1. **Centralised management:**
   The management of a Hindu joint family firm is centralised in the hands of one man known as 'karta'. He takes all decisions and gets them implemented with the help of other members. He may be managing rightly or wrongly. No other member interferes in his management.
2. **Utmost secrecy:**
   The business requires secrecy of facts regarding it. As in Joint Hindu Family firm only karta is to manage the entire show. He can do it with utmost secrecy which no other business can maintain, he can keep a thing secret even from the members of the firm.
3. **Quick decision:**
   In Joint Hindu Family firm, as karta is only decision maker, he can take a very quick decision. It is further advantageous that the decision is final and unchallengable.
4. **Credit facilities:**
   In Joint Hindu Family firm the credit facilities are more. One reason for this is that the liability of the karta is unlimited. There is also a pious obligation on the part of sons of karta to satisfy even unsatisfied debts raised by him during his life time.
5. **Work according to capacity:**
   A physically handicapped or partly disabled member may be assigned a little work or no work at all. A person who is more strong than others may be assigned work of physical nature. Infants are not required to do any work at all. This is a great advantage of Joint Hindu Family firm.
6. **Natural love between members:**
   In Joint Hindu Family firm, it is the natural love and affection which the members are having for each other. Due to this, they are ignoring the shortcomings of each other and help to run the business more smoothly and efficiently.

7. **Economy:**
   In a business, for its success, economy is a must. It is well balanced and maintained in Joint Hindu Family firm. The family is concerned with profits as they are to form the part of joint family property. Karta spends money with great caution and economy.
8. **Limited liability:**
   The liability of all the members of the family firm is limited to their undivided shares in the property of the family. But karta has unlimited liability. This is great advantage of Joint Hindu Family firm.

Disadvantages:

1. **No reward for efficiency:**
   All the members of the family are provided with basic needs and other facilities. The persons who work more efficiently and dedicatedly are not rewarded for their work. So efficient workers are also tempted to work less. It encourages laziness on the part of family members. The members try to avoid work.
2. **Limited capital:**
   The investments are limited only upto the resources of one family. They may not be sufficient to meet business requirements for expansion.
3. **Limited managerial skill:**
   Only the eldest male member of the family is to manage the family business. He is performing all the functions of the management. He may not be well conversant with the knowledge of business skill and other problems of the business management.
4. **Suspicion:**
   The karta is empowered with vast power of secrecy and he can keep a thing secret even from its members. This gives birth to suspicion among the members themselves which can be disastrous for the Joint Hindu Family.

Joint stock company

The limitations of sole-proprietorship and partnership forms of ownership gave birth to joint stock company form of organisation. Two important limitations of earlier forms of organisation were inadequacy of funds and unlimited liability. The demand of business for funds increased with the expansion and development of trade and industry. The joint stock company form of organisation provide an answer to the difficulties faced by earlier forms. The liability of members is limited and the participation of large number of persons helps in raising more and more funds . The present trend of industrial enterprises is to increase their size through expansion and diversification. This tendency is ascribed to two reasons, namely technological improvement and economic factors. Since industrial revolution in England there has been a constant improvement in technology. Large scale production is also associated with a number of economies in buying, selling and production. The result of expansion, whether due to technical factors or economic factors has been the demand for enormous capital. Joint stock company organisation was started first in Italy in 13th century. During 7th and 8th centuries, joint stock companies were formed in England under royal charter or acts of parliament. The speculative business of companies led to the passage of ‘bubbles act of 1720’.in India the first companies ac was passed in 1850 and the principle of limited liability was introduced only in 1857. A comprehensive bill was passed in 1956.

Definitions:

According to **L.H. Haney**, “ A joint stock company is a voluntary association of individuals for profit, having a capital divided into transferable shares, the ownership of which is the condition of membership.”

According to **James Stephenson**, a company is “an association of many persons who contribute money or money’s worth to a common stock and employ it in some trade or business, and who share the profit and loss arising there form.”

According to **Section 3 of Indian Companies Act 1956**, “ A company means a company formed and registered under this act.”

Characteristics:

1. **Association of persons:**
   A company is an association of person joining hands with a common motive. A private limited company must have at least seven members to get it registered. Furthermore, the number of shareholders should not exceed 50 in private companies but there is no maximum limit for the members in a public limited company.
2. **Independent legal entity:**
   The company is created under law. It has a separate legal entity apart from its members. A company acts independently of its members. The company is not bound by the acts of its members and members do not act as agents of the company. A person can own its shares and can be its creditor too. The life of the company is not is independent of the lives of its members. The company can sue and be sued in its own name.
3. **Limited liability:**
   The liability of its shareholders is limited to the value of shares they have purchased. In case the company incurs huge liabilities, the shareholders can only be called upon to pay the unpaid balance on their shares. The company being a separate legal entity can incur debts in its own name and the shareholders will not be personally liable for that.
4. **Common seal:**
   A company being an artificial person cannot put its signatures. The law requires every company to have a seal of the company is affixed on all important documents and contracts as a token of signature. The directors must witness the affixation of the seal.

5. **Transferability of shares:**

   The shares of a company can be transferred by its members. Whenever the members want to dispose off the shares, they can do so by following the procedure devised for this purpose. However, private companies can put more restrictions on transfer on transferability of shares, virtually making it zero.

6. **Separation of ownership and management:**

   The shareholders of a company are widely scattered. A shareholder may like to invest money but may not be interested in its management. The companies managed by the Board of Directors. The ownership and management are in two separate hands. The shareholders do not get any right to participate in company management. The right to manage company affairs is vested in the directors who are elected representatives of the shareholders.

7. **Perpetual existence:**

   The company has a permanent existence. The shareholders may come or may go but the company will go on forever. The continuity of the company is not affected by death., lunacy or insolvency of its shareholders. The company can be wound up only by the operation of law. .

8. **Corporate finance:**

   A Joint Stock Company, generally, raises large amounts of funds. The capital is divided into shares of small denomination. A large number of persons purchase shares and contribute to the capital of the capital of the company. Since there is no limit on number of maximum members in public companies, large amounts of sources can be raised from persons in different walks of life.

9. **Centralised and delegated management:**

   A joint Stock Company is an autonomous and self-governed body. The shareholders being large in number cannot look after the day-to-day activities of the company. They elect Board of Directors in general body meeting for managing the company. All Policies of the company6 are decided by a majority vote. All important decisions are taken in a democratic way. The centralized management and democratic functioning brings in unity of action.

10. **Publication of accounts:**

    A Joint Stock Company is required to file annual statements with the Registrar of Companies at the end of a financial year. The annual statements are available for inspection in the office of the registrar.

Advantages:

1. **Accumulation of large resources:**

   A company can collect large sum of money from large number of shareholders. There is no limit on the number of shareholders in a public company. If need for more funds arise, the number of shareholders can be increased. Joint stock companies are suitable for those businesses where large resources are required.

2. **Limited liability:**
   The liability of members in a company form of organisation is limited to the nominal value of the shares they have acquired. If a person has purchased a share of Rs. 100, his liability is limited to Rs. 100 only. If the shares is partly paid, then he can be required to pay only the unpaid value of the shares. The limited liability encourages many persons to invest in shares of joint stock companies.
3. **Continuity of existence:**
   When a company is incorporated, it become a separate legal entity. It is an entity with perpetual succession. The death or insolvency of members does not in any way affect the corporate existence of the company. The continuity of a company is not only in the interests of the members but is also beneficial for the society.
4. **Efficient management:**
   In company form of organisation, ownership is separate from management. It enables the company to appoint expert and qualified persons for managing various business functions. The efficient management will help the company to expand and diversify its activities.
5. **Economies of large scale production:**
   With the availability of large resources. The company can organise production on a big scale. The increase scale and size of the business will result in economics in production, purchase, marketing and management, etc. These economics will enable the company to produce goods at a lower cost, thus resulting in more profits.
6. **Transferability of shares:**
   The shares of a public company are freely transferable. A shareholder can dispose of his shares at any time when the market conditions are favourable or he is in need of money. The company does not return share-money before its winding up but shareholders can easily sell their shares through stock exchange market. Stock Exchange provides a ready market for the purchase and sale of shares. The facility of transferring shares encourages many persons to invest.
7. **Ability to cope with changing business environment:**
   The present business enterprises operate under uncertain economic and technological environments. Technological changes are taking place every day. The needs of consumers are varied and changing, to cope with the changing economic environment every business is required to invest money on research and developmental programmes . Joint stock companies can afford to invest money on research projects.
8. **Diffused risk:**
   In company form of organisation, the number of contributories is large; so risk is shared by a large number of persons. The burden to be shared by different individuals becomes signification. It enables companies to take u new ventures.
9. **Democratic set-up:**
   The values of shares is generally small. It enables persons with low incomes to purchase the shares of companies. Shareholders come from all walks of life. Every

individual has an opportunity to become a shareholder. Secondly, the Board of Directors is elected by the members. The company form of organisation is democratic both from ownership and management side.

10. **Social benefits:**

    The company form of organisation mobilizes scattered savings of the community. These savings can be better used for productive purposes. The companies also enable financial institutions to invest their money by providing them avenues. It also enable the utilisation of natural resources for better productive uses.

Disadvantages:

1. **Difficulty of formation:**

   Promotion of a company is not an easy task. A number of stages are involved in company promotion. The suitability of a particular type of business is to be decided first. A number of persons should be ready to associate for getting a company incorporated. A lot of legal formalities are required to be performed at the time of registration. Promotion of a company is both expensive and risky.
2. **Separation of ownership and management:**

   The ownership and management of a public company is in different hands. The owners i.e., shareholders play an insignificant role in the working of the company. The management may indulge in speculative business activities. There is no direct relationship between efforts and rewards. The profits of the company belong to shareholders and the Board of Directors are paid only a commission.
3. **Evils of factory system:**

   The company form of organisation leads to larger-scale production. The evils of factory system like insanitation, air pollution, congestion of cities are attributed to joint stock companies. Joint stock companies facilitate formulation of business combinations which ultimately leads to the monopolistic control and exploitation of consumers.

4. **Speculation in shares:**

   The joint stock companies facilitate speculation in the shares at stock exchanges. The prices of shares depend upon both economic and non-economic factors. The speculators try to fluctuate the prices of shares according to their suitability. The stock exchange will not help the growth of healthy investment when speculative activities are being carried on.
5. **Fraudulent management:**

   The promoters and directors may indulge in fraudulent practices. The management is in the hands of those persons who have not invested much in the company. The Company Law has devised methods to check fraudulent practices but they have not proved enough to check them completely.

6. **Lack of secrecy:**
   The management of companies remains in the hands of many persons. Everything is discussed in the meetings of Board of Directors. The trade secrets cannot be maintained. In case of sole trade and partnership concerns such secrecy is possible because a few persons are involved in management.
7. **Delay in decision making:**
   In company form of organisation no single individual can make a policy decision. All important decisions are taken either by the Board of Directors or are referred to general house. Decision-taking process is time consuming. If some business opportunity arises and a quick decision is needed, it will not be possible to arrange meetings all of a sudden. So many opportunities may be lost because of a delay in decision-making.
8. **Concentration of economic power:**
   The company form of organisation has helped concentration of economic power in a few hands. Some persons become directors in a number of companies and try to formulate policies which promote subsidiary companies. Interlocking of directionship and establishment of subsidiary companies have facilitated concentration of economic power in the hands of a few business houses.
9. **Excessive state regulations:**
   A large number of rules and regulations are framed for the working of the companies. The companies will have to follow rules even for their internal working. The government tries to regulate the working of the companies because large public money is involved. The formalities are many and the penalities for their non-compliance are heavy. This often detracts companies from their main objectives for which they have been formed.

TYPES OF COMPANY

Joint stock company can be of various types. The following are the important types of company:

1. Classification of Companies by Mode of Incorporation

Depending on the mode of incorporation, there are three classes of joint stock companies.

A. Chartered companies. These are incorporated under a special charter by a monarch. The East India Company and The Bank of England are examples of chartered incorporated in England. The powers and nature of business of a chartered company are defined by the charter which incorporates it. A chartered company has wide powers. It can deal with its property and bind itself to any contracts that any ordinary person can. In case the company deviates from its business as prescribed by the charted, the Sovereign can annul the latter and close the company. Such companies do not exist in India.

B. **Statutory Companies.** These companies are incorporated by a Special Act passed by the

Central or State legislature. Such companies do not have any memorandum or articles of association. They derive their powers from the Acts constituting them and enjoy certain powers that companies incorporated under the Companies Act have. Alternations in the powers of such companies can be brought about by legislative amendments. The provisions of the Companies Act shall apply to these companies also except in so far as provisions of the Act are inconsistent with those of such Special Acts [Sec 616 (d)].

C. Registered or incorporated companies. These are formed under the Companies Act, 1956 or under the Companies Act passed earlier to this. Such companies come into existence only when they are registered under the Act and a certificate of incorporation has been issued by the Registrar of Companies. This is the most popular mode of incorporating a company.

2. Classification of Companies by Mode of liability:

A. **Companies limited by Shares :** These types of companies have a share capital and the liability of each member or the company is limited by the Memorandum to the extent of face value of share subscribed by him. In other words, during the existence of the company or in the event of winding up, a member can be called upon to pay the amount remaining unpaid on the shares subscribed by him. Such a company is called company limited by shares. A company limited by shares may be a public company or a private company. These are the most popular types of companies.

B. **Companies Limited by Guarantee :** Each member promises to pay a fixed sum of money specified in the Memorandum in the event of liquidation of the company for payment of the debts and liabilities of the company [Sec 13(3)] This amount promised by him is called 'Guarantee'. The Articles of Association of the company state the number of member with which the company is to be registered [Sec 27 (2)]. Such a company is called a company limited by guarantee. Such companies depend for their existence on entrance and subscription fees. They may or may not have a share capital. The liability of the member is limited to the extent of the guarantee and the face value of the shares subscribed by them, if the company has a share capital

C. **Unlimited Companies :** Section 12 gives choice to the promoters to form **a** company with or without limited liability. A company not having any limit on the liability of its members is called an 'unlimited company' [Sec 12(c)]. An unlimited company may or may not have a share capital. If it has a share capital it may be a public company or a private company. If the company has a share capital, the article shall state the amount of share capital with which the company is to be registered [Sec 27 (1)].

3. On the Basis of Transferability of Shares

On the basis of transferability of shares, a company may be :

(1) Private Company, and (2) Public Company.

A. Private Company

According to Sec. 3(1) (iii) of the Indian Companies Act, 1956, a private company is that company which by its articles of association :

i) limits the number of its members to fifty, excluding employees who are members or ex-employees who were and continue to be members;

ii) restricts the right of transfer of shares, if any;

iii) prohibits any invitation to the public to subscribe for any shares or debentures of the company.

Where two or more persons hold share jointly, they are treated as a single member. According to Sec 12 of the Companies Act, the minimum number of members to form a private company is two. A private company must use the word "Pvt" after its name.

B. Public company

According to Section 3 (1) (iv) of Indian Companies Act. 1956 "A public company which is not a Private Company",

If we explain the definition of Indian Companies Act. 1956 in regard to the public company, we note the following :

i) The articles do not restrict the transfer of shares of the company

ii) It imposes no restriction no restriction on the maximum number of the members on the company.

iii) It invites the general public to purchase the shares and debentures of the companies

III. On the basis of Ownership

On the basis of Ownership, a company may be classified into :

1. Holding companies, and
2. Subsidiary Company

1. Holding Company [Sec. 4(4)].

A company is known as the holding company of another company if it has control over the other company. According to Sec 4(4) a company is deemed to be the holding company of another if, but only if that other is its subsidiary.

A company may become a holding company of another company in either of the following three ways :-

a) by holding more than fifty per cent of the normal value of issued equity capital of the company; or

b) By holding more than fifty per cent of its voting rights; or

c) by securing to itself the right to appoint, the majority of the directors of the other company , directly or indirectly.

The other company in such a case is known as a "Subsidiary company". Though the two companies remain separate legal entities, yet the affairs of both the companies are managed and controlled by the holding company. A holding company may have any number of subsidiaries. The annual accounts of the holding company are required to disclose full information about the subsidiaries.

2. Subsidiary Company. [Sec. 4 (I)]. A company is know as a subsidiary of another company when its control is exercised by the latter (called holding company) over the former called a subsidiary company. Where a company (company S) is subsidiary of another company (say

Company H), the former (Company S) becomes the subsidiary of the controlling company (company H).

