



Business Organisation

SYLLABUS

UNIT-I

Business: Concept, Meaning, Features, Stages of development of business and importance of business. Classification of Business Activities. Meaning, Characteristics, Importance and Objectives of Business Organization, Evolution of Business Organisation. Difference between Plant, Firm and Industry and Business & Trade, and Profession & Vocation, Modern Business and their Characteristics.

UNIT-II

Promotion of Business : Considerations in Establishing New Business. Qualities of a Successful Businessman. Forms of Business Organisation: Sole Proprietorship, Partnership, Joint Stock Companies & Co-operatives and their Characteristics, relative merits and demerits. Difference between Private and Public Company, Concept of One Person Company and LLP.

UNIT-III

Plant Location : Concept, Meaning, Importance, Factors Affecting Plant Location, Alfred Weber's and Sargent Florence's Theories of Location. Plant Layout : Meaning, Objectives, Importance, Types and Principles of Layout. Factors Affecting Layout. Size of Business Unit : Criteria of Measuring the Size and Factors Affecting the Size. Optimum Size and factors determining the Optimum Size.

UNIT-IV

Business Combination : Meaning, Characteristics, Objectives, Causes, Forms and Kinds of Business Combination. Rationalisation : Meaning, Characteristics, Objectives, Principles, Merits and demerits.

Registered Office

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Meerut, Uttar Pradesh (NCR) 250 002
Phone : 0121-2513177, 2513277
www.vidyauniversitypress.com

© Publisher

Editing & Writing

Research and Development Cell

Printer

Vidya University Press

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UNIT-I

Business

SECTION-A (VERY SHORT ANSWER TYPE QUESTIONS)

Q.1. Define the term 'Business' in the worlds of H. Haney.

Ans. H. Haney defines the term 'business' as human activity directed towards producing or acquiring wealth through buying and selling goods.

Q.2. What is meant by economic activities?

Ans. All human activities which are performed to earn and facilitate livelihood are known as economic activities. In other words, activities which are inspired mainly by economic considerations and result in the production of goods and services are known as economic activities. These activities are primarily concerned with the production, distribution and consumption of goods and services. Economic activities include the work of a farmer, advocate, doctor, teacher, clerk, manufacturers, etc., who produce and sell goods or render services for money.

Q.3. What are the types of economic activities?

Ans. Economic activities may be classified in three broad categories :

1. **Business** : Business includes all activities which are concerned with the sale or exchange of goods and services with the objective of earning profits.
2. **Profession** : Profession includes those activities which require special knowledge and skill to be applied by individuals in their occupation.
3. **Employment** : Employment refers to occupation to which people work for others and get remuneration in return. For example, work in factories, government offices, etc.

Q.4. Define the term 'Industry'.

Ans. The term industry may be defined as the integration of all the business processes and economic activities which are associated with the development, manufacturing and processing of products and services. It utilises mechanical as well as human power for transforming raw materials into useful and valuable products. Often, industry is denoted as a group of business enterprises involved in the production of similar products and services.

Q.5. What do you mean by tertiary industry?

Ans. Tertiary industries are those industries which offer services directly to consumers. These services include commercial services such as banking, transportation, insurance, etc., and personal services such as teaching, nursing, medical treatment, etc.

Q.6. Define the term 'commerce'.

Ans. The process of buying and selling of goods assisted by few supporting activities is called 'commerce'. Here, the buying and selling may be through export, import, retail,

wholesale, etc., and the supporting activities include procurement, storing, grading, insuring, packaging, transporting, warehousing, etc.

Q.7. Define the term 'Industry'?

Ans. The term 'industry' may be described as the integration of all the business processes and economic activities which are associated with the development, manufacturing and processing of products and services. For example, various business units involved in manufacturing of vehicles are together known as automobile industry.

Q.8. What are secondary industries?

Ans. The industries which are involved in manufacturing and processing of items which are produced by primary industries are known as secondary industries. These industries use the products of primary industries as their raw material to convert them into consumer goods.

Q.9. Write any four major features of trade.

Ans. Following are the main characteristics of trade :

1. It maintains equilibrium between supply and demand of different goods in both national and international markets.
2. Transaction of goods and services for cash is referred as trade.
3. The goods and services are moved to the most favourable market through trade.
4. Trade is considered as the main activity in commerce.

Q.10. Define the 'Business Organisation' in the words of L.H. Haney.

Ans. L.H. Haney defines the term business organisation as, an economic organisation which is a harmonious adjustment of specialised parts for accomplishment of some common purpose.

Q.11. Explain accounting as function of business.

Ans. Accounting is a very important function of business. Every business has an accounts department under the charge of chief accountants. It gives a clear idea of the financial affairs of business. Accounting can give a clear idea about the income and expenditure, profit and loss and financial health of business. Accounts have to be maintained properly because it is periodically checked by the Tax Departments of the Government.

Q.12. What are capital goods? Give an example.

Ans. Goods used as raw materials in the production of other goods are known as 'capital goods'.

For example, steel acts as a capital good in the production of various parts of ships, motor engines, scooters, motorcycles, surgical instruments, etc.

Q.13. What is meant by capitalism?

Ans. Capitalism is an economic system where the trade, industries and means of production are completely privately owned. It can also be termed as free-market economy or capitalist economy. This kind of economy involves no interference from the government.

Q.14. Explain briefly about Industrial Revolution.

Ans. The evolution of new manufacturing processes was termed as the industrial revolution. It started in 1760 and continued upto 1820-1840. During this, industrialisation of society began to exist due to arrival of steam power.

Q.15. Define the term 'feudalism' as a stage of development of business.

Ans. It is started in Medieval Europe in 9th century and continued upto 15th century. It was basically a set of customs (military as well as legal). In broader term, it was a system in order to structure society around relationships.

During this period, all property rights were controlled by the ruling class of nobility. Most of the times, land was captured forcefully. The person with maximum land ownership was believed to be most powerful.

SECTION-B (SHORT ANSWER TYPE) QUESTIONS

Q.1. Discuss about the criticism of profit maximisation as a goal of business.

Ans. The goal of profit maximisation is criticised because of following reasons :

1. **Absence of Knowledge :** The basis of the hypothesis of profit maximisation is that all the firms are fully knowledgeable about their own costs and revenues and about other firms as well. But, actually these firms have insufficient and inaccurate knowledge about the conditions of their operation.
2. **MC and MR :** In reality, the firms are unconcerned about the calculation of marginal revenue and marginal cost and are even unaware of the two terms. There are some firms having no knowledge about the demand and marginal revenue curves and most of them have no adequate information about cost structure.
3. **Lack of Predictive Power of Managers :** The firms settle with less-than-maximum profit as their goal because of lack of predictive power of the managers who are risk-hesitant. Due to lack of proper intra-firm communication, firms are restricted to maximise their profits.
4. **Static Theory :** The neo-classical theory of the firm is static in nature which does not tell the duration of either the short period or the long period. The extent of time of the neo-classical firm consists of identical and independent time periods. Decisions are considered as temporarily independent. This is a severe drawback of the profit maximisation theory.
5. **Not Applicable to Oligopoly Firm :** In economic theory, the objective of profit-maximisation has been kept for perfectly competitive or monopolistic competitive firms. Whereas, due to criticism against oligopoly firms they are discarded and thus economists have put forth different objectives in the theory of firm which are either duopoly or oligopoly.
6. **Doubtful Validity :** There is no specific reason to believe that all the businessmen decide for same goal and thus aim at sales maximisation, expansion of market share, etc. Thus in this context of real business the profit-maximisation assumption holds doubtful validity.
7. **Not Applicable in Modern Business World :** In modern business world, the traditional theory assumes that firms managed by their owners is not valid and these firms are complex organisations managed by managers who are salaried employees whose interest may or may not often align but differ from those of the shareholders who want maximum profits.

Q.2. Differentiate among profession, business and employment.

Ans. Differences among profession, business and employment are discussed in the given table :

Basis	Profession	Business	Employment
Objective	To earn a living by a way of fees.	To earn a living by way of profits.	To earn a living by way of wages of salaries.
Commencement	It can be commenced after completion of formal qualification and training. Certificate of public practice is also needed.	It is commenced after decision by the entrepreneur and completion of legal formalities if any.	It starts with service contract and appointment letter.
Qualifications	Prescribed qualifications and training is required.	Formal qualifications or training is not necessary in every business.	Qualifications and training as required by the employer.
Nature of Activity	Providing services of a specialised nature.	Supply of goods and services to others.	Performing work assigned by the employer.
Capital Investment	Small capital required for establishment.	Capital Investment varies according to nature and size of business.	No capital is required.
Risk	Very little risk.	Element of risk.	No risk.
Transfer of Interest	Transfer is not possible.	Transfer possible with required formalities.	Service contracts are not transferable.
Code of Conduct	Professional code of conduct prescribed or to be followed.	No specific code of conduct prescribed or to be followed.	Code of conduct prescribed by the employer to be followed.

Q.3. Describe the major features of commerce.

Ans. Following are the prominent features of commerce :

- 1. Economic Activity :** As goods and services are bought and sold by different traders so as to earn capital and profit, it reflects the economic nature of the commerce. Monetary scale can be used to measure this process.
- 2. Profit :** Earning profit is the main characteristic of commerce. Gifting something to friends does not mean commerce. Profit is the main driving force behind commerce.
- 3. Marketing :** Marketing is also a characteristic of commerce. Exchange, distribution and promotions of goods and services are included in it. It is a continuous process. Attracting and retaining customers (through satisfying them) is the main motto of marketing.
- 4. Vital Part of Business :** Commerce is an integral part of the business, as different goods and services offered by it are disposed to the target customers through activities of commerce.
- 5. Utility :** For the satisfaction of customers' needs, time and place utilities are created by commerce. Time utility is created by storing the goods for future consumptions. For

creating the place utility, the goods are shifted from the point of production to point of utilisation.

Q.4. Differentiate between modern business and traditional business.

Ans. Differences between modern business and traditional business are described below :

Basis	Modern Business	Traditional Business
Meaning	The modern concept of business states that businesses exist for catering to the needs of the customers by offering them the adequate products.	The traditional concept of business states that businesses exist for production and marketing of products for personal gain.
Attention to Consumer	Modern businesses are customercentric. They give importance to the needs and demands of the customers. Special attention is given to customers.	Consumers were not given any attention. They were just means for profit generation. Their needs and demands were insignificant.
Social Orientation	Businesses are socially oriented.	Business were not socially oriented.
Social Responsibility	Responsibility towards society is present. It is an integral part of such organisations.	Responsibility towards society was not present.
Role of Profit Scope	Secondary concern of businesses. Businesses encompass the national as well as the international markets.	Primary concern of businesses. Businesses were confined to the local market.
Objectives	Satisfying the customers and offering services to the society are the objectives of business.	Generating profit is the objective of business. Production and distribution activities were carried out for profit generation.