3. **Government Companies.** A Company of which not less than 51% of the paid up capital is held by the Central Government of by State Government or Government singly or jointly is known as a Government Company. It includes a company subsidiary to a government company. The share capital of a government company may be wholly or partly owned by the government, but it would not make it the agent of the government . The Annual Report along with the auditor's report are placed before both the House of the parliament.

4.Non-Government Companies. All other companies, except the Government Companies, are called non-government companies. They do not satisfy the characteristics of a government company as given above.

V. On the basis of Nationality of the Company

a) Indian Companies : These companies are registered in India under the Companies Act. 1956 and have their registered office in India. Nationality of the members in their case is immaterial.

b) Foreign Companies : It means any company incorporated outside India which has an established place of business in India [Sec. 591 (I)]. A company has an established place of business in India if it has a specified place at which it carries on business such as an office, store house or other premises with some visible indication premises. Section 592 to 602 of Companies Act, 1956 contain provisions applicable to foreign companies functioning in India.

Incorporation of a company:

A company being an artificial entity co9mes into existence only after its registration with the Registrar of Companies. A number of formalities have to be completed before a request is made to the Registrar for its registration. A legal process has to be completed before a company obtains a separate legal entity. The important documents has to submitted for the incorporation of a company. The following are the steps:

Steps:

Before getting a company registered, a number of steps have to be taken up:

1. **Application for approval of name:**

   The first step in getting a company incorporated is of obtaining the approval of name from registrar of companies. A company may adopt any name which is not prohibited under the Emblems and Names Act, 1950 and which is not identical with or does not closely resemble the name of a company already registered. The registrar is expected to approve the name within 14 days of the receipt of application. The proposed name must be registered within 3 months from the date of intimation by the registrar failing which the promoter will have to apply again to the registrar for the revalidation of the approval.

2. **Memorandum of Association:**

   The memorandum of association is the most important document of the company among all. It is the charter which sets out the constitution of the company. It defines the objectives, powers, scope and relations with outsiders. It is the foundation of the company on which the structure is build. While designing the memorandum of association, the contents should be divided into clauses, printed and serially numbered.

The document should be signed by at least two subscribers in case of private company and seven in case of public company. The names, occupations, addresses of the shareholders and the shares subscribed by each member should be mentioned against their names. The memorandum can be inspected by any person on the payment of a nominal fee. It is very difficult to alter the clauses in the memorandum. So, it should be prepared carefully with a foresight keeping in view the long term needs of the company.

The following are the clauses that a MOA contains:

a. **Name clause:**

The name of the company should be specified in this clause. A company can choose any name it likes. But it should fulfill certain conditions which are as follows:

- The company should not use any name which is objectionable or identical or similar name of an existing company. Further the prohibited names contained in the Emblems and Names Act, 1950 and also the names resembling the government bodies should not be used.
- The words "pvt. Ltd." in case of private companies and the word "Ltd." in case of public company should be added at the end of their names.
- Any names which convey any connection or link with a government department should not be used.
- In case of companies which are formed for promoting arts, culture, commerce etc. The word need not be added at the end of their names

The names of the company must be exhibited in front of the factory, place of business, registered office and administrative office of the company. The names should also be printed on all letters, cheques, notices, bills and all official publications in one of the local language as well as in English.

b. **Situation clause:**

Every company will have a registered office. This clause should specify the place and the state in which the registered office. This is located. It is necessary to determine the legal jurisdiction and make correspondence with the management of the company. In case, the registered office is not confirmed on the date of incorporation of the company, it should communicate the address to the registrar(within 30 days of its incorporation).

c. **Objective clause:**

This is the core clause among all clauses. The objective of the company and nature of business should be stated in this clause. It determines the powers of the company. The company is not authorised to take up any business outside the scope of this clause. From this clause, the shareholders and creditors can know the purpose for which their money is utilised. For instance, banking companies are not empowered to undertake insurance business.

d. **Liability clause:**

The extent and nature of the liability of shareholders should be stated in this clause. The shareholders are liable to discharge the debts of the company. The liability may be limited to the extent of share capital or additional guarantee. So, it should be clearly stated whether the liability is limited to the face value of share or extended to the guaranteed amount.

e. **Capital clause:**

This clause states the registered capital of the company. The division of capital into shares of different denominations, the number of each category and value of shares are also mentioned in this clause.

In case, the capital comprises preference and equity shares, the extent of each category should be specified. A company is not authorised to issue shares over and above registered or authorised capital.

f. **Subscription and association clause:**

This clause contains a declaration by the members. The signatories on the memorandum of association make a declaration stating that they undertake to form a company collectively, agree to subscribe the specified shares and conduct the business jointly. The names, addresses and occupations of such subscribers should be mentioned. At least two persons in case of a private company and seven in the case of a public company should sign on the declarations. The declarants should subscribe at least one share each.

Alterations:

The company law has prescribed a procedure for making changes in different clauses. The provisions relating to such changes are given below:

- With regards to a change of name clause, prior permission of the central government is required. On the other hand a special resolution should be adopted by the shareholders. Subsequently the change of name can be effected with the consent of the registrar.
- In case of registered office is to be shifted from one place to another place, the permission of the company law board is required. Earlier this power was vested with the court, but later it was transferred to the law board.
- The object clause is the most vital clause in the memorandum. It can be altered by the special resolution of the shareholders and with the permission of the company law board. A copy of the resolution should be filed with the registrar within 30 days of passing such resolution. After obtaining his approval, this clause is modified or altered.
- An alteration in capital clause involving an increase in the authorised capital can be enforced by passing ordinary resolution of the shareholders. A change in this clause is also brought for consolidation of shares, re-organisation of capital, spliting the shares and conversion of shares into stocks. In case of reduction of capital a special resolution of shareholders and the consent of court is required.

3. **Articles of Association:**

The rules and regulations which are used to manage day-to-day operations of the company are known as “Articles of Association”. While the memorandum of association define the objectives, the articles devise ways and means to achieve the objectives. They lay down the relations between the members themselves and the company and members. The articles determine the powers and liabilities of the directors, shareholders, other officers etc. Every company has to prepare the articles and file them with the registrar along with memorandum. In case, a company cannot prepare its own articles, it can adopt the model set of articles as provided in the companies act. It contains 99 rules and regulations.

Contents:

The following are the contents of the articles of association:

- Different kinds of shares and the rights attached to them.
- Mode of allotment of shares and calls on shares
- Procedure of issuing share certificates and share warranties; method of conversion of shares into stocks.
- Procedure for transfer of shares, forfeiture and reissue shares and lien thereon
- Payment of commission on underwriting and brokerage on shares and debentures.

- Declaration of dividend and issue of bonus shares
- Method of appropriation of profit
- Division, consolidation and re-organisation of share capital
- Rules for adoption of primary contracts
- Rules for conduct of meetings, attendance of proxies in the place of members
- Procedure for passing resolutions, polls, voting rights.
- Provisions relating to quorum, minutes and adjournment of meetings
- Provision for appointment, qualifications, rights, remuneration and borrowing powers of the directors
- Rules regarding appointment, remuneration, duties of managing secretary and auditors
- Method of accounting adopted by the company; provisions regarding creation of reserves and depreciation
- Use of common seal
- Method of maintaining bank accounts
- Winding up of the company, appointment of liquidator and mode of settlement.

Alterations:

The formalities are very few in the articles of associations the alteration is simple. The permission of the court is not necessary. Adoption of a special resolution by the shareholders if enough. However, in certain cases, the approval of the government is required. Thus, changes can be made to the articles easily.

4. **Preparation of other documents:**

   The promoters are also expected to prepare the following documents at the incorporating the company.

   - The consent of first directors is acquired and filed with the registrar of companies.
   - The promoters should execute a power of attorney in favour of one of them or an advocate who is to carry out the formalities required for registration.
   - Copies of preliminary agreements, memorandum and articles of association must also be prepared and filed at the time of registration.
   - The company is required to have a registered office and its information is filed with the registrar within 30 days of its registration or from the date of commencement of business, whichever is earlier.
   - Where the company names first directors in its articles, their particulars are to be submitted with the registrar within 30 days of its registration or appointment of such directors.
   - A statutory declaration that all legal requirements for registration have been complied with is also filed with the registrar at the time of registration.

5. **Payment of fees:**

   At the time of registration, prescribed registration fees and filing fee for each document filed for registration are to be paid at the registrar's office. The fee to be paid varies with the amount of nominal capital in case of companies with share capital or according to the number of members in case of companies without share capital.

6. **Incorporation certificate:**

   When all the required documents are filed with the registrar along with the requisite fees, a security is made. When all documents are found in order, the registrar will enter the name of the company in the registrar of companies and issues a certificate of incorporation. The date mentioned in the certificate is the date of incorporation of the company.

Prospectus

Once the certificate of incorporation is obtained from the registrar of companies, a public company will raise the necessary capital from the public. A declaration is issued to the public inviting them to subscribe capital purchasing shares and debentures of the company. This declaration is known as a prospectus. A prospectus, thus, is a document which invites the public to provide funds to the company by way of subscribing to its shares and debentures.

A private limited company cannot issue a prospectus as they are strictly prohibited from inviting the public to subscribe their shares or accepting any investment. Even the public limited company which can raise funds through their own resources, cannot issue a prospectus.

Contents:

A prospectus acts as a window to the company. Every persons who desires to invest his money in the company, looks through the prospectus to understand the financial position of the company. The following are the contents of the prospectus:

- Name of the company, full address, registered office, place of the factory and address of the administrative office.
- Names, occupations and addresses of the signatories who have signed the memorandum of association and shares subscribed by them.
- The main classes of shares and number of shares in every class and the rights attached to each class of share.
- Names, occupations, addresses and remuneration of directors, secretary, treasurer etc.
- Number and value of qualification shares of directors
- Amount of minimum subscription
- Main objectives of the company
- Nature of the business of the proposed company
- Time of opening the subscription lists and due dates of accepting application forms
- Amount payable an application, allotment and calls of each class of shares
- Particulars of premium or discount on shares
- Details of special rights if any on shares and debentures
- Particulars of preliminary expenses
- Name and address of bankers and auditors
- Names of underwriters, the value of share underwritten by each, their commission and the statement of directors has to the soundness of underwriters.
- Particulars of interests of the promoters and shares earned or held by them
- Amount of consideration payable to the promoters and the mode of payment
- Details of assets purchased out of the proceeds of shares and debentures

- Contracts undertaken with stock exchanges over the listing for trading of shares
- Time and place where the financial statements and agreement documents are available for inspection

Co-operative society

The co-operative movement has been necessitated to protect the interests of weaker sections of society. The primary objective of this movement is "how to protect economically the weaker sections from the oppression of economically strong segment of society?". In all forms of organisations the primary motive is to increase profits. The co-operative form of organisation is a democratic set up run by its members for serving their own interests. It is self help through mutual help, the philosophy behind co-operative movement is ' all of each and each for all'.

Definitions:

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

According to **V.L. Mehta**, "One aspect of a vast movement which promotes the voluntary association of individuals having common economic needs who combine towards the achievement of the common economic end they have in view and who bring into this combination a moral effort and a progressively developing realisation of moral obligation."

According to **Section 4 of Indian Co-operative Societies Act, 1912**, "a society which has its objectives the promotion of economic interests of its members in accordance with co-operative principle."

Characteristics:

1. **Voluntary membership:**
   Everyone is at liberty to enter or leave the co-operative society as and when he likes. Nobody is compelled to join a co-operative society. The members are also free to use or not to use the services of the society. Though there is no limit on the membership of the societies sometimes certain limits are imposed to keep the society as a workable group.
2. **Political and religious neutrality:**
   The membership of a co-operative society is open to all irrespective of religion, caste, creed, colour or political affiliation. The co-operative movement can attract a large membership only by staying out of politics where people have divided opinions. Co-operative represents universal brotherhood and it should not lose its path in political contradictions. There is no place for caste or discrimination in co-operatives.

3. **Democratic management:**
The management of co-operative societies is always on democratic lines. All the members of a society elect a body of persons to conduct and control the day-to-day working of the society. The management is elected through 'one-man, one-vote' system. The day-to-day work is conducted by expert persons but the ultimate control lies with the members. Co-operative business stands or falls with democracy.
4. **One man, one vote:**
In co-operative societies every member is given one vote irrespective of his contribution towards the capital. In joint stock companies, the voting rights are given on the basis of number of shares held by a person. So persons having large number of shares control the organisation. In a co-operative, nobody can control the society on the strength of his wealth. All members have equal voice in the management of the society.
5. **Service motive:**
The primary objective of co-operative societies is to provide service to their members. The aim is not to earn profits as is the case in all other forms of organisations. The service of members is the fundamental objective of co-operative societies. The society earn a small amount of profit to cover up administrative expenses. The profit is generally earned when goods are sold to non-members.
6. **Distribution of surplus:**
The societies earn surplus from their services. This surplus is not divided according to capital contributions. The Indian Co-operative Societies At has given guidelines for the distribution of the surplus. A certain percentage is paid in the form of dividend on capital contributions. At present this rate should not exceed 9% One-fourth of the surplus should be kept as reserve in the society and up to 10% of the surplus should be spent for the general welfare of the members.
7. **Cash trading:**
Another principal of co-operative societies is trading on 'cash basis'. Co-operatives flourish only when cash trading principle is strictly followed. Cash trading ensures economy for the co-operatives. It eliminates bad debts and collection expenses. Credit system reduces working capital of the societies. In granting credit there is likelihood of some discrimination which may lead to misunderstanding among members.
8. **Limited interest on investments:**
The pioneers of co-operative movement wanted to give certain percentage on capital contributions in the form of dividend. This is an incentive to members for keeping money with the society of deposits. In India, a maximum of 9 percent per annum can be paid as interest on contributions to the society.
9. **State control:**
The co-operative societies are to follow certain rules and regulations framed by the government. In India, all co-operative societies are registered under Indian Co-operative Societies Act or respective state co-operative laws. The government gives a

number of incentives for the promotion of co-operatives. There is a control of central and state governments on the working of co-operative societies in India.

10. **Co-operative education and training:**
    The success of a co-operative will depend upon the awareness of its members towards the principles of co-operation. The members should be properly educated about the aims and objectives of the societies, so that they may work unitedly for the success of the society. The members should be trained to perform various activities of the society. So proper education and training of members will add to the success of co-operative movement.

Advantages:

1. **Open membership:**
   The membership of co-operative societies is open to each and every person. Nobody is barred from joining societies on the basis of economic position, caste, colour or creed. The number of members of a society may be limited to make it a workable group but members are not discriminated in any way.
2. **Service motto:**
   The co-operative societies are started not for profits but for service. The members are provided goods at cheap rates and financial help is also given at concessional rates. A feeling of co-operation is created among members.
3. **Supply of goods at cheaper rates:**
   The societies purchase goods directly from producers and sell them to the members at cheap rates. The middlemen are eliminated from the channel of distribution. Even capital goods are procured directly from producers and are supplied to the members. So co-operative societies ensure regular supply of goods at cheaper rates.
4. **Democratic management:**
   The management of co-operative is elected by the members from among themselves. All members are given equal voting rights irrespective of the number of shares held by them. So these associations are run on democratic principles.
5. **Low management costs:**
   The management of co-operative society is in the hands of persons elected by the shareholders. Members take active interest in the working of the society. So they are not spending large amount on management.
6. **Surpluses shared by members:**
   These societies sell goods to the members on a nominal profit to cover up administrative costs. Non-members are charged at market prices. The surplus earned by the society is distributed among the members on the basis of their purchases.
7. **Check on other business:**
   All other forms of business are started with a profit motive but co-operatives are started with service motive. Other enterprises will have to lower their prices when co-operatives are providing these goods at lower prices.

Disadvantages:

1. **Lack of capital:**
   The co-operatives are started by economically weaker sections of the society. The shares are generally of lower denominations so that more and more persons may associate with the societies. They cannot undertake production of goods for want of funds. So the society may suffers from lack of capital.
2. **Lack of unity among members:**
   The members are drawn from difficult sections of the society. The members do not understand the working of the societies, so they start suspecting each other. It leads to lapse the unity among members.
3. **Cash trading:**
   The cash trading business has both advantages and disadvantages. The members of societies are generally from poor sections of the society. These persons need credit facility. But the society cannot provide the credit facility to them because they are producing the goods at lower prices.
4. **Political interference:**
   The societies are generally under the regulations of the government. Every government tries to send their party members to these societies. So political interference has adversely affected co-operative movement in India.

Kinds of co-operative society:

1. **Consumer co-operatives:**
   The consumers' co-operative societies are started to help lower and middle class people. The members contribute capital in the shape of share money. The members elect the office bearers and executive members. The commission and profit of middlemen are eliminated in the process. The surplus earned from the business are distributed among members in the shape of bonus. In India, consumers' co-operatives started under the control of government. The co-operative stores, as they are called, are working both in urban and rural areas.
2. **Producers co-operative:**
   These societies are established for the benefit of small producers. The purpose is to improve economic conditions of small producers by giving them necessary facilities. These societies are of two types:
   - The production of goods is undertaken by the members either in their house or at a common place. The members are treated as employees of the society and are paid wages for their services. The society sells these goods in the market. These co-operatives are called as Production Co-operatives.
   - These co-operatives are started to help members in getting various industrial inputs at reasonable prices. The co-operatives make bulk purchases of raw materials from suppliers and supply them to members. The societies also arrange

machinery and equipment for their members. So, these societies are called as Industrial Service Co-operatives.

3. **Marketing co-operative:**

The marketing co-operatives are associations of producers for selling their products at remunerative prices. These societies also provide services like grading, warehousing, transportation, insurance and financing etc. The goods are sold when the market is favourable. The proceeds of sales are shared among members according to their contributions. The marketing societies also collect marketing information and supply it to the producers for their benefit.

4. **Housing co-operative:**

The low and middle income group people are not able to construct their own houses for want of money. Housing co-operative societies help people to own their houses. These societies are not popular because the instinct to own a house is not satisfied. The societies also arrange loans for their members from financial institutions and government agencies. This type of societies are very popular in most of the states in India. The constructed houses are handed over to the members who pay the price in easy installments spread over a longer period. These societies are popular among poor families. In addition to housing co-operatives, many government agencies like State Housing Boards help economically weaker society in owning their houses and pay the price in easy installments.

5. **Credit co-operative:**

The credit co-operatives are be formed to give financial help to small farmers and other poor sections of the society. The credit co-operative societies may be distinguished as follows:

- The rural credit co-operatives can be formed with at least 10 members. These societies get loans from State Co-operative Banks. These societies provide only short term loans. The rate of interest charged is low. The loans are recovered from the members after every six months or one year and the loans from the co-operative banks are returned. The object of these societies is “better farming and better living”.
- The urban co-operative credit societies are run on Schulze-Delitz model. The idea of these societies is to help small traders, workers, artisans and other middle class people. The liability of members is limited only to the extent of shares held by them.

6. **Co-operative framing societies:**

Co-operative farming societies are voluntary associations of farmers formed to reap the benefits of large scale farming on scientific lines. Small farmers will not be able to use improved technology for want of resources and small holdings. The farming co-operatives may be of the following types:

a. **Co-operative better farming societies:**
These societies are formed to improve methods of farming and to arrange facilities connected with the use of machinery, harvesting of crops and marketing of the products. The members cultivate their lands independently. The society provides only services.

b. **Co-operative joint farming societies:**
The land of members is pooled in these societies. The members are paid wages for their work on the land. The produce is sold by the society and profits are divided according to wages earned by members.

c. **Tenant farming societies:**
These societies are formed to help tenants. The society also arranges various inputs like seeds, fertilizers, etc. Financial help too is arranged for the members. The members pay rent for the use of land, the produce belongs to the tenants and not to the society.

d. **Collective farming societies:**
The land is owned by the society and members work collectively on the land. No member has ownership right of the land. The members are paid daily wages for their labour. The land ownership in these societies is collective.

Differences:

1. **Business, profession and employment:**

S.No	Basis	Business	Profession	Employment
1	**Nature of work**	It involves production and exchange of goods and services	Providing specialised personal service.	Performing the work assigned by the employer
2	**Qualifications**	No specific qualifications are required	Specialised qualifications prescribed for the profession will be required.	Qualifications are linked to the nature of work to be undertaken
3	**Establishment**	Legal formalities, if required will be performed	Membership of a professional body is needed	Appointment will be sufficient to take up the job
4	**Investment**	Investments are needed as per the nature and scale of operations	Some investments are needed to set up office	No investment is required
5	**Reward**	Profit is the reward for business	Professional fee is charged from the clients for service	Salary or wages is the reward for service
6	**Risk**	It is faced by lots of risk.	Risk is limited	There is no risk
7	**Code of conduct**	It may follow the code of conduct devised by business or trade associations	Following of code of conduct of professional body is essential	Only rules and regulations related to the job are followed
8	**Motive**	Profit earning is the motive	Service of society and earning of income or fees is the motive	Earning of salary to wage is the motive.

2. Trade, industry and commerce:

S.No	Basis	Trade	Commerce	Industry
1	**Meaning**	It is related to the purchase and sale of goods	It deals with all those activities which deal with taking of goods from producers to consumers	All those activities which deal with the conversion of raw materials into finished goods are covered in industry
2	**Capital**	The requirements of capital are more in trade as compared to commerce	Commerce requires less capital	Capital needs are high for industry because it requires purchase of huge raw materials and investments of goods in process
3	**Scope**	Trade deals only with purchase and sale of goods	Commerce includes trading and other servicing activities	Industry deals with those goods which relate to primary, manufacturing, processing etc.
4	**Risk**	It involves a greater amount of risk of fall in prices or change in demand	The risk involved in commerce is comparatively less.	Industry involves greater amount of risk as compared to any other activity.

3. Sole-trade business and partnership:

S.No	Basis	Partnership	Sole-trade
1	**Membership**	Partnership is owned by two or more persons known as partners.	Sole-trade business is owned and controlled by only one person. If a second person joins then it becomes a partnership
2	**Agreement**	To continue partnership, an agreement is required is required in the form of partnership deed. The agreement among partners may be express or implied	A sole-trader does not require any formality to start the concern. There is no need of agreement in this business
3	**Registration**	A partnership concern needs registration to get certain advantages of registration. Though registration is not compulsory but non-registration bars it from taking legal remedies	No registration of a sole-trade business is required except under Shops and Establishment Act
4	**Management**	All partners have equal rights and all of them can participate in the management. They can bind the business by their acts.	This business is controlled by one person only. His order is a law and he is the final authority in the concern
5	**Risk**	The business risk is shared by all the partners in proportion of their shares	The whole risk is shared by the sole-trader
6	**Capital**	All the partners contribute towards capital of the firm. The partners pool their resources to run the business efficiently. Every partners should bring the capital	Only the resources of one person are used in the business. He may suffer from shortage of capital because the resources of one person will generally be limited
7	**Secrecy**	The secrets of the business are in the knowledge of al the partners; so there is a fear of leaking them out	There is a complete secrecy in the business because the owner does not share the secrets with anybody else.
8	**Uncertainty**	The life of partnership is more certain than that of sole-trade business. The change of	This business is linked to the fate of the proprietor. In case of death or with any other

		partners does not necessarily close down the business	reason the business is bound to close down. So, the existence of this business uncertain

4. **Partnership and joint stock company:**

S.No	Basis	Partnership	Joint stock company
1	**Governing status**	A partnership concern is governed by the Partnership act, 1932	Joint stock company is governed by the Companies Act,1956.
2	**Legal status**	Firm and partners are not separate; no separate entity; uncertain life	A company has separate legal entity. It ha s a common seal and can enter into contracts by affixing its seal.
3	**Liability**	Unlimited joint and several liability of partners.	The liability of members are limited to the value of the shares.
4	**Authority**	Right to share management, common and ownership and management. Mutual agency – implied authority	Ownership and management are separate. A shareholder has no implied authority to bind the company.
5	**Transfer of shares**	Ordinarily no right of transfer of share by partner- limited rights of transferee.	A shareholder can sell his shares whenever he feels so. There is no binding on the transfer of shares of a company.
6	**Number of members**	A partnership can be started by at least two persons. The maximum number is ten in case of a banking and insurance business and it is twenty for any other business.	There must be at least two persons for starting a private company and maximum is fifty. At least seven persons are required to start a public company and maximum is unlimited.
7	**Continuity**	A partnership concern is dissolved on the death or insolvency of a partner.	The continuity of a company is not affected by the death or insolvency of a member. The members may go on changing but the company will not be affected.
8	**Registration**	The registration of partnership concern is not compulsory. There are certain privileges given to the registered firm which are denied to unregistered ones.	The registration of a company is compulsory. There are two stages in registering public company, the first is incorporation, and the second is commencement of business.
9	**Legal formalities**	A partnership is not under statutory obligation for the compliance of any rules and regulations. There is no compulsion to maintain certain books and get the audited and to publish them.	A company is required to maintain prescribed books and have a periodical audit. Some information has to be supplied periodically to the registrar of companies.
10	**Dissolution/winding up**	A partnership concern can be dissolved easily. No legal formalities are required for winding up a partnership firm.	A company is wound up only through court. If the court is satisfied that there is reasonable ground for winding up the company only then it is to be wound up. A proper procedure is also to be followed

Private company and Public company:

S.No	Basis	Private company	Public company
1	**Number of members**	To constitute a private company two members are a must. The number of members cannot exceed fifty.	A public company can be started by seven persons and there is no maximum limit for members.
2	**Commencement of business**	The business can be started after getting the certificate of incorporation	The business can be started only after getting the certificate of commencement of business. This certificate is issued only when minimum number of shares have been subscribed by the public.
3	**Transfers of shares**	The transfer of shares is generally restricted by the articles. There cannot be any appeal to the central government against disallowing the transfer of shares.	Transfer of shares is freely allowed, though some procedure for transfer has to be followed.
4	**Issue of prospectus**	A private company cannot issue a prospectus giving public invitation for purchase of its shares. No public notice for the sale of shares or debentures can be issued.	A public company must issue a prospectus or a statement in lieu of prospectus for inviting public for the purchase of its shares and debentures.
5	**Statutory meetings**	A private company is not required to all a statutory meeting and to submit statutory report to the Registrar of Companies.	A statutory meeting must be held within a prescribed period. A statutory report is also submitted to the Registrar of Companies.
6	**Quorum for meeting**	The quorum for a meeting of a private company is zero.	Five members constitute the quorum.
7	**Number of directors**	A minimum of two directors must be there. The company can increase the number of directors with the prior permission of the Central Government.	A minimum of three directors must be there and the names and addresses of directors must be intimated to the Registrar of Companies along with the memorandum of association.
8	**Filing of documents**	A private company need not send the list of directors, their consent, etc. to the Registrar of Companies.	The list of directors, their consent and a contract with them must be sent to the Registrar of Companies.
9	**Use of the word 'Limited'**	In case of private company, the word 'Pvt. Limited' must be used at the end of the name of the company.	Only the word 'Limited' is used with the name of a public company.

Memorandum of Association and Articles of Association:

S.No	Basis	Memorandum of Association	Articles of Association
1	**Scope**	The memorandum is a sort of constitution of the company. The company works in the framework given in the memorandum	The articles contain bye-laws for the day-to-day working of the company. Articles are framed in the orbit of the memorandum of association.
2	**Necessity**	The memorandum is a must for getting a company registered.	Public companies may not have their own articles, but can adopt Table A of Schedule I as its articles. Private companies, companies limited by guarantee and unlimited companies

			must have their own articles.
3	**Provisions**	The memorandum cannot contain anything contrary to Companies Act.	The articles of association are subordinate to the memorandum and Companies Act and cannot contain anything contrary to both.
4	**Limitation**	A company cannot do anything beyond the scope of the memorandum. Any act beyond its scope done will be void.	Anything done beyond the scope of the articles will not be void and it can be ratified by passing a special resolution.
5	**Relationship**	It regulates the relationship between company and the members of the public.	It defines relationship between company and the members and among members themselves.
6	**Alteration**	Memorandum can be altered only under special circumstances and involves many formalities.	Alternation of articles is not difficult. It can be altered by passing special resolution.

Unit – II

Size of a unit

The size of a unit presents many problems. What does it actually imply? What is its relationship with efficiency? What will be its repercussions on society? All these questions need to be studied before deciding about the size of a business unit. The size of a business unit refers to the scale of its operations. Whether the scale of production should be small, medium or large depends mostly upon the availability of finances, managerial ability, marketing possibilities, and efficiency expectancy. A particular size of a unit may be more efficient than other sizes. If all the firms in the industry arraign that size then the whole industry attains a given level of efficiency. An entrepreneur has a careful consideration for all factors which affect his efficiency and profitability and adjust the available resources for the scale of production according to the business situations. While discussing the size of a unit there is a confusion about the usage of concepts such as plant, firm or industry. These concepts are explained below:

Plant:

It means an establishment for the production of goods or provision of services. A plant may be mean a factory, a mill, an establishment or a retail shop. This means a place where actual production is done or a service is provided. It includes machinery, equipment and workers employed therein.

Firm:

A firm is essentially a unit of ownership, control and administration. A firm is wider term as compared to a plant. It not only includes technical units i.e. plant but also includes units of finances, marketing, management and enterprise. A firm may own one or more plants. If a firm owns one plant then it is associated with the term plant. A firm may own plants producing same thing or producing different products.

Industry:

The term industry refers to the aggregation of firms in the same line of production. The firms may use the raw material or may produce the same products, even if the raw materials used are different. So, the word industry includes all the firms engaged in the production of similar products.

Measures of size

The business units are of different sizes. The size of units depends upon the nature of products and methods and equipments used for production. Different industries may have different sizes. It is very difficult to measure an exact size of a unit because of lack of standard measures. All standards are only approximations. Moreover, standards may differ from industry to industry. But still the following measures are commonly used:

1. **Amount of capital invested:**
   The amount of capital invested is used as a measure for the size of a firm. The difficulty arises in calculating the amount of capital invested. A concern may have less capital on the surface but in fact the investments may be more. This may be due to undisclosed accommodation from financial institutions, etc. moreover, the capital requirements of various units may be different. So, the capital is not reliable method to analyse or measure the size of a unit.
2. **Volume of output:**
   The number of goods produced by a unit may also be used as a measure for the size. This is possible only if firms are engaged in producing similar products. If the commodities produced are different, then this criterion cannot be used.
3. **Value of output:**
   In industries where quantity of output is not comparable because of variety of goods, the value of products can be suitably used. The value of output in rupees is calculated and then a comparison is made. This method is reliable as compared to many other methods. But a problem may arise when the price fluctuations are frequent.
4. **Size of the assets:**
   Under this method, the total investments are represented by the assets of the unit are considered. It gives a clear picture of the total investments in the unit. In this method the assets are valued on the book value figures and not on current values. In an inflationary situation, a firm established recently will have higher value of assets as compared to old firms. All the assets are taken together without classifying them into fixed and current assets.
5. **Employment:**
   The total number of workers employed in a firm is considered under this criterion. This criterion suffers from the following limitations:
   I. Capital intensive units may employ lesser number of workers as compared to labour intensive units.
   II. The growth in investments and the number of employees may not be proportionately related.
6. **Production capacity:**
   Under this measure, the total installed production capacity as presented in terms of plant and machinery is considered for comparison. It may be noted here that the production capacity and volume of production are not directly related. Two firms with equal production capacity may differ in volume of production when one has idle capacity or the other using full capacity.

7. **Amount of raw materials consumed:**
   The annual consumption of raw materials by a firm can also be used as a standard for measuring its size. The method can be used where same type of raw materials are used by different firms and the products to be produced are also similar.
8. **Amount of power used:**
   Total power consumed may also be used for measuring the size. This method is used on the presumption that more the consumption of power, the more the output of goods.
9. **Complexity of management:**
   Peter F. Drucker uses complexity of top management as a measuring rod for the size. According to him, the more the complexity in top management, the larger the scale of operations and the lesser the complexity, the smaller will be operations. It is very difficult to measure the complexity of top management.

Factors determine the size of a unit

While selecting the scale of operations a large number of factors are taken into consideration. An entrepreneur should not decide the size of a unit arbitrarily. He has to base his decision on certain economic and non-economic factors. The following factors affect the size of a unit.

1. **Nature and demand for the product:**
   If the product is durable in nature and can be transported to distant places easily, the production will be possible on large scale. The type of demand for the products is also an important consideration. Based on the demand the production is made by the firms.
2. **Financial requirements:**
   The nature of an industry may be such that large sums of money are required. Then size of a unit will be large. If a concerns needs small amount of capital, then tendency will be to keep the unit small
   Eg: the industries like iron and steel has wanted large investments to produce the products in large quantity.
3. **Laws of returns:**
   The laws of increasing and decreasing returns also affect the size of a business unit. If the law of increasing returns is applicable to an industry, then increase in production will reduce the cost of production. If the law of decreasing returns is applicable, then increase in production will mean higher cost of production.
4. **Cost of transport:**
   When raw materials are brought from a far off place and finished products are also to be carried to distant places, the cost of transport will be heavy. It will increase the cost of production. The firm will not be able to compete in the market.