Q.5. Explain the following :

1. Plant
2. Firm
3. Industry

Ans. 1. **Plant** : Any place where goods are manufactured or distributed or services are rendered is called a plant or an establishment. It includes the machinery, equipment and a team of workers engaged in production of goods and supply of services.

2. **Firm** : The word 'Firm' is used in a broader sense. It is the concern which owns and manages the plant and in addition arranges for marketing of the goods manufactured. A firm may own only one plant or several plants manufacturing one or more products. The collection of all these plants under one umbrella makes a firm.

3. **Industry** : The word 'industry' refers the collection of firms which either use the same raw material or manufacture the same product, even if they use different raw materials, such as textile mills.

Q.6. What do you know about foreign trade?

Ans. When the goods and services are bought and sold outside the peripheries of a nation, it is regarded as 'foreign trade'. External trade or international trades are the other names of this. The currency of seller's country or the currency which is accepted by the seller is the

mode of payment for goods and services. There are three main classification of international trade which are given below :

1. **Import Trade** : Import trade is the activity in which goods and services are bought from the seller of other country and are sold in one's own country.
2. **Export Trade** : Export trade includes all the activities which involve the selling of goods and services to any other country.
3. **Entrepot Trade** : The process of importing certain products from a foreign market so as to export it further to a different foreign market (with or without any modification) is called 'entrepot trade or re-export trade'.

Q.7. Differentiate among trade, industry and commerce.

Ans. Following are the main differences among trade, industry and commerce :

Basis	Trade	Industry	Commerce
Meaning	It means buying and selling of goods for a price.	It is concerned with the production or manufacturing of goods for final consumption or further production.	It means buying and selling of goods and providing necessary services for the smooth and safe flow of goods to the consumers.
Scope	It involves exchange of goods for a price.	It covers all activities involving conversion of raw materials or semi-finished products into finished products as well as extraction, reproduction and construction of useful products.	It consists of trade and auxiliaries to trade.
Capital	It requires very small amount for fixed capital and moderate amount for working capital.	It involves huge amount of fixed and working capital.	It requires limited amount of fixed capital but huge amount of working capital.
Place of Operation	Trading operations take place nearer to the place of consumption or use.	Industrial operations are carried out at factories, farms or in mines.	Commercial operations are carried out between the places of production and places of consumption or use of the products.
Risk	Very low risk.	Very high risk.	Less risk.
Creation of Utility	It creates ownership utility along with place and time utility to a limited extent.	It creates from utility.	It creates place, time and task utilities.

Q.8. Explain the major benefits of professionalisation of business.

Ans. The importance of professionalisation of business is given below :

1. It helps in improving the management training and education and attract talented person into management profession.
2. It helps in boosting the reputation and status of management profession and managers. It eradicates the impression that managers focuses only on profit maximisation for shareholders.

3. It involves statutory control over managers which reduces misconduct such as, frauds in management practices, speculation of shares of company, underhand payments to managers, etc. Managers who engage in such practices will be debarred from management practice.
4. It describes the roles and responsibilities of the managers. It also prescribes code of conduct. This improve business's ethical environment and would check irrational demands on managers.
5. As minimum educational qualification is prescribed for managers, thus it will increase the skill and knowledge of future managers. In future, managerial environment will be more challenging, as it requires high degree of professionalisation.

Q.9. Explain the main advantages of business organisation.

Ans. Major advantages of business organisation are as follows :

1. **Product Growth** : The product growth can be ensured through business organisations by improving the efficiency of the manpower.
2. **Quick Decision-making** : Prompt and quick decision-making are supported by various business organisations.
3. **Feedback** : After receiving various feedbacks from markets, a business organisation aids decision-makers to take appropriate decisions regarding production and operation activities.
4. **Cost Reduction** : By ensuring efficient utilisation of various production, factors, business organisations significantly reduce the cost of production.
5. **Transportation** : By enabling the selection of transportation mode, business organisations help businessmen in increasing their volume of product sales.
6. **Minimum Wastage** : A business organisation helps in minimising wastage of raw materials and other expenditures which facilitates increase of profit rate.
7. **Distribution** : The various issues related to distributions such as buying, selling, storage, transportation, grading, etc., are easily resolved through business organisations.

SECTION-C LONG ANSWER TYPE QUESTIONS

Q.1. What do you mean by the term 'Business'? Also give the traditional and customer-oriented definitions of the term 'Business'.

Ans. Meaning of Business

The term 'business' can be defined as a company (although the term 'company' has a particular description) run by a group of people having some ownership in it.

Literally, the term 'business' sounds like 'busyness', which means 'being busy'. Therefore, one can define business as a process, where an individual is busy in certain activities (like production, buying, selling, distribution, marketing, etc.) so as to make his/her livelihood alongwith earning a reasonable profit.

Business denotes group of economic activities which are focused towards earning profits and thus, increasing wealth. Wealth acquisition is done by manufacturing and selling of goods or services on continuous basis and it is also associated with factors of risk and uncertainty.

Business is a planned approach that aims to satisfy customer's needs and wants by serving them with their desired goods and services. The term business can also be referred to an entity involved in offering products and services to the consumers.

Business is an association involved in the trading of goods and services to customers with the intention of earning profits. It is also known as a firm or enterprise. For a capitalistic economy, business is the core factor, Majority of businesses are owned and managed privately.

Definitions of Business

Following are the traditional and customer-oriented definitions of business :

1. Traditional Definitions

Traditional or profit-oriented economic activity based definitions are those definitions which define the business as a wealth producing or profit-making economic activity by production and/or/distribution of goods/services. A few of such definitions are as follows :

- (i) According to **Wheeler**, "Business is an institution organised and operated to provide goods and services to society under the incentive of private gain."
- (ii) According to **L.H. Haney**, "Business is a human activity directed towards producing or acquiring wealth through buying and selling of goods."
- (iii) According to **Prof. L.R. Dicksee**, "Business refers to a form of activity pursued primarily with the object of earning profits for the benefit of those on whose behalf the activity is conducted."
- (iv) In the opinion of **Hart**, "Business is the production of goods and services coupled with the distribution of goods and services through a socially organised system of exchange."
- (v) According to **Keith and Gubellini**, "A business is nothing more than a person or group of persons properly organised to produce or distribute goods and services."

2. Customer-oriented Definitions

Between the period of 1950s and 1970s, the term business was defined as a customer-oriented economic activity. During this period, the businessmen were forced to lay emphasis on customer service and satisfaction because of emergence and development of consumerism. Businessmen began to think about earning profits through customer service and satisfaction. Hence, the academicians and professionals defined the term business accordingly. A few such definitions from customer point of view are as follows :

- (i) According to **Peterson and Plowman**, "Business may be defined as an activity in which different persons exchange something of value, whether goods or services, for mutual gain or benefits."
- (ii) According to **Urwick and Hunt**, "Business is an enterprise which makes, distributes, or provides any article or service which other members of the community need and are able and willing to pay."
- (iii) According to **McNaughton**, "The term business means the exchange of goods, money or services for mutual benefit."

Q.2. Differentiate between traditional and modern concept of business.

Ans. Difference between traditional and modern concept of business is discussed in the given table :

Basis	Traditional Concept	Modern Concept
Meaning	As per this concept, business is the production and distribution of products for personal gain.	As per this concept, business organisation should determine the needs of the customers and deliver them the desired products in such a way that contributes to the well-being of both customers and the society.
Social Responsibility	This concept of business has no regard to the concept of social responsibility of business.	This concept of business assumes social responsibility as an integral part of it.
Consumer Preference	There is no role of consumer choice and preferences in the traditional business concept.	Consumer choice and preferences are the basis of modern concept of business.
Assumption	Traditional concept of business assumes that customers will buy those products which are available in the market at the cheapest rates.	This modern concept of business assumes that business will survive and thrive only when products/services satisfy the consumer needs as well as protects the society's interest.
Ownership and Management	Traditional concept of business assumes that business ownership is closely held and it is managed by family members, friends and relatives.	The modern concept of business assumes that the business is widely held by public and is managed by professional managers.
Applicability	The traditional concept of business is still applied in the economies of short supply where there is a short supply of goods <i>i.e.</i> , 'sellers' market.	Modern concept is applied where competition is acute and consumers and members of society are aware of their civil and social rights.
Scope of Activities	This concept considers production and distribution of products with the help of auxiliaries to trade are the activities in its scope. Thus industry and commerce are the activities that fall within the scope of business activities.	This concept considers that scope of business activities includes not only the production and distribution of goods but also production and distribution of direct services that members of society need. Thus, modern concept assumes that industry, commerce and direct service sector falls within the scope of its activities.
Orientation	Profit-oriented.	Customer and society oriented.
Origin	This concept arose out of the needs of the producer to sell his excess production to earn profits.	This concept emerged out of the competitive market conditions, legal framework of business, consumerism and environmentalism.

Q.3. Explain the various stages of development of business.

Or Discuss about the evolution of business.

Ans. Various stages of development of business are discussed below :

Stage I : Feudalism : This period started in Medieval Europe in 9th century and continued upto 15th century. It was basically a set of customs (military as well as legal). In broader term,

it was a system in order to structure society around relationships (those relationships which were developed by holding land in order to get labour or service in exchange).

In this era, all property rights were controlled by the ruling class of nobility. Most of the times, land was captured forcefully. The person with maximum land ownership was believed to be most powerful.

Stage II : Pastoral : As the stage, people became more mobilised and instead of killing animals, they started rearing them. With cattle rearing, they got satisfied regarding food and cloth. They started using milk and meat as food, and they used their skin for cloth. They used to wander here and there in search of pastors. With the result, they became nomads. They started forming groups and living near rivers. There was no significant change in division of labour. It was limited to men and women or amongst the family members. Though they were self-sufficient, yet the barter system started in some form or the other.

Stage III : Agricultural : At this time, the population of people started increasing. With this, their needs as well as knowledge increased. They learnt the method of farming and started living at one place together. They took up farming to fulfill their needs. Gradually, they stopped wandering here and there as nomads. With this the family system and village developed. They started thinking of owning the land and cattle. Their main occupation was farming and rearing and hunting cattle became secondary one. Even then, the exchange of goods was very limited at this stage.