The raw materials should be procured locally and production should also be for local markets.

5. **Market:**

   If market of a firm is limited, the production should be on a small scale. When the market for the production is national or international, production should be on a large scale basis.

6. **Entrepreneurial ability:**

   Entrepreneurial capabilities also determine to a large extent the size of a unit. With the expansion of a unit, the tasks of organisation and co-ordination become difficult and complicated. If the entrepreneur is not able to handle the work well, it leads to inefficiency and increases the cost of production.

7. **Government regulations:**

   The rules and regulations of the government also influence the decision about size. If the investments are to go beyond a certain limit then permission of the government is necessary. Large scale units have the government rules because it has large scale operations ahs to be made but small scale units are free from the government. So, excessive government regulations can have a dampening effect on the growth of units.

Optimum size

The main aim of every enterprise is to earn more and more profits. To achieve the objective, the entrepreneur tries to use all productive resources economically. The idea is reduce cost of production. The firm is expanded to such an extent where output is maximum and cost of production is minimum. The point at which average cost is minimum is called optimum point. The optimum point is an ideal size of a unit. Every entrepreneur tries to reach this point. Once a unit reaches the optimum point, it will try to stick at that point. The optimum point is different for different industries. Moreover, the optimum size goes on changing with the change in technology and managerial methods.

Definition:

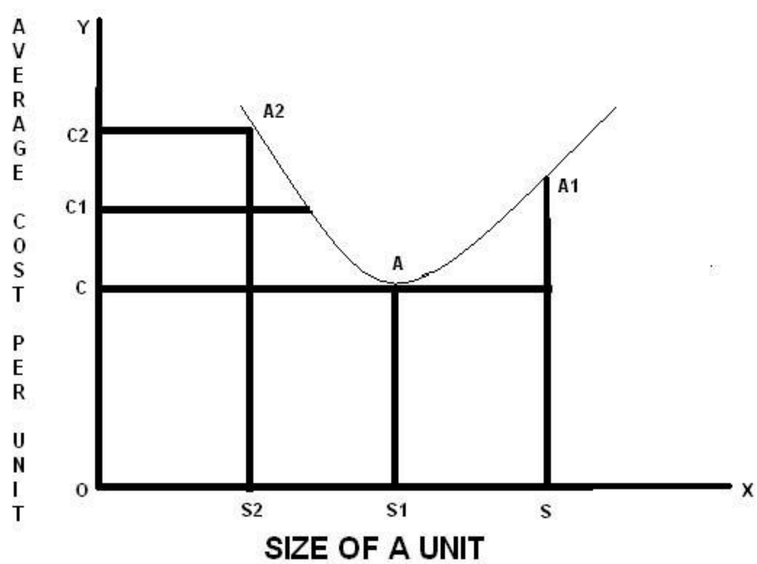
According to E.A.G. Robinson, " By the optimum size we must mean that firm which, in existing conditions of technique and organising ability, has the lowest average cost of production per unit, when all those costs which must be covered in the long-run are included."

According to A. Beacem, "In an ideal world, all firms should expand until they are producing these outputs which they produce at a lower average cost than any other output."

Characteristics:

1. **Minimum average cost:**
   The average cost per unit should be minimum. The average cost can be calculated by dividing the aggregate cost by total output in units. Sometimes the firm may earn huge profits but it may not achieve optimum size. The profitability is affected by many factors like selling price, nature of demand and market situations, etc.
2. **Short term and long term costs included:**
   While calculating average cost per unit, all costs whether short-term or long-term should be included. It means that fixed expenses of a firm including depreciation, interest etc. should also be included.
3. **Technical and managerial factors:**
   The optimum size is considered at the existing managerial and technical factors. If there is an improvement in technology or in managerial methods, the optimum size may also go up. The optimum size of different industries will be dependent upon marketing and technical and financial conditions.
4. **Efficient use of various factors:**
   The minimum cost can be attained only when all types of wastages are eliminated. All factors of production are used to their maximum possible extent and there is no other way to use them economically and more efficiently.

Diagrammatical representation:



In the above diagram on X-axis we denote is a size of a unit on Y-axis is Average cost per unit. In this diagram if the size of a unit is OS2 and the average cost per unit is OC2 the optimum point of this 'A2'. But the firm is reduced the average cost from OC2 to OC1 then the size of a unit increased from OS2 to OS1 and the optimum point of this is 'A'. If the firm is reduced the average cost from OC1 to OC then the size of a unit increased from OS1 to OS and the optimum point of this is 'A1'. Hence, the optimum point of the firm is A because it is constant and it is safe point to the firm.

Assumptions:

There are two important assumptions in discussing the optimum size of a unit.

- There should be perfect competition in the market. The prices are determined by the forces of demand and supply.
- It is presumed that a sufficient market exists which will absorb the whole production of the optimum firm. It implies that the firm will not be lowering its prices to sell its products in the market.

Criticism:

- The conditions of perfect competition hardly exist. It is also not possible to measure the degree of competition at a given time.
- The optimum size of a firm is unrelated to perfect competition in the market. The firm always tries to attain optimum size whether there is a perfect competition or not. Optimum size is related to efficient use of factors of production.
- It is difficult to describe optimum size in different industries. Optimum size is, in fact, a relative term. It depends upon various factors by the different industries.

Factors determining the optimum size

1. **Technical factors:**
   The technique of production largely affects the size of a unit. Technical factors operate in favour of an increasing size. The full advantage of technology improvements in the scale of operations should be large. The full capacity of the unit should be utilised and it will enable the reduction of cost. There is alimit to realize technical economies. Beyond a certain point increase in production will not bring in economies. The optimum use of technical factors can be achieved through two processes. They are:
   - **Division of labour:**
     Division of labour means dividing the work into different fragments or elements. Each person is assigned a job according to his specialisation. The persons continue to perfrom the same job repeatedly. It helps him to know his job well and his

production will go up. The increase in production when all persons are performing their work fastly it will reduce the cost of production.

- **Integration of processes:**

  Integration of processes means combining of various stages in production through the use of large machines. The tasks performed by different small machines and manual operations are combined and performed with the help of large machines. It helps to save expenses and accelerate production.

2. **Managerial factors:**

   Managerial economies are possible in case of a large firm. The success of a firm depends upon the organising capability of the top management. With the introduction of large-scale production, complexities of management have increased. The expansion of production is necessary to distribute the managerial cost among large units. Managerial economies can be achieved through two processes:

- **Division of labour:**

  As in case of technical forces, division of labour is done managerial jobs too. Business activities are divided into different functions such as production, finance, marketing, accounting, record-keeping, personnel etc. The services of experts are used to manage different functions. The division of managerial work will bring in more efficiency. The increase in production will reduce managerial cost per unit.

- **Process of integration:**

  The managerial economy can be achieved through the process of integration. The use of typewriters, calculators, dictating machines, accounting machines etc. have reduced the managerial costs. The purchase of these appliances is a costly affair. The small firms may not purchase these appliances into their business but the large firms may introduce these appliances and increase their production and reduce the managerial costs.

3. **Financial factors:**

   The size of business unit is directly influenced by the availability of finances. The finances are required firstly for establishing a unit and then for expanding it. Firstly, the funds are collected from the personal sources of owners. Secondly, they are arranged through financial institutions. The size of a unit is influenced by the cost of raising funds i.e., rate of interest. Commercial banks and other financial institutions are hesitant to extend them loans for lack of securities and profitability. Joint stock companies, on the other hand, can raise large finances through issue of shares and debentures. First of all, various financial requirements should be estimated. Then finances should be raised according to the needs of different periods. The funds should be put to a maximum use.

4. **Marketing factors:**

   The extent of market influences the scale of production and also raise certain marketing problems. Certain marketing economies are available if the scale of purchasing and sale is higher. The purchaser of large quantities will enjoy favourable terms and conditions. The prices will be low and cash discounts will be available. Moreover, a large firm can afford to use the services of marketing experts. The selling operations are complicated in the present day competing world. A number of persons are required to deal with sales operations. The goods should be sold quickly by incurring lower selling costs. A selling organisation will have to be created to co-ordinate sales activities. The marketing factors too, like other factors, encourage large scale production. The large the size of the unit, the more will be the economies in marketing costs.

5. **Factors of risk and fluctuations:**

The frequent changes in demand should be considered while planning the size of a firm. There are always fluctuations in demand. The fluctuation in demand may be both for a short period and a long period. The size of a unit should be such that it should be able to adjust its production according to the market requirements. The changes in demand may be of four types. They are:

- **Permanent changes:**

  The demand for a product may undergo a permanent change. This may happen due to change in fashion, tastes, technology of methods of production. It involves re-organisation of the whole system. A smaller unit may be able to re-organise its production more quickly and at a lesser disadvantage as compared to a big unit.

- **Cyclical changes:**

  These changes occur due to depression or boom. During depression production is more than demand. A unit will have to be sold at a loss to stay in the business. On the other hand, big concerns will be able to withstand this situation and will survive during depression but smaller units will stay in depression for a long time.

- **Seasonal changes:**

  These changes are due to changes in seasons and are of a short duration. Some commodities maybe in more demand during a particular season and their demand will decline when the season is over. The unit should take up the production of a number of goods required during different seasons so that production may be subjected according to the demand.

- **Erratic changes:**

  Sometimes, the change in demand is not caused by a specific reason. The demand for a product may go up because of a shift in population at a particular place. Besides the production of goods with irregular demand, the concern should also produce goods with stable demand. The factors of risk and fluctuations favour a small size because the adjustments can be easily made and re-organisation will be less costly.

Economies of large scale organisation

Before industrial revolution, the size of the units tended to be small industrial revolution enabled the replacement of man by machine. The installation of mechanical production devices requires more funds. The need for more finances gave birth to joint stock companies. Moreover, large-scale concerns enjoy certain economies in production, marketing, finances and management. These factors encourage the growth of large scale business. There is a relationship between the size of a unit and its efficiency. The preference for large-scale units has emanated from the following factors:

1. Economies in production:

- **Bulk purchase of raw materials:**

A large-scale concern requires large quantities of raw materials. A customer making bulk purchases can acquire goods at wholesale prices. He will also be able to earn trade discounts. Moreover, the supplier may allow certain credit period also. All those will reduce the cost of production.

- **Savings in freight:**

The goods are purchased by truck loads; wagon loads or ship-loads. The transport companies charge the same amount of freight even if the quality is less. So, large-scale units are able to make purchase of such quantities as will enable saving in freight.

- **Use of improved technology:**

The use of latest technology is a must to stay in a competitive world. Every time there is a new invention involving change in production methods. Moreover, the use of new machines will mean discarding of old ones. It will involve huge losses. Only a bigger concern can afford to recognise its production process.

- **Division of labour:**

Division of labour involves dividing work into different categories. Every person is given a job according to his specialisation and aptitude. It will increase the rate of production. The increase in production will reduce per unit cost of overhead expenses.

- **Spending on research:**

A businessman should try to improve his methods of production. The use of improved technology will enable the increase in production. This is possible only if some research is carried on. Only a large concern can afford to spend money on research work.

- **Utilisation of by-products:**

A large concern can devise ways to use by products by setting up separate plants. Generally, the by-product is sold at a cheaper price or as a scrap. If the concerns can utilise the scrap to manufacture another product, it will be as profitable as the main product.

- **Acquiring of patents:**

A large concern can afford to acquire patent rights of new inventions. It can have a lead over other concerns in bringing new products into the market. A concern introducing new products first will benefit more than those entering the market at a later stage.

2. Economies in selling:

- **Economy in selling expenses:**

A large firm sells goods in large quantities enabling economies in selling expenses. The same sales organisation will be sufficient to handle more goods. Moreover, there can be economy in freight also if goods are supplied free of freight. All these factors will be helpful in reducing selling cost.

- **Advertisements:**

Large number of advertisements are required to introduce new products. They are necessary for retaining the old clientele also. Advertisements are very costly these days. A bigger concern will definitely be in an advantageous position in advertising its products and will be able to attract more consumers for its goods.

- **Economy in sales efforts:**

It a large concern deals with a number of products, no separate sales organisation will be required. The same sales personnel will deal with all the products of the concern.

- **Earn more goodwill:**

A large concern can give prompt service to the concerns and can maintain proper quality of goods. It helps the concern to earn goodwill in the market.

3. Economies in financing:

- **Services of management specialists:**

A large concern can u se the services of experts of managing its affairs. It can employ specialists to manage different departments. It will bring efficiency into the management. The employing of experts is a costly affair.

- **Use of mechanical appliances:**

A large firm can purchase mechanical appliances for office work. The appliances like calculators, dictating machines, computers, etc. will bring efficiency and economy in office work and they will also provide better services. All these appliances involve a lot of money and small scale concerns will not afford costly appliances.

- **Helpful in expansion and diversification:**

A properly organised business finds no difficulty in expanding its operations. The same organisation will be sufficient after expansion and diversification. The decentralisation and delegation of authority will be useful for managing the concern. The managerial cost per unit will go down.

4. Economies in management:

- **Mobilisation of more funds:**

A large-scale concern can raise money on more favourable terms than a small concern. It can issue debentures to the public. It has more goodwill and can give more securities to financial institutions for raising loans, etc. They can get financial accommodation on reasonable terms and conditions from commercial banks.

- **Ploughing back of earnings:**

The earning capacity of bigger concerns is large. They can keep some of their profits for reinvesting them into the business. This is one of the important sources of financing the expanding units.

- **Facing depression:**

The demand for goods down during depression. One has to sell goods at lower prices. Small concerns cannot stay for long and they have to close down during depression. A large concern can survive on the basis of its economic position.

- **Financial techniques:**

A large concern can make use of new techniques of financial planning such as budgetary control, cost accounting, managerial accounting etc. A good financial plan will ensure proper utilisation of goods.

UNIT – III

Small business plays an important role in the development of every country in a developing country like India. Therefore, this sector is indispensable. Since independence small business sector consisting of small scale tiny units, cottage and rural industry have made significant progress. Small business is now producing a wide range of commodities from ordinary consumer goods to sophisticated goods based on the most modern technology like electronic goods, television sets etc.

Classification of industries:

Industries in India have been classified in the following four parts:

Village or Cottage or Rural industries:

A cottage industry is one which is run by an individual with the help of the members of his family with very little capital. In most of the cottage industries power is not used. It is generally associated with agriculture and provides subsidiary employment in rural areas. It involves activities mostly by hand and are performed primarily with household workers. Traditional industries like khadi industry, handicrafts etc. located in the villages and towns of India are called cottage industries.

Definitions:

According to Fiscal Commission (1949-50), "Cottage Industry is an industry which is run either as whole-time or part-time occupation with the full or partial help of members of the family."

According to Economic Commission of Asia and Far East, " Cottage industries are those industries which are run fully or partially with the help of family members."

Small Scale Industry:

Small scale industries were defined on different basis but since march 1, 1999, small industries include all those units having a fixed capital of Rs. 1 Crore invested therein. It was previously Rs. 3 Crores. Industries with a fixed capital of Rs. 25 lakhs (earlier Rs. 50 lakhs) are called tiny industries. Small scale industry employees hired labour and machines and power are used.

Importance / role of small scale industries:

Small scale industries have been playing an important role in Indian economy in terms of employment generation and growth. It is estimated that small scale sector has been contributing about 40 percent of the gross value of output produced in the manufacturing sector and the generation of employment by the small scale sector more than five times to that of large scale sector. Following are the some of the important roles played by small scale industries.

1. Employment generation:

The basic problem that is confronting the Indian economy is increasing pressure of population on the land and the need to create massive employment opportunities. This problem is solved to larger extent by small-scale industries because small- scale industries are labour intensive in character. They generate huge number of employment opportunities. Employment generation by this sector has shown a phenomenal growth. It is a powerful tool of job creation.

2. Mobilisation of resources and entrepreneurial skill:

Small-scale industries can mobilize a good amount of savings and entrepreneurial skill from rural and semi-urban areas remain untouched from the clutches of large industries and put them into productive use by investing in small-scale units. Small entrepreneurs also improve social welfare of a country by harnessing dormant, previously overlooked talent.

Thus, a huge amount of latent resources ;re being mobilised by the small-scale sector for the development of the economy.

3. Equitable distribution of income:

Small entrepreneurs stimulate a redistribution of wealth, income and political power within societies in ways that are economically positive and without being politically disruptive.

Thus small-scale industries ensures equitable distribution of income and wealth in the Indian society which is largely characterised by more concentration of income and wealth in the organised section keeping unorganised sector undeveloped. This is mainly due to the fact that small industries are widespread as compared to large industries and are having large employment potential.