Stage IV : Handicraft : As the agriculture developed, the knowledge of people increased considerably and men became more civilised. Their needs increased more and more and, with the result, division of labour and specialisation started taking place. People started production of only those goods in which they were more skilled. Along with the agriculture, some industry also developed. People started producing cloth, tools, utensils, wood-work, tannery etc. As production was carried on by hand only and not by tools, the handicraft developed. The stage of handicraft is, in fact, the initial stage of industrial development. In this stage, exchange system also developed. However, at this stage, there was barter system, the people started exchanging the goods with another, as currency system had not developed by that time. The system of exchange remained very limited due to absence of money as well as required transportation facility.

Stage V : Guild System : Gradually, the scope of industrial activities and commerce started increasing. In this stage, use of money started for trading, the number of traders started increasing. With the result, the traders started forming union or guild to protect their interests. With this, trading got a new direction. Hammord has rightly pointed out that "in the medieval period, the history of industrial management in England, France and Italy, is history of these guilds." These craft guilds regulated the terms and conditions of trade and also made efforts to protect the interests of the members. They undertook several social and cultural activities as well. They also discouraged unfair competition among the members. They came to be known as the "Merchants' Guilds." Later, the artisans and craftsmen also formed their associations and they were called "Crafts' Guilds." Craft guilds also developed terms and conditions of the crafts. They helped in the training of the members. They also acted as mutual benefit societies. Craftsmen can be divided into three categories, viz., master craftsman, journeyman and apprentices.

Stage VI : Age of Domestic System : At this stage, people became more civilised and there was enhancement in their knowledge and experience. Importance of division of labour

increased along with the specialisation in production and distribution. As the guild system declined and the market widened, it became difficult for the craftsman to look after production as well as distribution of the products. With the result, the production of goods was looked after by craftsmen and merchants started taking interest in distribution of goods. However, the craftsmen owned the means of production and carried on production of goods at their own residences. Later, it became difficult for the craftsman to arrange for the raw materials and required tools the merchants started providing raw material and tools and placing orders to the craftsman for production. The craftsman produced at his residence, according to the order placed by the merchants. Merchants used to pay for the goods on the piece basis.

Stage VII : Age of Industrial Revolution : In this age, various fundamental changes took place in the techniques of production and organisation of the industry. These changes were quite dramatic and their consequences were so sweeping and far reaching that it came to be known as "Industrial Revolution". In the words of **L.C.A. Knowles**, "The term Industrial Revolution is used not because the process of change was quick but because when accomplished the change was fundamental."

Various changes which took place during the industrial revolution were to be divided into the six categories. They are : (i) Development of engineering due to various inventions and discoveries; (ii) Revolution in iron-making; (iii) Use of steam power; (iv) Development of coal-mining; (v) The revolution in transport; and (vi) Rise of chemical industry.

Stage VIII : Scientific Revolution : In the period of time, remarkable and fundamental changes took place and the process of Industrial Revolution still continued. Specially, after the Second World War, unprecedented progress took place in the scientific and industrial areas. With the help of automation, several important changes have taken place in the business world. Electronic computer has brought about a new revolution in the business world. New developments are taking place in the area of business organisation and management. Management is becoming more and more complex. The use of computer in solving various managerial problems has been increasing in the Industrial Revolution. The body-power was transferred to the machine and now efforts are being made to transfer brain-power also to the machine. Electricity power is being replaced by nuclear energy. The electronic computer, the assembly line, the atomic power, the space communications are the miracles of this age.

Q.4. What are the various characteristics of Business ? Explain in detail.

Ans. Characteristics of Business

Following are the major characteristics of business :

1. **Both an Art and Science :** Traditionally, business used to be done based on intuition and guesses. But in modern times, doing business is regarded as both an art and science. It is an art because application of skills is essential for doing business. It is a science because it is conducted on the basis of scientifically developed principles and procedures. In other words, doing business is both an art and science because it is conducted by applying scientifically developed principles skilfully. Thus, conducting business is an art and the knowledge and principle underlying the conduct of business is science.
2. **Regular Dealings :** Regularity in dealing is the main characteristic of business. An economic activity done on regular basis is considered as business. For example, simple

transaction like, sale of scrap newspapers in exchange of money is not a business, whereas, Hindustan Times Ltd., when supplies newspapers on daily basis for earning profits, it is a business.

3. **A Social Institution** : Business can be characterised as a social institution (like religion, government, college, agriculture, family, etc.) which utilises individual as well as group actions for achieving a common objective, *i.e.*, social welfare of society.
4. **Dealing in Sale, Transfer or Exchange** : The main characteristic of business lies in buying and selling (exchange) of goods and services. For example, when a housewife prepares a woollen sweater for her child, it is not considered as a business. However, if the sweaters are prepared to be sold to the outside people or customers, now it is called business.
5. **Dealings in Goods and Services** : All business entities are involved in offering goods and services to the end customers. Business can procure them from other manufacturers or through its own production systems.
6. **Profit Motive** : Profit motive is also a characteristic of business. Success of a business is measured in terms of its ability of profit generation. Hence, profit is the common motto for all type of business, especially private organisations. Although government undertakings' main motive is not profit earning, yet in today's time they are also likely to earn profit for their survival.
7. **Generation of Values and Utilities** : Every business entity creates utilities for its products. These utilities result in adding values to the products offered, thus, generate revenue. Therefore, businesses generate values and utilities for their products and services.
8. **Organisation and Management** : Organisation and management are the two basic pillars for the survival of business. A business is called organisation as different elements of the business are united with each other in an organised form. Using people effectively so as to complete the daily tasks of the business is called management. Therefore, it is very crucial to maintain organisation and management so as to grow and nurture business.
9. **Recurring and Perpetual Activities** : Business is a continuous process of repetitive activities. A business is expected to run for a longer timeframe with its specialised recurring activities to achieve its objectives.
10. **Transferability and Inheritance** : A business is also characterised by transferability and inheritance. A business owner may transfer the business to other individual or entity, or a successor from the family may acquire the ownership. Despite of the ownership of the business being changed, it continues as usual, until and unless it is terminated by the owner.
11. **Forecasting** : Another characteristic of business is forecasting. Forecasting refers to being futuristic and ability to predict future. The business will be more successful if it can forecast with more perfection. In order to deal with different business aspects like economic conditions, buying trends, foreign relations, policies, etc., business relies on forecasting.

12. **Risk-taking** : Various risks and uncertainties are associated with business. It is essential in business to take risks and face uncertain conditions. Profits come as reward for business in such conditions. These risks and uncertainties can be reduced by efficient management and forecasting.
13. **Satisfying Social Needs** : Now, it is a well-known fact that business cannot be isolated from the rest of society. It is an integral part of society. It draws its resources from society and it must satisfy the needs and desires of society. Then only can it survive and grow.
14. **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, otherwise he will go for an alternative commodity. The business should try to satisfy the consumers, so that the demand for its products is maintained.

Q.5. Discuss in detail the different objectives of business.

Ans.

Objectives of Business

Major objectives of business are discussed below :

1. Human Objectives

Human objectives aim at achieving employee's satisfaction. It ensures well-being and fulfilment of employee's expectations. People who are handicapped, disabled or deprived of proper training and education are also supported by business. One may categorise the human objectives under the following heads :

- (i) **For Facilitating Well-being of Socially and Economically Backward People** : Being a part of the society every business aims to support socially and economically backward people for their well-being.

They support mentally retarded and physically challenged people and ensure their well-being. This objective can be achieved by designing vocational programs for them and by giving preference to them in organisational recruitment process. Scholarships for higher studies can also be offered to such individuals.

- (ii) **For Providing Social and Psychological Satisfaction to Employees** : Another human objective of the business is to satisfy its employees socially and psychologically. Satisfied employees may contribute to the success of the business.

In order to achieve this objective, suitable employees are placed at respective positions, jobs are made interesting, relevant promotions or increments are offered, quick and effective grievance handling machinery is established and their suggestions are accepted in decision-making activity. All this will enable the employees to contribute more for their organisation.

- (iii) **For Facilitating Economic Well-being of Employees** : Business aims at economic well-being of their employees by paying them proper incentives and fair wages according to their performance. Facilities like pension, benefits of provident fund, compensations for medical, housing, etc., are given so as to infuse the feeling of satisfaction among employees.
- (iv) **For the Development of Manpower** : Developing manpower of the organisation is also a human objective of the business. This can be done by providing them with

proper training and development programmes so as to polish their skills and abilities and make them more competent.

2. Economic Objectives

The primary objective of a business is pertaining to economic gains, since, business is an economic activity.

Following are the main economic objectives of a business :

- (i) **To Earn Profit** : Business is directly linked with the object of profit earning. Business is an activity directed towards the wealth accumulation and addition to prosperity.
In the words of Peter F. Drucker, "The problems of any business is not the maximisation of profit but the achievement of sufficient profit to cover the risks of economic activity and thus to avoid loss." Therefore, the objective of business is to earn as much of profits as will cover its own future risks.
- (ii) **Production of Goods** : The profit can be earned only when some exchange of goods and services takes place. So the next objective is to produce more goods and sell them to the consumers. The producers estimate the demands for goods and produce accordingly. The tastes, preferences and paying capacity of consumers must be taken into account. A businessman creates form, place and lime utilities to meet the requirements of the society. So, a tangible form of wealth is produced in the form of goods.
- (iii) **Innovation** : The dynamic function of business is an order of growth, expansion and change in the economy. This function is performed by a business enterprise through innovation. Whether it is the objective of earning profits or expanding the markets, it can be achieved only when business provides newer and better products and services. Sometimes, innovation may take the form of adaptation to a change taking place in the society. For example, as consumers do not have enough time for household activities like cooking, business may offer new gadgets for the purpose and thus meet the need.
- (iv) **To Create Customers** : The main aim of a business is searching new consumers for increasing the sales. An effort is made to retain old consumers by supplying them better quality goods at reasonable prices. The new markets are also exploited to keep a steady demand for goods. An enterprise cannot exist without finding out new markets for its products.

3. Social Objectives

It is an important part of business objective to fulfil its obligations to the society since business operates in the society. Unless it meets the needs of the society, it cannot survive and grow.

Some of the important social objectives of business are as under :

- (i) **To Co-operate with the Government** : Many times, businessmen also try to evade various taxes. These things lead to a situation of suspicion and misunderstanding between businessmen and the government, the business community should adopt a positive approach towards policies of the government and should help it in solving national problems.
- (ii) **Avoiding Profiteering and Anti-social Tactics** : Anti-social activities of earning more and more profit should be avoided. Though it is true that business should have its desirable amount of profit but should not be solely at the cost of the consumers.

Business should keep itself away from the participation or even promotion of many anti-social activities of hoarding, black marketing and resorting to the creation of artificial scarcity.

- (iii) **To Provide Employment** : Creation of opportunities for gainful employment for the people of the society should be one of the main objective of every business. Sometimes, this objective may conflict with the economic objectives of cutting down cost and increasing profits by introducing automatic or semi-automatic machines. Though there is conflict between the employment of capital intensive techniques, dominated by automatic machines and the mass band of unemployed people in India. The business must see that the pendulum swings to the latter side, because of the country's poverty and lack of capacity to provide job to all.
- (iv) **To Supply Quality Goods at Fair Price** : The community pays for goods and services the business offers to it. In turn the community expects that the business will adhere to the standard of quality which is necessary to satisfy their wants. The business should also ensure that goods are being available to the society at competitive and fair price. If business fails to maintain a continuous and sufficient supply of unadulterated goods and articles or standard quality, it will be failing in its duty to fulfil its social objectives and likely to incur the displeasure of the society.

4. National Objectives

A country may have goals to generate revenue for national treasury, provide employment opportunities to the residents, produce goods and services in sufficient quantity, social welfare of its people, etc. National objectives of business focus at achieving such national goals.

National objectives of business are as follows :

- (i) **Promotion of the Export** : Another important objective of the business is to reduce the import of goods from other countries so as to make the nation self-reliant. It also aims to promote export of different goods and services from the country so as to improve foreign capital of the nation.
- (ii) **Promotion of Social Justice** : Another national objective of the business is to promote social justice in the nation. For this, equal job opportunities are offered by the business to different sectors of the society. Economically weaker and backward societies are given special attention.
- (iii) **Following Production and Supply Policy of the Nation** : Following production and supply policy of the nation is also an important objective of the business. They aim to design their production and supply processes as per the government rules and policies.
- (iv) **To Contribute to the Revenue of the Country** : Contributing to the revenue of the country also comes under the objectives of the business. Business aims to pay all the taxes and dues regularly to the government so as to improve the government revenues.
- (v) **Creation of Employment** : Creating employment opportunities for the people is one of the national objectives of the business. Business expands its distribution channels and markets and establishes different new units so as to achieve this objective.

Q.6. "Profit maximisation should always be the role objective of business." Do you agree with the statement? Discuss in your own words.

Ans. Few economists believe that profit-maximisation is the sole objective of business while some others question the profit motive. Both the views are devoid of reality. A minimum amount of profit is as much essential for the survival and growth of business as food is for human life. Urwick has very aptly put it, "Earning of profits cannot be the objective of a business any more than eating is the objective of living." A business cannot exist without profits but money making is not the main goal of business just as eating is not the only aim of life. But without eating a person cannot survive. Profit maximisation is as harmful to business as over-eating is for the health of a human being. For its continuity and prosperity, a business must earn the minimum profits that will cover its risks and maintain its capital intact. It should also earn profits to provide funds for growth and to cover the risks of economic activity and thus to avoid loss. Business must try to earn at least the profit required to enable it to stay in business and to maintain the wealth-producing capacity of its assets. Profit is only one of the eight key areas on which the survival and growth of the business depends. These areas include marketing, innovation, productivity, social responsibilities, human organisation, physical resources and financial resources.

Profit-making is essential in business because of the following reasons :

- (i) **Growth of Business** : An enterprise needs funds for the growth of its business. Retained earnings or ploughing back of profits is an important source of capital for expansion and innovation. Profits provide the means of self-financing. Profits also help to attract new capital from outside sources. Unless fair profits are earned, a business decays and dies out sooner or later. A business enterprise which is not earning profits cannot attract investors. Even in a state-owned enterprise profits are considered necessary to finance expansion and other economic and social needs.
- (ii) **Matter of Prestige** : Accumulation of wealth through business earnings has enabled people to build business empires. Big business provides economic power and social status to businessmen. Society, too, can progress only when human effort yields profits because a losing organisation leaves less for all to share.
- (iii) **Incentive** : Profits provide the basic stimulus to establish and operate business enterprises. Profit is the driving force behind private enterprise. It is the return on capital and a reward for the risk of entrepreneurship.
- (iv) **Acts as a Measure of Efficiency** : Profit is an important measure of success in normal times. Profits are the criteria by which people evaluate the efficiency and performance of a business enterprise. Availability of reasonable profits over a long period of time indicates that the enterprise is successful and the society has appreciated the services rendered by it.
- (v) **Survival of Business** : Profits cover the risks and costs of staying in business. Profits help to maintain intact the revenue-generating capacity of business. Through profits, an enterprise can replace obsolete machinery and equipment. It can build reserves and gain strength to withstand competition and recession. Profits are needed to strengthen the capital assets base of business and as a shock absorber against trade cycles.

Thus, earning of sufficient profits is necessary not only to pay adequate returns to the investors, but also to provide for the growth and diversification of the business, for

maintaining stability and for feeding innovation. Profits bring prestige and power to business. After a point, profits induce businessmen to behave in a socially responsible manner. According to **Drucker**, profits serve three following purposes :

- (i) It ensures adequate funds for future expansion and innovation thereby increasing the wealth of the country.
- (ii) It serves as the 'risk premium' which covers cost of staying in business, replacement, obsolescence, market risk and uncertainty.
- (iii) It helps in measuring the net effectiveness and soundness of business efforts. It is the ultimate test of business performance.

So, we can say that profit is not the sole criterion of business. The early concept of business was based on the goal of profit maximisation as reflected in the slogan the business of business is to do business. This concept later changed to profit with service. The modern concept of business is founded on the goal of 'profits through service'. Business earns money by supplying the goods and services which can satisfy human wants.

Q.7. Explain the various significances of business.

Or Discuss the role of business.

Ans. Role and Significance of Business

Business plays a significant role in the life of everyone in the society and economy. It not only satisfies everyday needs but also provides jobs and ever increasing standard of living to all the members of society. It provides revenue to the government by way of direct and indirect taxes. Thus, it plays a vital role in the social and economic development of every country and also in the life of every citizen. The business plays an important role in social development.

The role and significance of business may properly discussed as follows :

1. **Provides Large-Scale Employment Opportunities** : Business helps in creating large-scale employment opportunities for the job seekers. Business leads to setting up of various large as well as small-scale enterprises which help in the creation of various job opportunities for people. These small and large enterprises grow with time and offer more and more employment opportunities to the people.
2. **Providing Better Quality of Goods and Services** : Different goods and services as per the tastes and preferences of different buyers are offered by the businesses. The quality quotient is also considered in producing such products and services. Different national and international brands are available to the customers due to business. Different services like telecommunication, accommodation, counselling medical treatments, electricity, purified water, etc., are offered by these businesses.
3. **Creating Utilities** : Business tries to produce goods and services of high utility and value which are able to satisfy customers' needs and desires. Utilities of place, time, form, etc., are added to their products so that these goods can satisfy the economic as well as other needs of its users.
4. **Workers' Welfare** : Business looks after the well-being of their employees by providing them with safe and healthy work environment. They ensure the welfare of the workers engaged in their business activities.
5. **Proper Utilisation of Natural Resources** : Every nation has plentiful natural physical resources such as land, forests, rivers, minerals, livestock etc. Business can certainly

use these resources for the development of the nation. Without business, a country's resources of production remain resources and never become products.

India also has sizable natural resources and one can efficiently exploit them in the best interest of the nation.

6. **Improves Standard of Living** : Businesses help the people of a nation to improve their standard of living. This standard of living is improved through variety of benefits provided by the business. People have a source of income (as employees or employers) because of business. These incomes get increased due to increased production, specification and distribution of such.
7. **Proper Production of Goods** : Businesses produce different types of goods for the consumers. For this, raw materials are procured from primary industries like agriculture, forestry, mining, etc.
For example, different vegetables and grains are procured from agriculture to produce food products. Similarly, coal is procured from mines, which is used in power industries. In addition, timber acquired from forests is used in different firms like paper production, furniture, etc.
8. **Distribution System** : Goods and services are needed by the consumers and they should reach them on time at appropriate place and price. This process is facilitated by the transportation business, i.e., by moving the goods from one place to another.
9. **Business Supplies Services** : Another important role of business is that it offers services. These services support the production and distribution function of the business without being directly involved in it.
Services like banking, finance, insurance, health and medical services, professional services (engineering, legal and medical), education, domestic servants, mechanics for automobile repair, etc., are in great demand. All these services are undertaken by various business units and by providing these services, business earns huge profits.
10. **Integrating Interest of Different Sections of Society** : Business as an organization that serves and integrates the interests of all the sections of the society. It serves the interest of investors, lenders, customers, employees, local community, suppliers, government and so on.
11. **Promoting Social Change** : Business is considered to be the instrument of change in society. Business can bring social change and cause social innovation. It helps to develop new value system and culture in the society.
12. **Integration with World Economy** : Business helps to create and maintain sound relations with the nations around the globe through the trade and economic cooperation. It helps to integrate the national economy with world economy.
13. **Provides Career Opportunities** : Business does not only generate employment opportunities for the public but also provides better career opportunities. Business needs many experienced and talented persons for the top and middle level managerial positions. Thus, it provides potentially lucrative and challenging career opportunities to the young, qualified, experienced and talented persons.

Q.8. Discuss the meaning and evolution of a business organisation.**Ans. Meaning of Business Organisation**

Business organisation can be understood as an efficient coordination between various elements of business enterprise, including planning and controlling of production activities, procurement of material, managing human resource, distributing products and other managerial activities.

According to **G.R. Terry**, "Business organisation is an economic arrangement of persons where all efforts are directed to achieve a common economic goal".

According to **L.H. Haney**, "Business organisation is an economic organization, It is a harmonious adjustment of specialised parts for accomplishment of some common purpose".

An internal structure directing the nature of communication, relationships and command within the organisation is established through business organisation. Persons with top level of authorities are responsible for determining the most significant objectives of the business. For example, an objective may be set by the directors of a leading business organisation to establish their organisation as a market leader by providing high quality of services in the market.

Alongwith the journey of economic development of the country (from the self sufficiency to international business), different forms of business organisations have evolved. Business organisations have grown from being a sole-trader organisation to international or multinational corporations and accordingly, the size of these organisations have also expanded. A business organisation can be seen as a healthy collaboration of various factors of production with the objective of wealth creation. It also describes how industrial as well as commercial processes are performed through production and distribution of goods and services so as to achieve a particular objective. There are numerous factors like capital requirements, nature of business, scale of operations, motives, incentives, etc., which determine the suitability of a particular organisation to a business.

Evolution of Business Organisation

The arrangement of people under a framework that is unique to the objectives of the organisation is known as business. Throughout the human history, the nature of organisations has changed from mechanistic to learning organisation.