4. Regional dispersal of industries:

There has been massive concentration of industries m a few large cities of different states of Indian union. People migrate from rural and semi urban areas to these highly developed centres in search of employment and sometimes to earn a better living which ultimately leads to many evil consequences of over-crowding, pollution, creation of slums, etc. This problem of Indian economy is better solved by small- scale industries which utilise local resources and brings about dispersion of industries in the various parts of the country thus promotes balanced regional development.

5. Provides opportunities for development of technology:

Small-scale industries have tremendous capacity to generate or absorb innovations. They provide ample opportunities for the development of technology and technology in return, creates an environment conducive to the development of small units. The entrepreneurs of small units play a strategic role in commercialising new inventions and products. It also facilitates the transfer of technology from one to the other. As a result, the economy reaps the benefit of improved technology.

6. Indigenisation:

Small-scale industries make better use of indigenous organisational and management capabilities by drawing on a pool of entrepreneurial talent that is limited in the early stages of economic development. They provide productive outlets for the enterprising independent people. They also provide a seed bed for entrepreneurial talent and a testing round for new ventures.

7. Promotes exports:

Small-scale industries have registered a phenomenal growth in export over the years. The value of exports of products of small-scale industries has increased to Rs. 393 crores in 1973-74 to Rs. 71, 244 crores in 2002-03. This contributes about 35% India's total export. Thus they help in increasing the country's foreign exchange reserves thereby reduces the pressure on country's balance of payment.

8. Supports the growth of large industries:

The small-scale industries play an important role in assisting bigger industries and projects so that the planned activity of development work is timely attended. They support the growth of large industries by providing, components, accessories and semi finished goods required by them. In fact, small industries can breath vitality into the life of large industries.

9. Better industrial relations:

Better industrial relations between the employer and employees helps in increasing the efficiency of employees and reducing the frequency of industrial disputes. The loss of production and man-days are comparatively less in small- scale industries. There is hardly any strikes and lock out in these industries due to good employee-employer relationship.

Of course, increase in number of units, production, employment and exports of small- scale industries over the years are considered essential for the economic growth and development of the country. It is encouraging to mention that the small-scale enterprises accounts for 35% of the gross value of the output in the manufacturing sector, about 80% of the total industrial employment and about 40% of total export of the country.

Problems:

Small scale industries play a vital role in the economic development of our country.

This sector can stimulate economic activity and is entrusted with the responsibility of realising various objectives generation of more employment opportunities with less investment, reducing regional imbalances etc. Small scale industries are not in a position to play their role effectively due to various constraints. The various constraints, the various problems faced by small scale industries are as under:

(1) Finance:

Finance is one of the most important problem confronting small scale industries Finance is the life blood of an organisation and no organisation can function proper y in the absence of adequate funds. The scarcity of capital and inadequate availability of credit facilities are the major causes of this problem.

Firstly, adequate funds are not available and secondly, entrepreneurs due to weak economic base, have lower credit worthiness. Neither they are having their own resources nov are others prepared to lend them. Entrepreneurs are forced to borrow money from money lenders at exorbitant rate of interest and this upsets all their calculations.

After nationalisation, banks have started financing this sector. These enterprises are still struggling with the problem of inadequate availability of high cost funds. These enterprises are promoting various social objectives and in order to facilitate then working adequate credit on easier terms and conditions must be provided to them.

(2) Raw Material:

Small scale industries normally tap local sources for meeting raw material requirements. These units have to face numerous problems like availability of inadequate quantity, poor quality and even supply of raw material is not on regular basis. All these factors adversely affect the functioning of these units.

Large scale units, because of more resources, normally corner whatever raw material that is available in the open market. Small scale units are thus forced to purchase the same raw material from the open market at very high prices. It will lead to increase in the cost of production thereby making their functioning unviable.

(3) Idle Capacity:

There is under utilisation of installed capacity to the extent of 40 to 50 percent in case of small scale industries. Various causes of this under-utilisation are shortage of raw material problem associated with funds and even availability of power. Small scale units are not fully equipped to overcome all these problems as is the case with the rivals in the large scale sector.

(4) Technology:

Small scale entrepreneurs are not fully exposed to the latest technology. Moreover, they lack requisite resources to update or modernise their plant and machinery Due to obsolete methods of production, they are confronted with the problems of less production in inferior quality and that too at higher cost. They are in no position to compete with their better equipped rivals operating modem large scale units.

(5) Marketing:

These small scale units are also exposed to marketing problems. They are not in a position to get first hand information about the market i.e. about the competition, taste, liking, disliking of the consumers and prevalent fashion.

With the result they are not in a position to upgrade their products keeping in mind market requirements. They are producing less of inferior quality and that too at higher costs. Therefore, in competition with better equipped large scale units they are placed in a relatively disadvantageous position.

In order to safeguard the interests of small scale enterprises the Government of India has reserved certain items for exclusive production in the small scale sector. Various government agencies like Trade Fair Authority of India, State Trading Corporation and the National Small Industries Corporation are extending helping hand to small scale sector in selling its products both in the domestic and export markets.

(6) Infrastructure:

Infrastructure aspects adversely affect the functioning of small scale units. There is inadequate availability of transportation, communication, power and other facilities in the backward areas. Entrepreneurs are faced with the problem of getting power connections and even when they are lucky enough to get these they are exposed to unscheduled long power cuts.

Inadequate and inappropriate transportation and communication network will make the working of various units all the more difficult. All these factors are going to adversely affect the quantity, quality and production schedule of the enterprises operating in these areas. Thus their operations will become uneconomical and unviable.

(7) Under Utilisation of Capacity:

Most of the small-scale units are working below full potentials or there is gross underutilization of capacities. Large scale units are working for 24 hours a day i.e. in three shifts of 8 hours each and are thus making best possible use of their machinery and equipments.

On the other hand small scale units are making only 40 to 50 percent use of their installed capacities. Various reasons attributed to this gross under- utilisation of capacities are problems of finance, raw material, power and underdeveloped markets for their products.

(8) Project Planning:

Another important problem faced by small scale entrepreneurs is poor project planning. These entrepreneurs do not attach much significance to viability studies i.e. both technical and economical and plunge into entrepreneurial activity out of mere enthusiasm and excitement.

They do not bother to study the demand aspect, marketing problems, and sources of raw materials and even availability of proper infrastructure before starting their enterprises. Project feasibility analysis covering all these aspects in addition to technical and financial viability of the projects, is not at all given due weight-age.

Inexperienced and incomplete documents which invariably results in delays in completing promotional formalities. Small entrepreneurs often submit unrealistic feasibility reports and incompetent entrepreneurs do not fully understand project details.

Moreover, due to limited financial resources they cannot afford to avail services of project consultants. This result is poor project planning and execution. There is both time interests of these small scale enterprises.

(9) Skilled Manpower:

A small scale unit located in a remote backward area may not have problem with respect to unskilled workers, but skilled workers are not available there. The reason is Firstly, skilled workers may be reluctant to work in these areas and secondly, the enterprise may not afford to pay the wages and other facilities demanded by these workers.

Besides non-availability entrepreneurs are confronted with various other problems like absenteeism, high labour turnover indiscipline, strike etc. These labour related problems result in lower productivity, deterioration of quality, increase in wastages, and rise in other overhead costs and finally adverse impact on the profitability of these small scale units.

(10) Managerial:

Managerial inadequacies pose another serious problem for small scale units. Modern business demands vision, knowledge, skill, aptitude and whole hearted devotion. Competence of the entrepreneur is vital for the success of any venture. An entrepreneur is a pivot around whom the entire enterprise revolves.

Many small scale units have turned sick due to lack of managerial competence on the part of entrepreneurs. An entrepreneur who is required to undergo training and counseling for developing his managerial skills will add to the problems of entrepreneurs.

The small scale entrepreneurs have to encounter numerous problems relating to overdependence on institutional agencies for funds and consultancy services, lack of credit-worthiness, education, training, lower profitability and host of marketing and other problems. The Government of India has initiated various schemes aimed at improving the overall functioning of these units.

Government policies for small scale industries

Survival of small scale industries:

No doubt, with the development of the large scale industries, the small scale industries have lost their old significance, but the small scale producers still survive for the following reasons:

1. Perishable Commodities:

These goods are not profitable to produce on a large scale, because these commodities cannot be stored and transported to distant markets.

2. Heavy Goods:

Some goods are very heavy and thus costly to be transported but their prices are very low. Such goods are produced on the small scale to meet the local demand. For example, clay bricks are produced on small scale, because these are too costly to be transported for sale in the distant markets.

3. Artistic Goods:

These goods are not possible to produce on large scale, because their demand is very low. So these artistic goods are produced on a small scale basis.

4. Desire for Independent Business:

When there is shortage of capital and some persons do not want to undergo any service, development of small scale industries comes to their rescue. Because of the small capital requirements, the small scale producers have flourished in the capital-scarce countries.

5. State Patronage:

In many countries, as in India, the government has also contributed for the survival of small scale industries. Special facilities are given by the government to the small producers. It is a great incentive that helps much in the development of cottage and small scale industries.

6. Subsidiary Industries:

Sometimes the very existence of the large scale production creates work for the small scale producers, e.g., repairing of motor cars, trucks and cycles, small industries act as subsidiary industries to a large scale industry. As such, they have ample chances to survive.

7. Joint Family System:

The joint family system has gone a long way for the survival of the handicraft and the small scale production. In India, many small scale industries have come into existence because all the members of the family lend their hands in work to maintain the family independence.

8. Unstable Demand:

If the production of certain commodities is dependent upon the nature of its demand, especially if the demand is limited, local or fluctuating, it is not worthwhile to have a large scale production. Thus field is open for the small producers.

9. Cheap Motive Power:

The production and availability of cheap electricity has given incentive to the growth of small scale industries, because with the availability of cheap power, the small producers can make use of machinery, etc.

10. Co-operative Organisation:
The co-operative movement also helps the small scale producers. People with the small capital form co-operative societies and by pooling up their resources start their own business.

11. Congenial Environment:
In the case of small industries, there is a further advantage of working in a very congenial environment of the home and receiving unpaid assistance from the members of the family. The work is pleasant and is carried on even though it is less profitable.

New Small Scale Sector Industrial Policy, 1991:
The government of India announced sector on August 6,1991. The primary objective of this new policy is to impart more vitality and growth impetus to this sector in order to attain a higher growth rate in respect of its output, employment and exports. The following are the main features of this new policy:
i. Enhancement of the investment limit in case of 'tiny' enterprises to Rs.5 lakhs from Rs.2 lakhs, irrespective of the location of the unit. The limit is raised to Rs.25 lakhs.
ii. Widening the scope of small scale industries by including industry related services and business enterprises.
iii. To allow equity participation by other industrial undertakings in the small scale units, not exceeding 24 percent of the total shareholding so as to provide SSI units an access to the capital markets and to encourage modernization.
iv. Introduction of a new legal form of organization of business, namely restricted or limited partnership.
v. In this form the liability of atleast one partner is unlimited while other partners can have limited liability
vi. Arranging adequate and regular flow of credit on a normative basis and to improve the quality of its availability for the SSI units.
vii. Establishing of a special monitoring agency to look after the genuine credit needs of the small scale industrial sector
The Government of India has taken a number of measures for the promotion of small scale industries in view of the new small scale industrial policy. An ordinance has been promulgated on 23rd September, 1992 making payment of interest obligatory on delayed payments to small scale industries.

Medium-Scale Industry

Medium-scale businesses typically result from the slow and steady growth that results from a successful small business. As a company earns more revenue, it sets aside the capital needed for buildings, equipment and more employees, eventually bridging the gap between small business and large corporations. The Small Business Administration can audit the size of your company and provide a definitive answer concerning its status as a medium-sized business.

The Government of India enacted the Micro, Small and Medium Enterprises Development (MSMED) Act, 2006 including definitions of micro, small and medium enterprises as follows:

A medium enterprise is an enterprise where the investment in plant and machinery is more than Rs.5 crore but does not exceed Rs.10 crore.

In case of the above enterprises, investment in plant and machinery is the original cost excluding land and building and the items specified by the Ministry of Small Scale Industries vide its notification No.S.O.1722(E) dated October 5, 2006.

Enterprises engaged in providing services are defined by their level of investment in equipment as follows:

A micro enterprise is an enterprise where the investment in equipment does not exceed Rs. 10 lakh;

A small enterprise is an enterprise where the investment in equipment is more than Rs.10 lakh but does not exceed Rs. 2 crore; and

A medium enterprise is an enterprise where the investment in equipment is more than Rs. 2 crore but does not exceed Rs. 5 crore.

Large Scale Industries:

Quite often we hear in the news about large-scale and small-scale industries. It is generally accepted that a large-scale industry is a company that we see every day and read about in the financial pages of the newspapers. There is very little definition of what makes an industry large scale or small scale, but it is usually linked to the amount of employees that work for the company and the turnover generated each year.
Large-scale and small-scale industry refer to the size of a company in terms of the number of employees and sometimes the annual turnover. Depending on the country and the industry, a small-scale company employs between 250 and 1,500 people. Anything above that is a large-scale company. This is based on US figures which obviously has a large population. Some countries which have a smaller popualation may use a smaller number of employees as a guide. Any company exceeding these limits is generally viewed as a large-scale one. Those are, for example, multinationals with production facilities in many countries, or big retail chains, such as Wal-Mart. In 2008, there were only 18,000 large companies in the United States, according to the U.S. Office of Advocacy. In the UK and Europe, companies such as Tesco, Sainsbury's, BP

and Shell would be seen as large scale, based on number of employees and financial gain or turnover.

Large scale industries refers to those industries which require huge infrastructure, man power and a have influx of capital assets. The term 'large scale industries' is a generic one including various types of industries in its purview. All the heavy industries of India like the Iron and steel industry, textile industry, automobile manufacturing industry fall under the large scale industrial arena. However in recent years due to the IT boom and the huge amount of revenue generated by it the IT industry can also be included within the jurisdiction of the large scale industrial sector. Last but not the least the telecoms industry also forms and indispensable component of the large scale industrial sector of India. Indian economy is heavily dependent on these large industries for its economic growth, generation of foreign currency and for providing job opportunities to millions of Indians

Every country needs exploring of coal, iron and steel, exploring of oil and its purification, heavy machineries, heavy electrical equipments, heavy chemicals, ships and aero planes, industries of heavy and basic industries for its development. All these industries help to develop agriculture, transport, communication facilities and other industries. It means development of large scale industries is almost essential for the development of heavy and basic industries.

Improvement in Productivity:

In large scale industries work is distributed among the labourers according to their efficiency which improves the productivity. These industries also use huge modern capital which raises productivity and reduces cost per head. It enables the consumer to get commodities at a cheaper rate.

Import Substitution:

Capital goods and consumer goods which are imported from the foreign countries can be produced inside the country through large scale industries. Our country will depend upon foreign countries on heavy chemicals, heavy electricity, chemical fertilizers and other consumer goods, unless we develop large scale industries. Due to the development of large scale industries, all these commodities are produced inside the country and there is no need of import which is known as import substitution.

Export Promotion:

Large scale industries change the pattern of export. In the old days, we exported skin, tea, jute, jute products, spices of different types, and cotton clothes to foreign countries. Due to the development of large scale industries, we are now able to export engineering products, heavy electric products and other industrial products. It means large scale industries have changed the pattern of export and increased the quantity of export.

Industry is the production of a good or service within an economy. Manufacturing industry became a key sector of production and labour in European and North American countries during the Industrial Revolution, upsetting previous mercantile and feudal economies. This occurred through many successive rapid advances in technology, such as the production of steel and coal.

Following the Industrial Revolution, perhaps a third of the world's economic output is derived from manufacturing industries. Many developed countries and many developing/semi-developed countries (People's Republic of China, India etc.) depend significantly on manufacturing industry. Industries, the countries they reside in, and the economies of those countries are interlinked in a complex web of interdependence.

Large scale industry is often referred to as an industry that produces on a large scale in order to obtain more capital.

- **Large Scale**

Large scale can always be defined as a measurement. Scale means a form of measurement and when it is referred to as large it means that you have a more than average amount on the measurement scale. Thus any industry that is large scale will mean that products are produced at a high volume. This in turn provides a higher capital.

- **Capital**

Large scale industry requires a huge amount of capital to be invested in the industry first. It will provide many jobs for employees in order to offer a high output. This type of industry is found in places such as the USA, Germany, Japan, Russia, and Australia.

All of these countries are big money makers and have large operations producing a variety of products. This is different from a small scale industry that does not require as much capital or as many workers.