At the time of the despotism and dictatorship of the rulers of ancient Egyptian and the Mayan civilisation, who forced slaves to work for the construction of pyramidal structures, an impersonal approach was evident to the organisation. Before the establishment of democracy, the power remained in the hands of ruling families. The politics of every nation were change, thus the methods of conducting business were also change. In earlier time, due to less competition between the businesses, authoritarianism appeared to be effective. On the other hand, a large number of workers were willing to work in extreme condition for the welfare of their families. Thus, it allowed leaders to have control over the jobs such as, assigning the jobs, deciding the wages, etc. Most business leaders were more concerned with productivity and saw other humans as using and disposing resources.

One of the main key of success of any business *i.e.*, division of labour was first introduced by Adam Smith in 1776. This concept separated the job into number of tasks. This job-focused concept was mainly used in factories to save time and increase productivity. In recent times, the efficiency of the product was more important instead of the employee welfare.

In the era of industrial revolution of the 18th century, human power was substituted for machine power. This led to the formation of various management principles which made organisations more mechanical. **Frederick W. Taylor** proposed a scientific management theory for defining the best method to complete a task or job. At the same time, general administrative theory was also introduced which were focused mostly on the duties and responsibility of managers. Both general and scientific management theory were focused on rationality, predictability, impersonality, technical competence and authority.

In both of these principles, the sole power was in the hands of top management. From the centuries, the approaches within the organisations were continued to develop socially but now, organisations started to revolutionise from inflexible methods to learning organisations.

Q.9. Explain the various characteristics and objectives of business organisation.

Ans. Characteristics of Business Organisation

Major characteristics of a business organisation are as follows :

1. **Ease in Formation** : A business organisation's establishment requires minimum funds and legal formalities. Thus, in this context, the most suitable form of business organisation is sole trading in comparison to other forms of the enterprises.
2. **Continuity and Stability** : Generally, there is a long life span of an ideal business form. It does not get closed or wound-up after few years of its establishment. In this context, cooperative society and joint stock company are more suitable as compared to partnership or sole trading firms.
3. **Flexibility of Operations** : Flexibility of operations is another important characteristic of business organisations. There may be a lot of alterations in the policy of Government towards a specific industry and market situations. Changes are also observed in the supply of various production resources.

A good business organisation is capable of adjusting itself according to these changing factors without having any major problem.

4. **Limit of Liability** : Two types of liabilities are available to the owners of any business organisation, i.e., limited and unlimited liability. Generally, limited liability is preferred to avoid risks. In this, the debts of the business are balanced, only by the use of capital invested (or to be invested) by the owner. On the other hand, in case of unlimited liabilities, personal assets of the owners can also be utilised for the payment of business debts.
5. **Business Secrecy** : The full business secrecy can be maintained in a sole trading business organisation, as all business operations are controlled and managed by a single owner. However, joint ventures and partnership business firms often suffer from the lack of secrecy in their business operations.
6. **Tax Considerations** : Having minimum tax liabilities is one of the fundamental features of an ideal form of business organisation. In this context, sole trading firms are advantageous in comparison to joint stock organisations and partnership firms.
7. **Management, Control and Ownership** : Management, control and ownership should be directly related to each other. All the business operations and aspects must be

controlled by business managers. Depending upon this factor, partnership and sole trading firms are preferred over joint stock companies.

8. **Adequacy of Capital** : Adequacy of capital is the main characteristic of good business organisations. Here, the required capital is generated at minimum cost. Following measures may be utilised by good business organisations so as to attract large capital from the public :
- (i) Security of investments,
 - (ii) Good return on investments and
 - (iii) Transferability of the holding.

Objectives of Business Organisation

Main objectives of a business organisation are as follows :

1. **Creating Employment Opportunities** : Businesses are also looking at ways of creating new employment opportunities. Any kind of business organisation aims at using innovation and technology to create new job opportunities.
2. **Satisfaction of Consumers** : Satisfying customers is the prime objective of any form of business organisation. All businesses these days are customer-centric. The customer is the centre of all the processes. Only those businesses can survive which struggle to satisfy the needs of their customers. In fact, many organisations these days have gone beyond trying to satisfy the customers the endeavour is to delight the customers.
3. **Establishing and Maintaining Employee Welfare** : Another objective of business organisation is to establish and maintain employee welfare within the organisation. The business entity provides many amenities to its employees in the form of welfare benefits like sanitation, canteens, social security, etc. As all such facilities are offered in addition to the wages, these improve the productivity as well as the morale of the employees.
4. **To Get Maximum Production at Minimum Expenses** : Getting maximum production at minimum expenses is also an objective of business organisation. No business wants unnecessary expenses in the name of organisational arrangements and facilities. A good business organisation aims at utilising every single aspect of the business in a cost effective manner.
5. **Maintaining Optimum Utilisation of Country's Natural Resources** : The business organisation seeks to maintain the optimum use of the resources of the country. As different natural resources are utilised by the business for its production functions, it is the duty of the business organisation to prevent the wastage of resources of the country.
6. **Creating Wealth** : The business should always be done with an objective of surplus creation or to have optimum profit. So maximising Return on Investment (ROI) is the ultimate goal of any kind of business organisation.
7. **To Protect the Interest of Various Stakeholders** : Protecting the interests of stakeholders is another key objective of business organisation. The business has various stakeholders. It needs to look at the interests of various stakeholders like shareholders, consumers, lenders, the government, employees, etc.

8. **Improving the Efficiency of Business** : The very first objective of any kind of business organisation is to increase the efficiency of business. All the structural arrangements and operational designs are selected to improve the efficiency of the business.

Q.10. What do you mean by modern business? Explain its various characteristics.

Ans. Meaning of Modern Business

The emphasis of modern business strategies is on employing modern tools of communication like e-mail and video conferencing. This enhances the communication with the customers and inside the organisation. Moreover, modern business strategies form the basis of the project management techniques being adopted in many large MNCs like TIME, Microsoft, Intel, Sony, etc. This helps in acquiring greater consistency and economies of scale throughout the business.

Organisations nowadays are focussing towards devising unique and creative strategies instead of the already established management methods. Organisations which have developed by way of mergers and acquisitions like Merck and Glaxo Wellcome have made use of modern business strategies to restructure their international product lines.

Large organisations have built and managed production centres in different parts of the world in the minimum time and at the minimum cost possible through modern procurement strategies. Proper implementation of modern business strategies can very well absorb the differences existing between the diverse nations of the world. Such strategies promote knowledge-based innovation and contribute to the development of commitments and customer satisfaction standards.

Characteristics of Modern Business

Following are the prominent characteristics of modern business :

1. **Emerging Ethical Consciousness** : The concepts of corporate social responsibility, corporate governance and business ethics gained importance since the time organisations were going through situations of crisis due to extravagant payments, mismanagement, fraudulent practices, malpractices in accounting, etc.
2. **Large Scale Production** : Nowadays, organisations can remain competitive and enjoy economies of scale by organising themselves on a large scale. Various commercial and industrial environments are dominated by these large organisations. Organisations with business operations all over the world dominate the global business.
3. **Globalisation** : Organisations are now looking to enter global markets because of the emergence of global organisations and globalisation. Some of such organisations are Reddy's, Ranbaxy, Aditya Birla Group, TATA Group, etc. Just like the issues faced by the domestic organisations, the MNCs also face certain issues like catering to the demands of the customers, maximisation of profits, adaptation to changes in technology, etc.
4. **Oligopolistic Structure** : Modern businesses are oligopolistic, *i.e.*, they are involved in the sale of homogeneous or differentiated products by a small number of companies. Interdependency between sellers is one of the prominent features of an oligopolistic market. An oligopolistic market might comprise between two and ten sellers having monopolistic competition. A market where two and more than ten sellers are enjoying the monopolistic competition is referred to as oligopolistic market.

5. **Technology based Business** : A lot of large modern organisations are based on technology. Modern businesses can gain competitive advantage through technology. With the help of technology, organisations can increase their market size, reduce costs, gain economies of scale, enjoy large scale production, etc.
6. **Diversified Product Range** : Modern businesses like to diversify. They do not deal with a single product. So the production of multiple products in one factory helps them enjoy economies of scale and diversify risks. Therefore, spreading of risks can prove to be great asset for a company with diversified product range.
7. **Follows Government Policies** : Government play a very important role in issues which affect the life of human beings. Businesses are activities that have an effect on people. Therefore, government cannot remain mute when such activities affect peoples' lives in an adverse way, like by way of monopolies, environment degradation, etc. It becomes the responsibility of the government to be responsive to issues which affect peoples' lives.

Q.11. Differentiate among business, profession and vocation.

Ans. Differences among business profession and vocation are described below :

Basis	Business	Profession	Vocation
Basic Motive	The motivating force behind business is to earn profits by satisfying the needs of customers.	A profession is basically guided by service motive. A professional renders best possible service irrespective of the amount of fee he charges.	Basic motive of occupation is to earn livelihood by adopting any occupation of choice.
Capital	Capital is required to start any business though the amount of capital will depend upon the size and nature of business.	Limited amount of capital is essential to practice a profession.	No capital is required except for the purchase of certain tools and equipments required for doing the occupational job.
Reward	The reward of business is called the profit and sometimes loss.	The reward of a profession is known as professional fee.	The reward of an occupation is known as charges.
Risk	Risk is inherent in business.	Usually no risk is involved except risks involved in the performance of professional tasks.	The risk of uncertainty of income is involved in an occupation.
Transfer of Interest	Interest of person in a business may be transferred to any other person subjected to the provisions of the law of the land.	Professional interest cannot be transferred to any other person because it involves the personal trust and confidence.	Occupation cannot be transferred to another person because it is based on individuals' personal God-gifted talent and skills.

Formalities	For starting a business, formalities are to be complied with if required by any law of the land.	Certain formalities are to be complied with for starting a profession such as formal education and training and membership certificate of the body governing the profession.	No formalities are required to be complied with for adopting any occupation.
Related Activities	Business is engaged in production and distribution of goods and services.	A professional is engaged in rendering his professional services to his clients.	Occupational person is engaged in doing a particular type of work as and when asked by any person.
Qualification Required	No formal qualifications are required to start and carry on any business except for scientific and technical business.	Formal education and training is a must to get membership of a professional body and to start the professional practice.	No formal qualification is required for adopting any occupation or vocation.

Q.12. Elaborate the concept of business.

Ans. Concept is the idea or image or understanding about a thing, activity or a person that emerges in the mind of a person. According to the Webster's New Collegiate Dictionary, "A concept is an abstract idea generalised from particular instances."

Business activity has been conceptualised by many business persons, business managers and academicians in the field of business management ever since business emerged as an organised activity. Therefore, the concept of business has changed over the years of history of business. By far the following concepts of business have emerged :

1. Profit-oriented concept of business;
2. Customer-oriented concept of business; and
3. Social or inodern eclectic concept of business.