Given these definitions, a large scale industry can be just about anything from construction to the auto trade. Wal-Mart for example is a company in a large scale industry as they offer plenty of jobs and products to the consumers of the world. Size will matter when it comes to industry. Small companies employ about 60% of the work force in the USA due to the 30 million existing companies.
Unfortunately, these companies have a lower survival rate meaning that they usually run for five to ten years and then end.

Large scale companies total about 18,000 in the USA and employ millions of people around the USA. They are able to survive because of the discounts they can offer on products that small companies cannot.

Advantage of Large scale production:

Efficient use of capital equipment: There is large scope for use of machinery, which results in lower costs. A Large producer can install an up-to- date and expensive machinery. He can also have own repairing unit. Specialized in machinery can be employed for each job. The result is that production is very economical. Small producer with small markets can't keep the machinery continuous working. Keeping it idle is uneconomical. A large Producer can work it continuously and reap resulting economies.

Using of specialized labor: Specialized labor produce a large output and of better quality. It is only in a large business organization that every person can be put on the job that he can best perform.

Better utilization of special in management: The use of capable manager's time in an enlarged scale production. His assistance and specialized may be used in a large-scale production where his ability is more fruitful.

Economies of buying and selling: While purchasing raw material and other accessories, a big business can secure especially favorable term an account of its large custom. He can attract customer by offering a greater variety and by ensuring prompt execution of the orders, placed with it when he selling a product.

Economy in rent: A large-scale producer makes a saving in rent too. If the same factory made to produce a large Quantity of goods, the same amount of rent is divided over a large output. This means a smaller addition to the cost per unit in the form of rent.

Experiment and research: A large concern can afford to spend liberally on research and experiments. Successfully research may lead to the discovery of cheaper process.

Advertisement and salesman ship: A big concern can afford to spend large amount of money on advertisement and salesmanship. Amount of money spent on advertisement per unit comes to a low figure when production is on large scale. Salesman can make a careful study of individual markets and thus acquire a hold on new market or strengthen it on old ones.

Utilization of by-products: A big producer will not have to throw away any of its by products or waste products. It will be able to make an economical use of them.

Meeting adversity: A big business can show better resistance in times of adversity.
It has much better recourses. Losses can easily bear.

Cheap credit: A large business can secure credit facilities at cheap rate. Its credit in the money market is high and banks are only two willing to give advance. Low cost of credit reduces cost of production.

Disadvantage of large-scale production:

Over-worked management: A large-scale producer cannot pay off that you can think of full attention to every detail. Costs often rise on account of the employees or waste of material by them. This is due to the lack of supervision. Owing to laxity of control costs of production go up. The management is overworked.

Individual tastes ignored: Large-scale production is a mass production or standardized production. Goods of uniform quality are turned out irrespective of the preferences of individual customers. Individual tastes are not therefore, satisfied. This results in a loss of custom.
Personal element: Paid employees generally manage a large-scale business. The owner is usually absent. The sympathy and personal touch, which ought to exit between the master and the men, are missing frequent misunderstandings lead to strikes and lack outs. This is positively harmful to the business.
Possibility of depression: large-scale production may result overhead production. Production may exceed demand and cause depression unemployment. It is not always easy or profitable to dispose of a large output.
Dependence on foreign market: A large-scale producer has generally to depend on foreign markets. The foreign markets may be cut off by war or some other political upheaval this makes the business risky.
Cut throat competition: Large-scale producers must fight for the markets. These are wasteful competition, which does not to society. Many promising businesses are ruined by senses competition. There is also competition and biddings for resorts and inputs.
International complications and war: When the large-scale producer operates on an international scale, their interest clash either on the score of markets or of materials. These complications sometimes lead to armed conflicts. Many a modem war a rose on account of scramble for materials & markets.
Lack of adaptability: A large scale producing units find it's very difficult to switch on from one business to another, in a depression small firms are able to move away from declining trades to flourishing ones easily. In this way they are able to avoid losses. This adaptability is lacking in a big business.

Factors influencing the Location of Industry

The main factors that influence the location of industry are:

1. **Raw materials:** Industries that use large quantities of bulky materials tend to be located near to the source of these materials (see notes on the iron and steel industry, above). The influence of location in raw materials has declined in recent times due to the improvements in transport and efficiencies in their use.

2. **Energy:** Coalfields were the original energy source that attracted industry. In many cases this has been replaced by hydro-electric power (H.E.P.) and oil, sources that can be distributed more easily. However, some energy-intensive industries such as smelting need to be near cheap and abundant power supplies, e.g., some of the industries using H.E.P. in Norway.

3. **Labour force:** Early industrial development led to a drift from the land to the cities and this helped build up a large and eventually skilled labour force in the cities of, for example, England.

In many cases nowadays, mechanisation has reduced the requirements of a larger skilled workforce. Labour costs are also of great importance and many companies have begun to move production to the cheaper labour markets or Eastern Europe.

4. **Transport:** All industries require a good transport system to permit the importing of raw materials and the exporting of finished products. Modern developments in transport have made it more efficient and more cost effective. Industrial location has thus dispersed from its traditional locations. This has been important in peripheral areas, e.g., Southern Italy (see notes on Problem Regions in the Regional Geography section.)

5. **Access to markets:** The EU contains a large market that has high purchasing power. The well-established urban structure enables manufacturers to reach their markets easily. The Ranstad, Paris, London (see Core and Periphery in the Regional Geography section hyperlink are important examples of these large concentrated, wealthy markets.

6. **Political influence:** The laissez-faire (non-interference) attitude of governments in the past has been replaced by an approach whereby government grants, retraining schemes, etc., are a major influence on the location of industry.

UNIT – IV

Scientific Management

In ancient times, it was thought that management is a matter of experience. The businessman managed his affairs by using his experience and 'hit or miss' and 'rule of thumb' methods. The fact that a business activity yielded profits was considered as if it was being managed well. No deliberate attempt was made to improve the skill of management. The Industrial Revolution of 1776 in England spread the desire for industrialisation in almost all the countries of the world. The Revolution has brought in big industrial houses involving huge amounts of capital investments and thousands of workers.

The end of 19^{th} century when scientific management emerged as a serious movement and the person who popularised it and made it acceptable universally is Dr. Frederick Winslow Taylor, known as the Father of Scientific Management. He published two books 'Shop Management' in 1903 and 'The Principles of Scientific Management' in 1911 which received wide public attention and reading. His philosophy of scientific management was developed and popularized by his contemporaries and associates like Harrington Emerson, Henry L. Gnatt, Frank B. Gilberth and many others.

Meaning:

The term scientific management contains two words-scientific and management. The term management means getting the things done through the others and scientific means systematic analytical and objective approach. In simple words, scientific management is the art of knowing exactly what is to be done and the best way of doing it. It implies the acceptance and application of the method of scientific investigation for the solution of the problems of industrial management.

Definitions:

"Scientific management means knowing exactly what you want men to do and seeing that they do it in the best and the cheapest way."

- **F.W. Taylor**

" It is the organised study of work, the analysis of work into its simplest elements and the systematic improvement of the worker's performance of each element."

- **Peter F. Drucker**

" Scientific management is a conscious orderly human approach to the performance of management responsibilities as contrasted with the day-in and day-out rule of thumb, hit or miss approach."

- **Lawrence A. Appley**

Features:

- It is a systematic, analytical and objective approach to solve industrial problems.
- It implies scientific techniques in method of work, recruitment, selection and training of workers.
- It attempts to discover the best method of doing a work at the cheapest cost.
- It discards the age old methods of the rule of thumb and hit or miss approach.
- It involves a complete change in the mental attitude of workers as well as the management.
- It lays emphasis on all factors of production, men, material and technology.
- It attempts to develop each man to his greatest efficiency and prosperity.

Aims and Objectives:

I. To achieve increased production, reduced costs and maximum efficiency.
II. To provide trained and efficient work force.
III. To standardise methods of work, material and equipment.
IV. To develop science for each of element of a man's work.
V. To replace old rule of thumb.
VI. To select, train, teach and appoint workmen scientifically.
VII. To promote co-operation.
VIII. To ensure division of work and responsibility.

Principles / elements of scientific management:

The principles of scientific management can be studied under the following elements:

1. **Scientific task setting and rate setting:**

   Under scientific management, management should determine the task for every worker through careful scientific investigation, unlike traditional system of management in which management was ignorant as to what constitutes a day's work and the capacity of workmen. The higher standards which cannot be achieved create frustration and the lower standards defeat the purpose of scientific management. The scientific technique of task setting is known as 'work study'.

   Work study may be defined as " a study of work giving close analysis of a given piece of work in order to eliminate every unnecessary operation and in order to approach the quickset and best performing each necessary operation." It eliminates wasteful and unnecessary operations, reduces effort and increases productivity.

   The main aspects of work study are:

a. **Method study:**

   It is a preliminary survey of production process so as to familiarize the investigator with the tools, methods and operations in process. It aims at simplifying the production process by reducing the number of operations. Efforts also made to ensure that the plant is laid out in the best manner and is equipped with best tools and equipments.

b. Motion study:

The originator of motion study was Frank B. Gilbreth. It involves the study of the movement of operations of a worker. It aims at eliminating unnecessary, ill-directed and inefficient motions so as to perform the work in the best possible manner. Frank B. Gilbreth defined motion study is follows”

“ Motion study consists of dividing work into the most fundamental elements possible; studying these elements separately, and in relation to one another and from these studied elements, when timed, building methods of least waste.”

c. Time study:

Time study may be defined as the art of observing time required to do a particular job. It relates to fixing the standard time for doing a job under given conditions.

John A. Shubin defines time study as, “ the analysis and determination of the time necessary to perform a given task.”

d. Fatigue study:

Workers are human beings with different built-up, physical strength and psychological and sociological framework. They are all prone to fatigue on account of over work, stress and strain etc. A fair standard task can be fixed only when it is set after providing for measures to eliminate or minimise fatigue of all kinds, viz., physical, psychological, mental and nervous fatigue. It is necessary, therefore, to ensure that the working hours are regulated and proper rest pauses at scientifically determined intervals are provided so as to enable the workers to recoup the energy lost in continuous operations.

e. Rate-setting:

Taylor strongly advocated that positive measures should be adopted to fix wage rates in such a manner that the average worker is induced to better performance and achieve the standard output. For this purpose, he suggested the ‘differential piece-wage system’. Under this system, standard hourly or daily output of a worker is fixed and there are two piece rates. This system of wage payment is very helpful in increasing the efficiency of workers.

2. Planning the task:

Planning is a process which involves thinking before doing. It is concerned with deciding:

What to do?
When to do?
How to do?
Who will do a particular task?

Having set the task which an average worker must do, the next step is to plan the task so that, the work goes on systematically and there are no bottlenecks. The first question concerning what has to be done is dealt with by the management. Planning and control of production involves further the following steps:

- Issuing the necessary orders for production.
- Laying out the sequence of machines, processes and operations.
- Determining the time required for the completion of each operation and process.

- Keeping ready all the tools and materials as and when required.
- Starting the operations at the time and in the manner fixed in advance.

3. **Scientific selection, placement, and training of workers:**

Selection is the process of choosing persons for a job out of those who have offered themselves for the same. As every task demands a particular skill, qualification, aptitude and training on the part of the worker, a worker selected merely on the snap judgement of a foreman may not be able to cope with the demands made by the task set for an 'average worker'. It is, therefore, very necessary to select workers scientifically. Misfits should be avoided and for this purpose various intelligence and psychological tests should be employed. Scientific selection also includes proper placement of workers. After selection and placement of the right workers, another important task of management is to provide 'good training' in the correct methods of work assigned to them.

4. **Standardisation and simplification:**

Standardisation and simplification are vital components of scientific management. Simplification is 'the process of determining a limited number of types, sizes varieties and grades of articles for production with the object of better control and elimination of waste resulting in ultimate economy and ease in manufacture.' Under the scientific management a worker is expected to achieve a standard task/output given to him. For achieving the standard output, standardisation of materials, tools and equipment, methods of work, speed and conditions of work etc., is very important.

5. **Specialisation:**

   a. **Functional foremanship:**

   The scheme of scientific management remains complete without the introduction of specialisation at all levels. Under the old system of management , one foreman was incharge of a number of workers and the workers were directly under his control. Taylor suggested the' functional foremanship'. He suggested eight functional specialists, the first for attached with planning work and the net four with the step work:

   - Route clerk to lay down the sequence of operations and direct the workers to follow the same.
   - Instruction card clerk to lay down the exact method of doing a work, use of tools and equipments and the optimum speed at which machines are to be worked etc.
   - Time and cost clerk to keep records of time spent by different workers on different jobs, to give necessary instructions to workmen regarding time and rates and also to obtain proper return of work from them.
   - Shop disciplinarian to deal with the cases of breach of discipline and absenteeism.
   - Gang boss to assemble and set up various equipments and tools to enable the workers begin their work immediately after entering the shop.
   - Speed boss to ensure that machines are run at their optimum desired speed.
   - Repairs boss to ensure regular cleaning, servicing and repair of machines to keep them in efficient working order.

- Inspector to ensure that the workmen to do the work of the requisite quality and the jobs are executed as per specifications.

b. **Management by exception:**

The founders of scientific management advocated that the managers should be burdened with all kinds of routine matters, rather only condensed reports, requiring their attention must be sent to them, particularly at higher levels of management. This is known as management by exception.

6. **Mental revolution:**

All the principles of scientific management will prove futile in achieving its objectives of maximum productivity and prosperity unless there is a healthy co-operation between the workers and the employers. The techniques of scientific management cannot be applied unless there is complete harmony and co-operation between the workers. This calls for a total revolution in the outlook and attitude of both the management and the workers.

We can conclude from the above that scientific management calls for a complete mental revolution –mental attitude of both the management and the workers and hence it should be introduced gradually in organisation.

Benefits:

Scientific management aims to develop each man to his greatest efficiency and prosperity. It enables to increase production and productivity, reduce costs of production and maximise prosperity. The main advantages arising out of scientific management are as follows:

1. **Increase in production and productivity:**

   The scheme of scientific management involves planning of task and scientific methods of doing work. This results in the increase in production per worker and per machine because of increased efficiency.
2. **Reduction in cost of production:**

   Scientific management ensures avoiding of all types of wastages and losses. There is a planned production and production time is minimised. This leads to reduction in cost of production.
3. **Better quality of products:**

   Standardisation, which is an essential element of scientific management, ensures better quality products.
4. **Benefits of division of labour:**

   The principle of specialisation adopted under scientific management enables to attain the benefits of division of labour. The work is simplified and carried in the most economical manner.
5. **Mutual co-operation between labour and management:**

   Scientific management concerned with changing the attitude of management and the workers. It is instrumental in developing healthy co-operation between workers and management, thereby, it removes the cause of industrial disputes.

6. **Proper selection and training of workers:**
   One of the essential elements of scientific management is proper selection, placement and recruitment of workers. Misfits are avoided and right man is given a right job.
7. **Better working conditions:**
   Scientific management provides better conditions of work to the workers viz., proper working hours, rest pauses, ventilation, lighting, floor space, safety etc.
8. **Better utilisation of resources:**
   By elimination of unnecessary movements of men and machines, elimination of wastages, motivating labour to work efficiently and effective supervision of all types of resources, scientific management enables the optimal use of all resources.
9. **Increased wages:**
   Under the scheme of scientific management, efficient workers get increased wages due to differential wage incentive plans as suggested by the propounders of scientific management. The increased wages improve the standard of living of the workers.
10. **Gains to consumer, Nation and Investors:**
   Consumers are benefited by the richer quality products made available at cheaper prices due to the benefits of scientific management. Scientific management provides many benefits to the nation at large. It ensures industrial peace , increased production, maximum prosperity, increase in national income, higher standards of livi8ng and rapid industrial development. Increased productivity, large –scale production and reduction in costs lead to increase in profits to the investors or the owners.

Criticism:

Inspite of so many benefits, scientific management has evoked certain criticism from various quarters. It has been severely criticised by the workers, the employers and the industrial psychologists and the theoretical thinkers like Peter Drucker, March and Simon, Douglas McGregor have opposed scientific management. The criticisms are as follows:

1. **Workers criticism:**
   - **Speeding up of workers:**
     Workers feel that scientific management is nothing but a device to force workers to a greater speed, without much regard for their health and safety. It creates a lot of physical and mental strain upon them.
   - **Loss of worker's skill and initiative:**
     Worker's allege that under scientific management they are reduced to the position of machines as the work methods and operations are standardized. The worker has to work according to the instructions of the foreman. This leads to loss of initiative from the workers and they cannot suggest better methods of work. The criticism seems to be genuine. But there is nothing wrong in the principles of management, it is only in its implementation.