1. **Profit-oriented Concept of Business** : In the early age of the business, business was conceived to be a wealth producing or profit making economic activity. Any human activity directed towards the acquisition of wealth or earning profit through production and/or exchange of goods was treated to be a business. The profit-oriented concept is also known as traditional concept of business.

According to the old concept of business, business was conceived as, "The business of business is to do business." In those days the sole and exclusive objective of business was profit maximisation at any cost. Amassing of wealth and economic power, even at the cost of social justice, was considered very important. Money-chasing was the primary aim of any economic activity. Hence, business was regarded as an end in itself.

The profit-oriented concept is founded on the following assumptions :

- (i) The sole objective of the business is to earn profits by production and/or distribution of goods.
- (ii) Customers will buy the products that are available in the market at the most competitive rates.

- (iii) There is hardly any need to think for customer's services and satisfaction for running a business.

This concept existed all over the world prior to the 1950s for the following reasons :

- (i) Limited availability of goods because the production was much smaller than the demand of the goods all over the world.
- (ii) Consequently, there was a lack of competition and hence no extra efforts were needed to do business.
- (iii) Consumers even did not expect much from the businessmen.

This concept is still followed in the economies of shortages or seller's market.

2. **Customer-oriented Concept of Business :** Customer-oriented concept began to come into existence around the 1950s and gained momentum during the 1960s and 1970s.

Around the 1950s, business organisations began to think about customers' service and satisfaction. They started conceiving that business should be done for mutual benefits of both business organisations and customers. During the 1960s and 1970s more importance was attached to customer service and satisfaction. Then business organisations began to think that business should earn profits through service and satisfaction of the customers.

Movement went on and business organisations were forced to regard customer as the king of the market. The customer-oriented concept is founded on the following assumptions :

- (i) Business organisations should produce and provide the goods/services that are needed by the customer.
- (ii) The products and services provided by the business should satisfy the needs of customers.
- (iii) The business should earn the profits through the services and satisfaction of customers.

The concept emerged due to the following reasons :

- (i) Production of goods and services increased substantially.
- (ii) Many substitute products/services came in the market.
- (iii) In consequent of the above reasons, competition increased among the business organisations.
- (iv) Consumer expectations began to grow more and more due to consumer movements.

3. **Societal or Modern Concept of Business :** During the 1980s, societal concept of business began to emerge. People began to criticise the customer-oriented concept of business. It was alleged that the customer-oriented concept laid emphasis only on profit through satisfaction of the customers but neglects the social responsibility of business.

The modern concept of business considers a business enterprises as a social and economic institution. Business is not an end but a valuable means to achieve an end.

Human welfare and public good are considered very important according to the modern concept.

In brief, the modern eclectic concept of business consists of the following three aspects :

- (i) Business organisations should find out the needs, wants and interest of their customers.
- (ii) Satisfaction of customer needs and wants by providing goods and services.
- (iii) Improving the standard of living and quality of life of the members of the society.

The societal concept has emerged on account of the following reasons :

- (i) Better legal framework for consumers protection.
- (ii) Emergence and development of environmentalism and legal framework for environment protection.
- (iii) Professionalisation of business management.
- (iv) Adoption of the concept of social responsibility of business.
- (v) Increasing competition due to globalised business.
- (vi) Development of eco-friendly technology and products.

Q.13.Explain the major essentials of a successful business.

Ans. It is necessary to enumerate the significant factors demanding special attention to make any business successful :

Some of the essentials of a successful business are explained here.

1. **Efficient Organisation** : An organization is a medium for effective conduct and management of any business. An organization is a structured process in which persons interact for achieving objectives. It is defined as the division of work among people whose efforts must be co-ordinated to achieve the desired specific objectives. A sound organization evokes the willing of co-operation among employees and provides the best communication channels for proper decision-making. It ensures team-work. Mere collection of people at a place or mere going together in one direction is not an organization. Hence, people in a bus queue or in a railway coach do not form an organization. The three essentials of an organization are :
 - (i) people competent and willing to work together;
 - (ii) common purpose or goal to be achieved through efforts of people;
 - (iii) physical facilities and equipment necessary for doing the work.
2. **Equipment and Machinery** : Modern business requires proper man machine organisation. Physical facilities, equipment, machinery, etc. contribute a lot to business prosperity. Productivity depends upon the best technology.

Business is a unique combination of technical, human and managerial resources. Technical resources include machinery, equipment, materials and finance. Human resources include men and women working in the enterprise. Managerial resources include executive leadership at all levels to co-ordinate and control all other resources effectively. Business is now recognised as a psycho-social technological system.

3. **Location, Layout and Size** : Favourable location, proper plant layout and appropriate size of the business can assure minimization of costs and maximization of profits in a competitive or free market economy.
4. **Innovation** : Fundamental research and applied product development provide innovation. Innovation or change is the essence of progress. Unprecedented development of science and technology demands continuous business research to keep ourselves up-to-date. Similarly, ever-changing consumer demand needs marketing research to adapt our production to changing market needs. Top management gives special attention to R & D in integrated business planning. Research and development alone can help a business to face successfully keen competition in the market. Creativity is now recognised as an important managerial function.
5. **Objectives** : Every business enterprise must have a set of objectives or goals to be achieved, primary or main objectives as well as secondary or subsidiary goals. These objectives point out where we have to go and what is our destination or target. Objectives should be the first consideration in organisation planning. They determine the plan for action or the work to be done.
6. **Good Management** : Management plays a very important role as a central organizing, planning, controlling and co-ordinating agency or authority for directing effectively any business. Management is responsible for the judicious and conscious as well as orderly arrangement of various resources such as men, money, machines, materials for the production and distribution of goods in the home or even foreign markets. Management provides entrepreneurial ability (risk-bearing ability) and managerial skills. Competent management is a firm's single most important resource. In fact, even a flourishing sound business may go to the brink of insolvency, if we have incompetent and fraudulent managers. Management also provides leadership for getting things done through other people.
7. **Employee Morale** : Modern business demands collective enterprise. If employees are well-treated and offered all the amenities to ensure job satisfaction and if they develop a sense of belonging to the organization, they will put their heart and soul into their work and employee morale will be high. Ease of work gives speed of work. It is the responsibility of management to devise ways and means (job rotation, job enlargement, wage incentives) to achieve labour co-operation and goodwill.
8. **Best Marketing System** : Mass production is done scientifically. We also need a scientific or systematic distribution system to sell our goods at a profit in mass markets. All marketing plans and policies today are customer-centred and not product-centred. Consumer frustration and dissatisfaction will indicate failure of our marketing system.
9. **Financial Resources** : Finance is the life-blood of modern business. Adequate short-term and long-term funds assure solvency as well as normal functioning of business.
10. **Planning** : Modern business activity is based on predetermined plans, policies and programmes formulated on the basis of intelligent forecasts about the future events. Planning assures reasonable success in any business. It reduces the risk of loss or

uncertainty. Of course, plans must be based on reliable, adequate and up-to-date information reflecting the past, present and future conditions.

Q.14. Discuss about commerce as a type of a business activity.

Ans. Commerce is the sum total of those processes which are engaged in the removal of the hindrances of persons (trade), place (transport and insurance), and time (warehousing) in the exchange (banking) of commodities.

Commerce facilitates the removal of various kinds of hindrances that come in the way of smooth, speedy and easy transfer of goods and services. It helps to remove the following hindrances :

1. **Hindrance of Knowledge (Advertisement and Salesmanship) :** The selling of goods is the last problem of a business man. The problem is how the consumers and the purchasers should know about the goods, the rates etc. The problem is removed by means of advertisement and salesmanship.
2. **Hindrance of Risk (Insurance) :** Risk involved in transporting goods from one place to another place can be minimised by way of insurance. In the same way, loss of fire, theft, damage etc. can be overcome by insurance.
3. **Hindrance of Exchange (Banking) :** The payment of goods and services is generally made possible through banks. Accordingly, bank, as part of commerce, acts to remove the hindrance of exchange. Banks often finance in different ways.
4. **Hindrance of Time (Warehousing) :** Goods are produced anticipating demand in the near future. The function of storing and preservation of goods is performed by warehousing. Warehouses removed the hindrance of time by balancing the time lag between production and supply and thus create time utility.
5. **Hindrance of Place (Transport) :** The goods are produced at one place but their demand comes from various places situated at a short or long distances. The hindrance of distance is removed by various means of transport, such as rail, road, air and sea.
6. **Hindrance of Persons (Distribution) :** The buyers and sellers are residing at different places and due to distance factors contact between them is hindered. A chain of wholesalers, retailers, brokers, agents, etc. operates between the producer and consumer and overcomes the hindrance of persons.

For convenience point of view, commerce can be divided into two parts :

1. Trade and 2. Aids to Trade or Auxiliaries to trade.

1. Trade : Trade is that branch of commerce which is concerned with the sale, transfer or exchange of goods and services. It involves the buying and selling of goods and services. It is the nucleus of commerce because all commercial services like transportation, storage, insurance, banking etc. revolve around the trade. The super structure of commerce is build upon the foundation of trade.

Trade may broadly be divided into two categories, namely, (i) internal trade, and (ii) external or foreign trade.

- (i) **Internal Trade :** It is also called home-trade. It refers to trade within the boundaries of a country. Payments in the case of internal trade are made and received in the currency of the country directly or through the national banking system. Internal transport

system is utilised for the movement of goods. Internal or home trade may be conducted on either of the following bases :

- (a) **Wholesale Trade** : This involves the sale of goods in comparatively larger quantities to those traders who are in direct contact with the consumers. It serves as a link between the producers or manufacturers and retail traders who sell direct to the consumers.
- (b) **Retail Trade** : This type of trade consists in the supply of the requirements of consumers in small quantities needed by them. It provides a link between the wholesalers and the consumers.
- (ii) **International or Foreign Trade** : This is also called external trade. It refers to trade between institutions or persons located in different countries. When goods or services are moved from one country to another, payments have generally to be made in the currency of the country supplying the goods or services. The means of international transportation have to be used. Such trade is conducted mostly on a wholesale basis. Foreign trade may be further divided into :
 - (a) **Import Trade** : It refers to the purchase of goods from a foreign country. Countries import goods to meet their needs and requirements.
 - (b) **Export Trade** : When goods are sold and sent out to other countries, it is called export trade.
 - (c) **Re-export Trade** : Sometimes goods are imported from one country with the objectives of selling or exporting them to some other countries, it is termed as re-export trade.