- **Monotony:**
  Under scientific management the function of planning is separated from that of doing. Every worker is expected to perform his small part of a job due to specialisation. This makes the work monotonous and the worker tends to lose interest in his job.
- **Unemployment:**
  Scientific management reduces the number of processes and motions of workers, increases the hourly or daily output per worker, increases their efficiency by standardisation and division of labour, thereby, it creates unemployment by requiring lesser number of workers. But this argument does not hold good in long run.
- **Exploitation and discrimination of workers:**
  The workers allege that, under a scheme of scientific management, there is an exploitation of workers. The gains of increased productivity are not shared appropriately with the workers. The major portion of increased profits is taken away by the investors and only an significant benefit is given to the workers by way of increase in wages and bonus.

2. Employer's criticism:

- **Expensive:**
  The introduction of scientific management involves top heavy expenditure on account of standardisation of materials, equipment, tools and working conditions. Further, expenses are incurred on conducting time, motion and fatigue studies. The elimination of wastes, reduction in cost of production, increase in efficiency and productivity , higher profits etc., all suggest for introduction of scientific management.
- **Re-organisation:**
  The introduction of scientific management calls for a complete reorganisation of the whole set up of i8ndustrial unit. Everybody in an organisation feels that routine work and they are not prepared mentally for any major change. There is time lag in the reorganisation and it will result to loss of production and it leads to time consuming and expensive.
- **Unsuitable for small-scale units:**
  Some employers are of the opinion that scientific management is suitable for only large-scale units and the small-scale units cannot afford to introduce the scheme of scientific management. But, even this contention is untenable. There is a scope for improvement in every organization big or small.
- **Over-production:**
  Employers allege that if scientific management is introduced by all units in one industry, it may lead to over-production or glut in the market, which in turn, is bound to cause recession in the market. But this objection seems to have no valid grounds.

3. **Psychologists criticism:**
    - **Mechanical in nature:**
      The most important criticism advanced against scientific management by the individual psychologists is that it is mechanical in approach. The workers have to work strictly in accordance with the instructions given to them. This results in a loss of worker's skill and initiative. Industrial psychologists feel that the management should adopt a human approach towards the workers.
    - **Absence of non-wage incentives:**
      Scientific management provides the use of only monetary financial incentives byway of differential wage plan. But the industrial psychologists are of the view that there are various non-monetary incentives such as job security, independence, recognition, urge for self expression, status, promotion, etc.., which inspire and motivate workers for better performance.
    - **'One best way' of doing work:**
      Scientific management is primarily concerned with finding one best way of doing work. All the workers are expected to do the work in accordance with the 'one best way'. But industrial psychologists are of the view that workers differ in intelligence, mental attitude, education and training, and capacity to work and hence all of the workers cannot work efficiency in 'one best way' .
    - **Speeding up of workers and Monotony:**
      Scientific management forces workers to work to a greater speed, without much regard for their health and safety. It creates a lot of physical and mental strain upon them. The psychologists are of the view that the work should be so planned that it takes into consideration, the health and safety of workers. Specialisation, as envisaged under scientific management, results in monotony. It reduces efficiency as the worker tends to lose interest in his job. The industrial psychologists suggest 'job enlargement' as a possible solution to reduce the monotny of conditions work.

Rationalisation:

The word 'rationalisation' has been derived from the german word 'rationalisierung' and the English word 'rationale' which means an act endowed with reasoning. The measures adopted at that time to rehabiliate the economy were so novel that all such measures came to be recognised as a new industrial revolution. It was achieved by combination of industrial units, closing down of sick units, production at a large scale, avoiding competition and reducing costs. Rationalisation is concerned with the use of most efficient methods of production, distribution and transportation. It is concerned with taking all such steps which promote efficiency, increase production, avoid wastages and reduce cost of production. It is, in fact, a cure for all industrial evils.

Definitions:

The **National Board for Economy and Efficiency** set up in **Germany** in 1921 defined rationalization as, “ the employment of all means of technique and ordered plans which serve to elevate the whole industry and to increase production, lower its costs and improve its quality.”

In the words **of E.A.G. Robinson**, “ the term rationalisation denotes reorganisation of relationship of individual firm to industry as a whole. Its aim are to overcome resistance to the establishment of optimum units of production and to concentrate production on the works which are best equipped to undertake it and to close down the less efficient plants.”

Features:

1) It is concerned with reorganisation of industries by way of amalgamation or merger of small inefficient units into big and efficient unit.
2) It is a concerted action to bring reform in industries.
3) It is concerned with elimination of waste and inefficiency by applying scientific methods.
4) It is a concerted move to avoid bridled competition.
5) It is a move to eliminate insufficiencies and reduce costs.
6) It is concerned with replacing old and outmoded methods with the latest techniques of production.
7) It aims at optimum utilization of available resources.
8) It is a way of all round economic growth.

Aims and Objectives of Rationalisation:

In India, the Bombay Textile Labour Committee, 1941, has laid down the three main aims of rationalisation:

A. Increase in production per man and machine and its relation to wages.
B. Improvement in the efficiency of workers and in the working conditions.
C. Financial and industrial re-organisation.

Advantages :

Rationalisation has immense benefits not only to the industry but the society at large. The following are the advantages :

I. **Benefits to Producers**
   - **Economy in production:**
     The cost of production gets reduced due to the adoption of more efficient means of production and the elimination of uneconomic units.
   - **Avoids uneconomic competition:**

Rationalisation avoids uneconomic competition through amalgamation or merger of units.

- **Large scale production:**
  Rationalisation enables an industry to achieve the economies of large-scale production through specialisation, simplification, standardisation and mechanisation.
- **Increased profits:**
  Rationalisation results in reduction of costs. Reduced cost of production increases the business profits.

- **Economic stability:**
  It eliminates uneconomic competition through amalgamation of weaker units and thus leads to stability in industry.
- **Industrial co-operation:**
  Rationalisation promotes industrial co-operation by way of forming groups, common policies, integrated plans, exchange of ideas and united effort to overcome problems.

II. Benefits to Workers

- **Higher remuneration:**
  Rationalisation ensures better utilization of human resources. Production and productivity are increased. The cost of production goes down, the profits are increased and consequently the workers also get higher renumeration.
- **Enhanced efficiency:**
  Rationalisation enhances efficiency of workers by providing more scientific techniques of production and better working conditions.
- **Security of job:**
  Rationalisation results in the security of job for the workers, as industrial units are run on sound principles and there are much lesser chances of their failure or closing down.
- **Better working conditions:**
  Workers get better working conditions as a result of rationalisation. The employees can afford to provide them much better conditions due to increased profits.
- **Better amenities:**
  Rationalisation results in better amenities to workers by way of providing various facilities like housing, recreation, medical, education, social security schemes etc.

III. Benefits to Consumers

- **Cheaper goods:**
  Due to the reduced cost of production, rationalisation enables the producer to provide goods at lower rates to the consumers.

- **Improved quality of goods:**
  One of the basic aims is to provide better quality goods to the consumer. As a result of research and latest methods of production, consumers are ensured of improved quality of goods.
- **Convenience of choice:**
  Rationalisation provides standardisation of products and this results in convenience of choice to the consumers within a narrow range of standard products.
- **Better standard of living:**
  Rationalisation results in better standard of living because of the availability of cheaper and better quality products at reduced costs.

IV. **Benefits to Society**

- **Higher national income:**
  Production and productivity are increased as a result of rationalisation. This further results in higher national income and increased in per capita income.
- **Effective utilisation of resources:**
  Rationalisation ensures effective utilisation of resources by eliminating insufficiencies and wastages.
- **Earn foreign exchange:**
  The increased efficiency enables the industry to boost its exports and thus enables the country to earn more foreign exchange
- **National prosperity:**
  Because of the various benefits to all the groups of the community. Rationalisation leads to normal prosperity.

Limitations:

Rationalization provides a number of benefits to producer, workers, consumers and society at large but at the same time it has been criticized by different sections of the society on account of its various limitations:

A. **Producers/Employers' objectives**

- **Huge capital outlay:**
  The scheme of measures of rationalisation like mechanisation, standardisation, specialisation, etc., involves huge capital outlay.
- **Financial burden:**
  The producers feel that rationalisation is a never ending process as there is no end to inventions and discoveries. They are of the opinion that once rationalisation is adopted. It is a permanent financial burden on theindustry.
- **Shortage of finances:**
  Rationalisation requires a lot of financial resources. Due to the shortage of finance, many entrepreneurs are not in a position to avail the benefits of rationalisation.

- **Fear of nationalisation:**
  The producers/employers fear that the government may take the drastic step of nationalisation of rationalised industry and hence they do not go in for rationalisation.

- **Fear of labour problem**:
  Some employees feel that rationalisation which leads to increase in productivity may bring in albour problems as workers may demand the major share in the increased profits. This will create lanour problems through unions etc.
- **Increased taxes:**
  Employers object rationalisation on account of fear of increase in taxes on rationalised industry. They fear that government may increase taxes on rationalised industry expected to earn more.

B. Workers' objectives

- **Fear of unemployment:**
  Indian workers are particularly opposed to rationalisation on the ground that the scheme of rationalisation, if implemented, will virtually create unemployment. The problem of unemployment can be tackled by creating more job opportunities and making proper arrangements to accomodate surplus labour of rationalised industry in the new units.
- **Increased work-load:**
  Workers feel that many managements attempt to extract the maximum amount of work from workers under the guise of rationalisation.
- **Exploitation of workers:**
  Rationalisation may lead to exploitation of workers in the hands of employers. The workers raise an objection that the benefits derived by rationalisation are not shared equitably by the management with the workers.
- **Reduction in the importance of labour:**
  The workers contend the rationalisation implies mechanization and automation resulting into reduction of the importance of labour. They also contend that mechanisation leads to monotony.

C. General objectives

- **Elimination of small units:**
  Rationalisation leads to merger of small weaker units into big efficient ones. It results into elimination of such small units.
- **Creation of monopolies:**
  Past experience indicates that rationalisation schemes give birth to monopolies in the form of business combinations, pools, cartels. etc. this further leads to concentration of economic power and exploitation of consumers.

- **Evils of the business:**
  Rationalisation leads to creation of big business houses and large-scale production which has its own dangers such as difficulty of control, unbalanced economic growth, heavy administration costs, danger of over production, etc.
- **Adverse effect on cottage and small-scale industries:**
  The schemes of rationalisation involving mergers of big business houses lead to elimination of cottage and small scale industries because of providing of huge employment.

Industrial Policies:

Industrial policy refers to those actions of the state which influence growth of the industrial economy of a country. The term industrial policy is made up of two components. One is the philosophy to determine the shape of the industrial growth. Second component consists of rules and regulations designed to implement the policy so as to achieve its objectives. The following points explains the importance of the industrial policy:

- The government has to earmark certain areas of economic activity for itself and leave other areas for private sector so as to make the optimal use of limited resources.
- The second reason is the need for proper regulation of the private sector so as to make it fall in the plan framework.
- Thirdly, it is also essential to regulate and co-ordinate the activities of the domestic and foreign sector so as to fit in the planned programme of development.

The British government in India took no steps to put India on the path of industrial development. It was in the interest of the British government to keep our country as a source of food and raw materials and a market for the British industrial products. After the outbreak of first world war in 1914 that witness some change in the government's policy. At the fag and end of the British rule a department of planning and reconstruction was setup in 1944 to draw up an industrial programme. Immediately after the country became independent, the national government felt the need for developing industries in a planned manner in the national interest. The government convened the industries conference in 1947 which emphasized the need for a clear cut demarcation of the role of private and public sectors. The recommendations of the industries conference, the government declared its first industrial policy in 1948 .

Industrial policy resolution, 1948:

The government of India announced a comprehensive industrial policy on April 6,1948 with the following general objectives:

i. Establishment of a social order where justice and equality could be secured for all
ii. Rapid rise in the standard of living of the people
iii. Increasing production
iv. Acceleration of industrialisation
v. Providing employment opportunities to all.

Features:

A. The state accepted the responsibility to actively participate in the development of industries. The industries were divided into four categories:
   I. The state accepted the responsibility to actively participate in the development of industries. The industries are divided into four categories:
      - Industries like arms and ammunition, atomic energy etc. to be the exclusively monopoly of the state.
      - Industries like coal, iron and steel, air-craft, etc. existed in the public sector
      - Industries like automobiles, tractors, fertilizers etc to be regulated by central government in consultation with concerned state.
      - Rest of industrial field left to private sector.
   II. Mixed economy pattern was adopted.
   III. The importance of small scale and cottage industries was recognised.
   IV. Unfair competition will be avoided through tariff measures.
   V. Cordial relations between management and labour were recognised .
   VI. Foreign capital investment was encouraged only under Indian control.
   VII. Taxation policy to discourage concentration of wealth.

Industrial policy 1956:

On April 20, 1956 the government of India adopted another Industrial Policy Resolution which replaced the 1948 resolution. The new resolution had become necessary due to the changes and developments that had taken place during eight years. After completion of first five year the government was introduced the second five year plan for the sake of industries. The target of investment in heavy industries and mining fixed at Rs.890 crores.

Objectives:

The resolution laid down the following objectives to be achieved under the industrial policy:

I. To accelerate the rate of economic growth and to speed up industrialisation.
II. To develop heavy industries and machine making industries.
III. To expand public sector.
IV. To build up a large and growi8ng co-operative sector.
V. To reduce disparities in income and wealth

Features:

I. Small scale and cottage industries to be helped through taxation measures and state subsidies.
II. Reduction in regional disparities by extending infrastructural facilities.
III. The need for technical and managerial personnel was recognised and efforts to be made for creating training facilities.

IV. Need was felt for sound industrial relations and incentives for labour. Improvement in working and living conditions of workers was left.

V. The public sector units to be managed on sound business lines. This sector was expected to generate revenue for further developmental purposes.

Criticism:

I. The revolution greatly reduced the scope for private enterprises. Some people saw in it the beginning of state capitalism.

II. Many industrialists and thinkers have criticised the policy on the ground that it is influenced more by the ideological consideration than by the actual needs of the country.

III. The resolution envisaged flexibility but it was intended primarily to operate in favour of the public sector because the state could enter into any industry or trade.

IV. It placed greater emphasis on the public sector.

V. Doubts have also been expressed about the competence of the government to establish and run industries efficiently by the advocates of private sector.

Industrial policy 1973:

The question of amending the industrial policy resolution of 1956 has been coming up for consideration at various levels from time to time. The government of india adopted a new industrial policy statement on February 2,1973. The new policy statement of 1973 again made it clear that the industrial policy resolution would continue to govern the industries for achieving the objectives of growth, social justice and self-reliance in the industrial sphere. The 1956 policy is kept constantly but they added some more important points in to the policy.. it gave considerable concessions to private sector units and foreign firms. The core industries, the industries having direct links with such industries and the industries having a long-term export potential are being included under the category of basic, critical and strategic industries classified under 19 groups. Large industrial houses were also permitted to participate in such basic, critical and strategic industries.

Industrial policy 1977:

The new industrial policy was introduced by Janta party government on December 23,1977. The government member Mr. G. Fernandes, the union minister for industries placed before the parliament of this policy. The following are the objectives of this policy is :

- Maximum output of consumer goods.
- Maximum utilisation of human and natural resources.
- Prevention of monopoly and concentration of economic power in few hands.
- Promotion and nurturing of village and small industries widely dispersed in rural and semi-rural areas.
- Creation of a tiny sector which will develop labour-intensive industries and offer self-employment opportunities.

Industrial policy 1980:

The Indira Gandhi government announced its new industrial policy in july,1980. Broadly speaking, the new policy seeks to promote the concept of economic federalism, offers a new deal to the private sector, promises to improve the efficiency of the public sector and seeks to reverse the trend of the past three years towards creating artificial divisions between small-scale and large-scale industries.

Features:

- **Role of public sector:**
  The policy statement accepted that there has been an erosion of faith in public sector in recent past. A drive is to be launched for reviving the efficiency of public sector undertakings.
- **Economic federalism:**
  The artificial division between small scale sector and large scale sector will be eliminated. The policy proposes to promote the concept of economic federalism with the setting up of few nucleus plants in each district identified as industrially backward to generate as many ancillaries and small and cottage units as possible.
- **Redefining of small scale units:**
  In view of the marked rise in prices and to boost the development of small scale industries, the criteria for small scale sector as revised as follows:
  - the investment limit in case of tiny units has been increased from Rs.1L to Rs.2L
  - the limit of investment in plant and machinery in the case of small scale units has been increased from Rs. 10L to Rs.20L
  - the limit of investment in ancillary limits has been increased from Rs. 15L to Rs.25L
- **Rural area industry:**
  In order to generate employment opportunities and higher per capita income in rural areas, suitable industries are to be encouraged.
- **Regularisation of excess capacity:**
  This policy resolution further simplified the procedure for regularisation of unauthorised excess capacity. The FERA and MRTP were also to be considered for this regulations.
- **Automatic expansion:**
  The large scale sector was allowed automatic extension to all industries specified in the first schedule of the 1951 Industrial Development and Regulation Act.
- **Removal of regional imbalances:**
  In order to correct regional imbalances, government would encourage dispersal of industry and setting up of units in industrially backward areas.
- **Industrial sickness:**
  In order to overcome the problem of sickness, the government would encourage to merger sick units with healthy units, government will allow tax concessions for this purpose.

Recent industrial policy developments:

- The industrial policy changes made in 1982 removed some of the serious anomalies in the government's industrial policy.
- Foreign investors can now raise their equity investment over 40 percent prescribed by Foreign Exchange Regulation Act (FERA).
- Monopolies and Restrictive Trade Practices Act (MRTP) has also been amended to streamline the procedures involved in industrial licensing.
- In March and June 1985, the government delicensing the 25 broad categories of industries and 82 bulk drugs and related drugs formulations.
- The MRTP Act has also been rationalised.

Industrial policy 1991:

The government of India announced a new industrial policy on July 24, 1991. It was a bold step in the direction of streamlining the setting up of new units and simplifying procedures for expansion of existing enterprises.

Objectives:

- Unshackle the Indian industrial economy from unnecessary bureaucratic controls.
- To correct the distortions or weaknesses involved in the policy.
- To abolish restrictions on direct foreign investment.
- To liberalise home industry from restrictions of MRTP Act.
- To maintain a sustained growth in productivity.
- To reduce the load of public sector enterprises.

Features:

- **Abolition of industrial licensing:**
  In order to liberalise the economy and to bring transparency in the policy, the new policy has abolished the system of industrial licensing except 18 industries. The industries under licensing are coal and liquate, petroleum and its distillation products, distillation and brewing of alcoholic drinks, sugar, animal fat and oils, cigars and cigarattes of tobacco and manufactured tobacco substitutes, asbestos, plywood and other wood products, raw hides and skins, leather and other leather products, motor car, paper , hazardous chemicals, drugs and pharmaceuticals, entertainment electronics etc.. These items are in small scale sector.
- **Role of public sector:**
  The public sector enterprises were not showing good results inspite of huge investments. The new policy reduced the list of industries from 18 to 8 reserved for public sector. The industries are i) arms and ammunition ii)atomic energy iii) coal and lignite iv) mineral oils v) mining of iron ore, managanese ore etc. vi) mixing of copper, lead, zinc, tin etc. vii) minerals specified in the schedule to the atomic energy viii) rail transport. In 1993 the government

reduced the reserved industries from8 to 6 and in may 2001 even arms and ammunition sector was opened to private sector. Now there is only 3 industries reserved for public sector.

- **Concessions from monopolies act:**
  The new policy states that the pre-entry scrutiny of investment decisions by so called MRTP companies will no longer be required. It was not necessary to obtain approval of the centre for expansion, establishment of new undertakings, merger, amalgamation and take over and appointment of directors under certain circumstances. The emphasis now will be placed on controlling and regulating monopolistic restrictive and unfair trade practices.
- **Foreign investment and technology:**
  The new policy prepared a list of 34 industries where automatic permission will be available for direct investment up to 51 percent foreign equity. The industries included in this list were metallurgy, boiler and steam generating plants, electrical equipment, telecommunication, transportation, industrial and agricultural machinery, chemicals, hotels, tourism industry etc. automatic permission will be given for foreign technology agreement. In some sectors the FDI's could goto 100 percent in 1997-98 but it was permitted in 2000-01. The business are pharma sector, airports, hotel and tourism industry, courier services and mass rapid transport system and internet service providers etc..
- **Location policy liberalised:**
  The new policy mentioned that in location other than cities of more than 10 lakh population no industrial approvals from the centre will be required except industries subject to compulsory licensing. However electronics, computer software and printing industry may be located within 25KM on peripher. Amandment in location policy was made during 1997-98.
- **Abolition of phased manufacturing programmes:**
  In order to increase indianisation, a phased manufacturing programme was enforced earlier. The new policy has totally abolished such programmes as the government feels due to substantial reforms of trade option policy and devaluation of rupee there is no need to reforce such programme.

Merits:

- **Increase in efficiency:**
  The changes in industrial licensing policy, foreign technology agreements, foreign investments have simplified the procedures and encouraged more investments. The time taken for various clearances have been done away with. All this will bring efficiency in this system.
- **Liberalisation:**
  The new industrial policy has liberalised the economy by removing bureaucratic hurdles in the way of industrial development. The policy has also removed the limit of assets fixed for MRTP companies and dominant undertakings.

- **Increase in competition:**
  This policy has laid emphasis on controlling and regulating monopolistic, restricting and unfair trade practices. All these measures will result in healthy competition among various industrial units.
- **Higher production:**
  The policy has encouraged the import of latest technology, foreign investments and managerial expertise. All these measures will lead to better and higher production.
- **New role of public sector:**
  The public sector has been assigned a new role in the new policy. The list of reserve industries for this sector has been reduced from 17 to 4. The private sector can enter into even strategic industries. The inefficient PSU will be restructured and loss making units be even sold.
- **Encouragement to small scale sector:**
  The growth of small and tiny sector was emphasised by giving a separate statement for their development. The government will provide enhanced support to small scale sector so that it flourishes in an environment of economic efficiency and technology upgradation.
- **Protecting interests of employees:**
  Since disinvestment in PSU could lead to lay-offs and retrenchments, the governments proposed to set up National Renewal Fund for the settlement and betterment of workers.

Demerits:

- **Reducing the role of public sector:**
  The role of public sector has greatly been reduced by the new industrial policy from 17 to 8 and then to 3. It means the public sector will not running a large number of industries. Secondly, the sick and loss making units may either be restructured or sold in the market.
- **Concentration of economic power:**
  It is feared that new industrial policy may lead to more concentration of economic power. The industrial sector in India is mainly in the hands of some industrial houses, the entry of private sector in more areas may lead to more concentration of economic power in few hands.
- **Ignoring social objects:**
  The five year plans and earlier industrial policies emphasised social objectives as the main aim of these measures. New industrial policy has reduced the role of public sector and the objective of socialistic pattern of society has not been kept in mind.
- **Fear of regional imbalances:**
  The liberalisation of industrial licensing and lessening of controls will give freedom to private enterprises to select the locations for new enterprises. For new development of industries there is a fear of regional imbalances in future development.
- **Privatisation may not lead to efficiency:**
  This policy assumes that more entry of private sector into restricted industries will bring more efficiency in this system. In fact privatisation without competition will result in inefficient private sector monopoly.

Criticisms:

- **No impact on industrial growth:**
  Foreign capital was freely allowed, licensing system was dispensed with. Inspite of all such positive steps there is no positive impact on industrial growth. From the pre-reform decade (1980-81 to 1991-92) the average rate of growth of industrial production which was 7.8 percent fell to 6.6 percent per annum during the post-reform decade(1992-93 to 2000-01) but it was fell into 2.7 percent in 2001-02.
- **Threat of foreign competition:**
  Indian industry welcomed the new policy. They realised later on that liberalised system has allowed many MNC's to come to India. Now the Indian industry is asking for a level playing field and are not sure of surviving the current competitions.
- **Imbalance in production structure:**
  The capital goods industries are essential for laying a sound foundation for industrial growth. In the last decade the average growth rate in this sector has gone down from 9.4 percent to 5.4 percent per annum.
- **Misplaced faith in foreign investments:**
  Government has been encouraging foreign direct investment in various fields since new industrial policy. A feeling was that it will supplement domestic investments, help in technology upgradation, increase export potential. All foreign technologies are not suitable to Indian conditions. Moreover India needs technologies which can absorb labour force. MNC'a are also not making India as a production base for exporting to foreign countries. They export goods only to fulfill export obligations or to earn foreign exchange for importing their own requirements.
- **Dangers of business colonisation:**
  MNCs are trying to purchase Indian enterprises and introduce their own brands in the market by replacing the existing ones. The objective is to reduce local companies and create monopoly. Some MNCs entered into joint ventures with Indian companies foe entering the market and then eased out their partners. The dangers of business colonization habe been raised by the acts of MNCs.

Stock Exchange

The investors want liquidity for their investments. The securities which they hold should easily be sold when they need cash. Similarly, there are others who want to invest in new securities. There should be a place where the securities may be purchased and sold. Stock exchanges provide such a place where the securities of different companies can be purchased and sold. Stock exchanges is a body of persons, whether incorporated or not, formed, with a view to helping, regulating and controlling the business of buying and selling securities.

Stock exchanges are organised and regulated markets for various securities issued by corporate sector and other institutions. The stock exchanges enable free purchase and sale of securities as commodity exchanges allow trading in commodities.

Definitions:

Pyle defines, “Security exchanges are market places where securities that have been listed thereon may be bought and sold for either investment or speculation.”

Securities Contract (Regulation) Act, 1956 defines, “Stock exchange means anybody of individuals, whether incorporated or not, constituted for the purpose of assisting, regulating or controlling the business of buying and selling in securities.”

Characteristics:

The following are the characteristics are :

- It is a place where securities are purchased and sold.
- A stock exchange is an association of persons whether incorporated or not.
- The trading in an exchange is strictly regulated and rules and regulations prescribed for various transactions.
- Both genuine investors and speculators buy and sell shares.
- The securities of corporations, trusts, governments, municipal corporations, etc. are allowed to be dealt as stock exchanges.

Functions:

The stock exchanges plays important role in the economic development of a country. The importance of stock exchanges will be clear from the functions they perform and discussed as follows:

1) **Ensure liquidity of capital:**
   The stock exchanges provide a place where shares and stock converted into cash. The exchanges provide a ready market where buyers and sellers are always available and those who are in need of hard cash can sell their holdings. It is because of exchanges that many persons invest in securities and they can again convert them into cash.
2) **Continuous market for securities:**
   The stock exchanges provide a ready market for securities. The securities once listed continue to be traded at the exchanges irrespective of the fact that their owners go on changing. The exchanges provide a regular market for trading in securities.
3) **Evaluation of securities:**
   The investors can evaluate the worth of their holdings from the prices quoted at different exchanges for those securities. Stock exchanges are helpful in evaluating any type of security listed there.
4) **Mobilising surplus savings:**
   The stock exchanges provide a ready market for various securities. The investors do not have any difficulty in investing their savings by purchasing shares, bonds etc. from the exchanges. In this way, stock exchanges play an important role in mopping up surplus funds of investors.

5) **Helpful in raising new capital:**
   The new and existing concerns need capital for their activities. The new concerns raise capital for the first time and existing units increase their capital for expansion and diversification process. The exchanges are helpful in raising capital both by new and old concerns. The intending buyers also remain in touch with the exchanges for investing money in securities.
6) **Safety in dealings:**
   The dealings at stock exchanges are governed by well-defined rules and regulations of Securities Contract (Regulation) Act, 1956. There is no scope manipulating transactions. The safety in dealings brings confidence in theminds of all concerned parties and helps in increasing various dealings.
7) **Listing of securities:**
   Only listed securities can be purchased and sold at stock exchanges. Every company desirous of listing its securities will apply to the exchange authorities. The listing is allowed only after a critical examination of capital structure, management and prospectus of the company. The listing of securities gives priviledge to the company. It cannot display the financial status of the company.
8) **Platform for public debt:**
   The increasing government's role in economic development has necessitated the raising of huge amounts for this purpose. the stock exchanges provide a platform for raising public debts. The investor want to trade in the stock exchanges through the broker.
9) **Clearing house of business information:**
   The companies listing securities with exchange have to provide financial statements, annual reports and other reports to ensure maximum publicity of corporation operations and working. The economic and other information provided at stock exchanges help companies to decide their policies.

Operators at stock exchange

1. **Jobbers:**

Jobbers are security merchants dealing in shares, debentures as independent operators. They buy and sell securities on their own behalf and try to earn through price changes. Jobbers cannot deal on behalf of public and are barred from taking commission. They directly deal with brokers who in turn make transactions on behalf of public. Jobbers generally quote two prices one at which he is prepared to purchase and the other at which he is prepared to sell a particular security. The difference between the two prices is the jobber's profit which is technically known as 'jobber's turn'.

2. **Brokers:**

Brokers are commission agents, who act as intermediaries between buyers and sellers of securities. They do not purchase or sell securities on their behalf. They bring together buyers and sellers and help them in making a deal. Brokers charge commission from both the parties for their services. Brokers are experts in estimating trends of prices and can effectively advise their clients in reaping a fruitful gain. The investors who do not know the technicalities of stock exchanges are greatly benefitted by the expertise of brokers.

3. **Tarawaniwalas:**

   A Tarawaniwala makes transaction on his own behalf like a jobber but he may also cat as a broker on behalf of the public. They indulge in malpractice to earn profits. They may sell their own securities to their clients when prices are higher and vice-versa.

Types of speculators:

1. **Bull:**

   A Bull or Tejiwala is an operator who expects a rise in prices of securities in the future. In anticipation of price rise he makes purchases of shares and other securities with the intention to sell at higher prices in future. He being a speculator has no intention of taking delivery of securities but deals only in difference of prices. Such a speculator is called a bull because of resemblance of his behaviour with the bull.

2. **Bear:**

   A bear or Mandiwala speculator expects prices to fall in future and sells securities at present with a view to purchase them at lower prices in future. A bear does not have securities at present at present but sells them at higher prices in anticipation that he will supply them by purchasing at lower prices in future. When the bear operators start selling the securities, the bearish pressure gradually forces down the prices. A bear does not take delivery of securities but takes the difference if price falls down. A market is said to be bearish when it is dominated by the bear speculators.

3. **Stag:**

   A stag is a cautious speculator in the stock exchange. He applies for shares in new companies and expects to sell them at a premium if he gets an allotment. He selects those companies whose shares are in more demand and are likely to carry a premium. He sells the shares before being called to pay the allotment money. A stag doe not indulge in purchase and sale of shares in the market like a bull and bear. He relies only on the allotment of securities to him.

4. **Lame duck:**

   When a bear finds it difficult to fulfil his commitment, he is called struggling like a lame duck. A bear speculator contracts to sell securities at a later date. On the appointed terms, he is not able to get the securities as the holders are not willing to part with them.

Factors influencing prices on stock exchange:

There are a number of factors which influences the prices of shares on a stock exchange. Some factors are related to the concerned company, some to the general economic situation in the country and some to the political and government policies. These factors are discussed as follows:

1. **Financial position of the company:**

   The financial position of a company directly influences the prices of its shares. When a company shows good results by increasing its sales and profits then its shares will command a better price in the market. The rate of dividend declared by a company also influences the price of shares. A higher dividend paying company will attract more investors. If a company fails to pay dividend then its share holders will starts selling their holdings and the prices of shares will go down.

2. Demand and supply position:

Like any other commodity the prices of shares are also influenced by the demand and supply position in the market. The shares in more demand will command a higher price. If the supply of shares is more than their prices will go down.

3. Role of financial institution:

The financial institutions are playing an important role in influencing the prices of shares. The institutions such as LIC, UTI (Unit Trust of India), IFC(Industrial Finance Corporation), ICICI(Industrial Credit and Investment Corporation of India) etc., purchase shares of good companies in bulk. This not only gives a good name to the company but also reduces the supply of shares. Such purchases increase the prices of shares.

4. Lending rates:

Lending rate influences the supply of money which ultimately affects prices of shares. Reserve Bank of India fixes the bank rate for re-discounting facilities to commercial banks. The bank rate governs the rate of interest charged by commercial banks. The low lending rate of banks will result in more supply of money and it will increase the demand for shares. The increase in demand for shares will increase their prices.

5. Trade cycles:

The stage of trade cycles at a particular period also influences shares prices. In the period of boom the prices of shares go up because of overall prosperity. The situation of depression brings stagnation in growth and prices of shares go down.

6. Speculation activities:

The speculative activities of operators at a stock exchange influence prices of shares. The speculators may create artificial scarcity of some shares by purchasing available shares. Once they control the supply of a particular share then they dictate its prices. The operations of bulls, bears and stages directly influence the prices of shares on a stock exchanges.

7. Government control:

The policies of the government also influence the prices of shares. When the government gives encouragement and concessions to the expansion and diversification of existing units and setting up of new units their money market will grow.