2. Auxiliaries to Trade : In addition to trade, commerce includes several ancillary services which facilitate exchange of goods and services. These auxiliary services or aids to trade are described below :

- (i) **Advertising** : Advertising brings goods and services to the knowledge of prospective buyers. It helps to highlight the distinctive features and utility of different products. With the help of such knowledge, consumers can obtain better value for their money. Marketing research helps to know and understand the requirements of consumers.
- (ii) **Warehousing or Storage** : It refers to the holding and preservation of goods until they are finally consumed. Goods have to be stored at every stage in the process of exchange. Warehousing performs a useful function by matching supply with the demand. It helps to make available the seasonally produced goods throughout the year. In the absence of warehousing, a producer will have to dispose off the goods as soon as they are produced. Warehousing creates 'time utility'.
- (iii) **Insurance** : It facilitates trade by providing a cover against the loss or damage to goods in the process of transit and storage. By getting their goods insured, producers and traders can avoid the risk of loss due to fire, theft, pilferage, etc. Packaging also helps to protect the goods during transit and storage.
- (iv) **Banking** : Banks are traders of money and credit. They help in the buying and selling of goods by providing a convenient and safe mode of payment. Banks also grant credit to businessmen with which they can carry on larger volume of trade.

- (v) **Transportation** : Transportation carries goods from producers to traders and finally to consumers. It bridges the geographical distances and thereby performs a useful function in commerce. It makes for speed and efficiency in exchange. Transportation provides the wheels of commerce. It is because of transportation that a producer can sell his goods in different parts of the world. It creates 'place utility',

Q.15.Elaborate the major requisites of an efficient business organisation.

Ans. An efficient organisation is essential for the success of a business enterprise. Defining of duties and fixing responsibilities of all employees in the organisation is a pre-requisite for the smooth working of the enterprise. An effective organisational system ensures proper supervision and control. It also facilitates expansion and diversification.

An effective organisation has the following pre-requisites :

1. **Proper Buying and Selling Organisation** : The business should evolve an efficient purchasing system. Large sums of money are spent on purchase of raw materials and assets. The goods purchased should be of a good quality and the rates paid should be competitive. A businessman will not succeed if he does not evolve proper purchasing agency.
Similarly, marketing of goods is also important. Selling is as important as producing. Standard sales policies should be devised. Consumers satisfaction should be the ultimate aim of sales policies. Proper buying and selling organisation are essential for the success of a business concern.
2. **Efficient Personnel Organisation** : Management of personnel is an important aspect of organisation. Proper personnel organisation is necessary for enabling all persons to optimise their contribution to attain the business objectives. Working conditions should be improved so that workers are encouraged to work more efficiently and have job satisfaction.
3. **Capacity for Business Expansion** : The organisation structure should be such that it allows increase or decrease of production, as the case may be without disturbing the whole organisation.
4. **Co-operation and Co-ordination** : It is necessary to get the co-operation of everybody in the organisation to attain success. There should be some agency to co-ordinate the activities of various departments. Sales department must know the plans of production department before planning sales organisation. Similarly, purchase and finance departments should also work in co-ordination with each other. The employees should develop an attitude of co-operation. A central agency should act as a co-ordinating body.
5. **Able Organisers** : Success of an organisation depends upon the competence and calibre of those persons who are at the helm of affairs. The entrepreneur should understand all aspects of the business so that he may properly organise various aspects of the concern. A well-defined organisational set-up will be helpful in smooth functioning of the business. The person at the top should be well-versed with everything. He should be dynamic and should be able to cope with the changing business environment.

6. **Sound Business Policies :** The management should be clear about the objective to be achieved. Various policies should be aimed to achieve the business goals. There should be no conflict and confusion regarding different policies. The policies should be defined and different levels of management should be clear about the policies.
7. **Proper Supervision and Control :** The success of an organisation will depend upon the effective supervision and control. If the activities of the different individuals are not properly controlled, then business goals will not be achieved. The targets of work should be fixed and the performance should be recorded. A corrective action is necessary if the performance is less than the goal. The number of persons to be supervised (span of control) by the supervisors should also be realistic. The supervisors should be able to devote enough time in checking the work of every employee under his control.

Q.16. Explain the main trends evolving modern concept of business.

Ans. There are several trends that can be seen easily into evolving modern concept of business which are as follows :

1. **Social Media :** Social media is one of those business trends a business can't afford to ignore. For example, Facebook isn't just something that kids are using any more and social networks are increasingly becoming business networks as people's social/personal/business lives converge. Simply put, if that's where they are, that's where you need to be if you want to sell more widgets.
2. **Green Marketing :** The term "green marketing" simply denotes all the activities intended to generate as well as facilitate any exchange in order to satisfy human needs such that satisfying these needs happen with the most minimal input on the environment.

Companies all across the globe have started differentiating their products and services by using go-green concern and have started utilising ecological marketing approach as a mere competitive edge.
3. **Foreign Direct Investment :** The world economy has experienced several waves of globalisation in its history. Each wave led to a growing interdependence among countries through increasing amounts of foreign trade, cross-border financial flows and migration. One of the main features of the globalisation at the end of the 20th century was the rapid increase of Foreign Direct Investment (FDI).
4. **Cloud Computing :** Businesses can directly benefit from the cloud computing business trend by using cloud-based applications to cut down on the expense and trouble of doing the same thing themselves. Using someone else's mail servers through the Internet can be much more cost-effective (and hassle-free) than setting up your own email server in-house.
5. **Customisation :** There are business trends that are already in wide use and there are others which only gain strength and have enormous perspectives. Customisation is the trend that will surely be on top in the coming years. People love customised goods and services, but there are still plenty of things waiting to be presented in customised versions.

6. **Business Combinations** : External expansion refers to business combination where two or more concerns combines and expand their business activities. The ownership and control of the combined concerns may be undertaken by a single agency. It is a method of economic organisation by which a common control, of greater or lesser completeness is exercised over a number of firms which either is operating in competition or independently.
7. **E-Business** : E-business is a term used to describe businesses run on the Internet, or utilising Internet technologies to improve the productivity or profitability of a business. This usage is somewhat archaic, however, and in most contexts e-business refers exclusively to Internet businesses. It includes: E-Commerce, M-Commerce, E-Retailing, E-Marketing, etc.
8. **Corporate Social Responsibility** : It is a form of corporate self-regulation integrated into a business model. The goal of CSR is to embrace responsibility for the company's actions and encourage a positive impact through its activities on the environment, consumers, employees, communities, stakeholders and all other members of the public sphere.
9. **Containerised Cargo** : There are a number of freight containers in use within different modes, e.g., Unit Load Devices (ULDs) for aviation, Swap Bodies for road-rail carriage in Europe, and various types of maritime containers (e.g., dry and refrigerated containers) for seaborne shipping. Among those, maritime containers are the most numerous container types involved in international trade. They are also used for inter-modal transportation, in which they are carried by maritime, inland waterway, road and rail operators.
10. **South-South Trade** : Merchandise trade between developing countries, *i.e.*, South-South trade, has significantly increased at an annual average rate of 11% during the past decade, accounting for nearly 13% of world merchandise trade in 2000. Around 40% of exports from developing countries were destined for other developing countries. Intra-regional trade, in particular through RTAs, played a central role in the rise of South-South trade. Also, inter-regional trade showed signs of growth, albeit on a smaller basis. In addition, Intra-Asia trade took a dominant position in this trend, accounting for around 80% of the total South-South trade in 2000, but strong growth in intra-regional trade in Africa and Latin America was also observed.
11. **Trade in Agricultural and Manufactured Goods** : Manufactured goods, excluding mining products, recorded above average growth in world merchandise trade during the past two decades. As a result, they accounted for around three-quarters of world merchandise trade. By contrast, the share of agricultural goods trade remained at around 9% in the three preceding years, which represented approximately 2% below the average level in the 1990s. One of the notable trends is that processed agricultural goods have become more important within trade in agricultural goods over the past decade.
12. **Trade between Partners of Regional Trade Agreements (RTAs)** : A surge in trade between RTA partners was achieved mainly by a recent proliferation of RTAs. According to a recent WTO report some 220 RTAs were estimated of which 150 had been notified to the GATT/WTO. Nearly all WTO members belong to at least one RTA,

and each belongs to six RTAs on average. The number of RTAs is likely to continue to increase in coming years, considering the number of RTAs under negotiation.

13. **Developing Countries' Trade** : It is observed that developing countries are increasingly becoming an important destination for the exports of developed countries. Among those, in particular, some problems have been recognised in identifying tariff classification and assessing the customs value of second hand goods such as used cars, computer equipment, machinery and clothing. Also, developing countries contributed more to the growth of world merchandise trade than developed countries.
14. **Knowledge Process Outsourcing** : KPO stands for Knowledge Process Outsourcing. KPO includes processes that demand advanced information search, analytical, interpretation and technical skills as well as some judgment and decision-making. It is essentially an offshoot of Business Process Outsourcing (BPO).
15. **Business Process Outsourcing** : As the outsourcing industry matures it come with a lot of new trends. There are certain clear directions that businesses take to when it comes to Business Process Outsourcing. BPO stands for "Business Process Outsourcing," which is simply another term for outsourcing. This is when a company contracts an outside provider for services or business processes. This might include manufacturing or back office functions such as accounting and human resources. But BPO might also include front-end services such as customer care and technical support.

Q.17. Discuss the various guidelines that helps to bring professionalisation of business.

Ans. Following are the major guidelines which helps in bringing professionalisation of business :

1. **Creativity** : A creative manager brings greater professionalism to management by being innovative in varying business situations. Therefore, individuals under management professions should incorporate creativity within themselves.
2. **Ongoing and Incoming Situation-Oriented Ability** : Effective management is a prerequisite for an organisation in order to achieve its desired growth. Merely knowing the present business situation does not help a manager or the organisation to create effective management. Professionalism in management requires managers to be capable and knowledgeable enough to anticipate future business conditions and apply them to best of their abilities.
3. **Faith and Confidence** : It is not necessary that every responsible person is professional. Also, it is not essential that every person involved in a profession is a manager or capable of holding responsibility of managing organisational activities. Therefore, in order to be entrusted with the task of management, it is important for individuals to be professional alongwith being responsible. One must be confident about his profession and should have faith in its usefulness. This is very essential for individuals as it builds a right attitude towards their profession, thus, makes professionalisation more convenient and helps in achieving results that otherwise might not have been attainable.

4. **Favourable Attitude and Approach :** A favourable approach and attitude is desirable in professionalism. Individuals who do not hold a positive mind-set in their professions often become ineffective or unproductive for the organisation which can hamper organisational growth. An unfavourable approach towards a profession can also impair effective management. Therefore, in order to be productive and useful, individuals should have a favourable attitude towards professionalism.
5. **Competence and Capabilities :** Management as a profession is not a smooth and easy task to perform. Numerous hindrances from both internal and external business environments are faced by managers. Thus, it can be said that the competencies and capabilities of a manager play an important role in performing his/her duties and responsibilities. This is the reason that able managers adapt according to organisational changes and bring a high level of professionalism to management.
6. **Management of Situation and Environment :** Due to rapid and continuous changes in external business environment, it has become difficult for the managers to produce expected outcomes. They are entrusted with the task of achieving organisational goals, regulate the environment and making the environment favourable even under dynamic business conditions. Hence, it is important for the management to develop their systems and adopt suitable techniques for managing under varying business environments. This will certainly help in bringing professionalism to management.
7. **Updating Knowledge and Education :** An individual should have sufficient and updated knowledge, whether incorporated under a management team, or working in any sphere of life. A well-aware manager is a professional manager. For effective functioning, a manager needs to be well-educated and updated with knowledge of management. Increased knowledge improves a manager's capability of handling complex tasks. Thus, proper education and an aware mind bring professionalism into management and also help in achieving organisational goals more efficiently.
8. **Managing the Management Team :** The capability of a manager to manage the business organisation makes him/her an effective manager in the management team. Alongwith playing his/her own role, a manager has to play several other roles in different situations for ensuring effective functioning of the entire management team. The greater the manager's ability to manage the management team, more is the professionalism incorporated to management.
9. **Disposition :** It is important that the management team is highly motivated and inclined towards performing the assigned tasks. For achieving this purpose, the team should adopt various methods to build interest towards their work. If the management team is disinterested, it will impair both the team and the organisation. Hence, it can be said that in order to bring professionalism to management, it is important that the management is properly disposed.
10. **Reasonable Freedom, Safety and Security :** Management function is a complex and dynamic function which is often imbalanced due to its restrictions. Hence, there must be reasonable freedom, safety and sense of security for making management a more professional function and ensuring effective management of organisation.

□

UNIT-II

Promotion of Business

SECTION-A (VERY SHORT ANSWER TYPE QUESTIONS)

Q.1. What do you mean by promotion of a new business?

Ans. Promotion implies identification of business opportunities, determining of the objectives of profit-making by investing capital and managing acumen for establishing a business unit into an organised way.

Thus, promotion is the summation of all activities that mark the commencement of the business organisation till it comes into existence and starts as a feasible entity.

Q.2. Define the term 'promoter'.

Ans. A promoter is an individual, a firm, a company, an institution, or even a Government department, who conceives the idea of exploiting a business opportunity, examining the idea whether it is worth working, arranges men, money, material and machines and forming a profitable enterprise.

A promoter is the person conscious of the possibility of transforming an idea into a business capable of yielding a profit, who brings together the various persons concerned and who finally superintends the various steps necessary to bring a new business into existence.

Q.3. Enlist the stages involved in 'setting up of a business'.

Ans. Following are the main stages involved in setting up of a business :

1. Generation of business idea.
2. Opportunity recognition.
3. Scanning of environment.
4. Industry and competitor analysis.
5. Feasibility analysis.
6. Business plan.
7. Preparation of project report.

Q.4. What is meant by impractical expectations of a business?

Ans. These types of expectations are the major reasons behind the failure of a business. Expectations such as to become rich quickly, to be one's own boss, to enjoy spare time, etc., decrease the morale of an entrepreneur, when he fails to achieve all this. Though, these expectations are not truly impractical, but require a lot of effort and hard work from the entrepreneur.

Q.5. What is meant by a sole proprietorship or a sole trader business?

Ans. The individual proprietorship is the form of business organisation at the head of which stands an individual as one who is responsible, who directs its operations and who alone runs the risk of failure.

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

Q.6. What do you know about a joint stock company?

Ans. The Joint Stock Company is an association of persons in an organisation possessing a separate legal entity, perpetual succession with a unique name and a common seal. The capital of the company is divided into shares which are transferrable and it also has limited liability.

According to Prof. Haney, "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".

Q.7. Explain about joint sector undertakings?

Ans. Joint sector undertakings are formed by the partnership of private sector companies (or private individuals) with public sector companies (or government organisations).

The management of joint sector undertakings lies with the private sector companies and monitoring is done by government companies as members of Board of Directors.

Q.8. Write the definition of co-operative organisation as given by 'International Labour Organisation'.

Ans. According to ILO, A cooperative organisation is an association of persons, usually of limited means, who have voluntarily joined together to achieve a common economic end through the formation of a democratically controlled organisation, making equitable contributions to the capital required and accepting a fair share of risks and benefits of the undertaking.

Q.9. What are agricultural co-operative societies?

Ans. Agriculture co-operative societies also called as Farmers' co-operative societies. In this type of society farmers combine their resources for the mutual economic gain. Generally, agricultural co-operative societies divided into agricultural service co-operatives that allow number of services to their agricultural manufacture and distinct members of farmer. Here, machinery, land, etc. are the production resources which are combine people and materials together.

Q.10. Give the concept of one man company.

Ans. The Companies Act, 2013 introduced the most radical concept of 'One Person Company' or OPC also known as 'one man company'. The expert committee of Dr. J.J. Irani proposed the concept of OPC for the first time in 2005. OPC offers completely new platform of opportunities for individuals seeking chances to set-up their own ventures with an organised business format. OPC provides all the advantages associated with a private limited company to young entrepreneurs, thereby enabling them to utilise facilities of bank loans, credits, legal protections, limited liability, access to market, etc.

Q.11. Give the major disadvantages of Limited Liability Partnership.

Ans. The major disadvantages of Limited Liability Partnership are listed below :

1. An LLP cannot raise funds from public by issuing shares and debentures.
2. Any act of the partner without the other consents may bind the LLP.
3. Under some cases, liability may extend to personal assets of partners.

4. No separation of management from owners.
5. LLP might not be a choice due to certain extraneous reasons.
6. There is less secrecy of affairs.

Q.12. Which company is said to be a subsidiary company?

Ans. The companies Act states that a subsidiary company means a company in which the holding company has control in any of the following ways :

- (i) Control the composition of the Board of directors.
- (ii) Exercises control on more than one-half of its total share capital either at its own or together with one or more of its subsidiary companies.

It should be noted that a company shall be deemed to be a subsidiary company of a holding company even if the control is exercised by the another subsidiary of the holding company.

Q.13. Explain the process of 'automatic conversion by default' of a private company into a public company.

Ans. Automatic conversion of a private company into a public company takes place by operation of law where a private company makes a default in complying with the essential statutory requirements is laid down in Section 2(68) of the Act (i.e., if its membership exceeds 200, it permits free transfer of shares, or invites public to subscribe to its securities), it becomes a public company automatically.

It is to be noted that a private company which becomes a public company automatically by virtue of the above provisions need not comply with any legal formality prescribed in the case of deliberate conversion.

SECTION-B (SHORT ANSWER TYPE QUESTIONS)

Q.1. Explain the concept of 'One Person Company'.

Ans. The concept of One Person Company (OPC) was first recommended by the expert committee led by Dr. J.J. Irani in 2005. It has been introduced by the Companies Act, 2013. OPC provides a whole new bracket of opportunities for those who look forward to start their own ventures with a structure of organized business. The process of setting up an OPC is the same as that for a private limited company. OPC will give the young businessman all benefits of a private limited company meaning that they will have access to credits, bank loans, limited liability, legal protection for business, access to market etc, all in the name of a separate legal entity. Section 2(62) of Companies Act, 2013 defines a one-person company as a "company that has only one person as to its member. Furthermore, members of a company are nothing but subscribers to its memorandum of association, or its shareholders". So, an OPC is effectively a company that has only one shareholder as its member.

Such companies are generally created when there is only one founder/promoter for the business. Entrepreneurs whose businesses lie in early stages prefer to create OPCs instead of sole proprietorship business because of the several advantages that OPCs offer.

The advantages of an OPC can only be obtained by those Indians' who are naturally born and also resident of India. A person cannot form more than 5 OPC's. OPC is exempt from certain procedural formalities such as conducting annual general meetings, general meetings, extraordinary general meetings. There is no provision on holding board meetings if there is

only one director but 2 meetings need to be organized every year if there is more than one director. Any resolution passed by the sole member must be communicated to the company and entered in the minutes book. There is, however, no relief from the provisions of audits, financial statements & accounts which are applicable to private company. An OPC is incorporated as a private limited company, where there is only one member and prohibits inviting general public for subscription of the securities of the company.

Q.2. Explain the concept of promotion of a new business.

Ans. Promotion starts with the conception of the idea from which the business is to be evolved and continues down to the point at which the business is fully ready to begin operation as a going concern.

Promotion refers to those activities which are undertaken to bring a business enterprise into existence. The promotion of every business requires a process to be followed. A number of formalities have to be completed before a unit came into existence. It is the process of exploration, investigation, planning and organisation of various resources with the objectives of setting up a new business. The length of process and number of formalities vary with the type of organisation and scale of operations. It is easy to start sole trade and partnership concerns but a joint stock company requires a lengthy process.

According to Y.K. Bhusan, "Promotion refers to the act and process of establishing a new business enterprise."

According to Gerstenberg, "Promotion is the discovery of business opportunities and the subsequent organisation of funds, properties and managerial ability into a business concern for the purpose of making profits therefrom."

The process of promotion begins with the conception of an idea from which the business is to be evolved and ends with the translation of the idea into a business as a going concern. Persons who perform the task of promotion are known as promoters or entrepreneurs. A promoter conceives of the idea of a business enterprise, analyses its prospects, works out a tentative scheme of organisation, brings together the necessary resources of money, materials, machinery, people and managerial ability and floats an enterprise.

Promotion may be undertaken for the purpose of setting up a new business, for the expansion of an existing business or for combining two or more business firms.

Q.3. What are the various types of promoters of a business.

Ans. A promoter is the person conscious of the possibility of transforming an idea into a business capable of yielding a profit, who brings together the various persons concerned and who finally superintends the various steps necessary to bring a new business into existence.

Types of Promoters

The business promotion activity can be carried out via a firm, a banker, a body corporate or an individual. On the basis of nature of operation, the promoters can be categorised into the following categories :

1. **Professional Promoters** : Professional promoters are expert or experienced in promoting a new business. They are professionally promoters and they do it on a full time basis. They start all the stages involved in establishing a new business and started discovering the people who can provide funding for the new venture. After finishing all the formalities they give the administration to their proprietors or investors and afterward move to the promotion of another new business.

2. **Financial Promoters** : Financial promoters are drifted only when the security markets are in the favourable condition. They have financial potential so they look for new opportunities for the promotion of new business.
3. **Technical Promoters** : Technical promoters are technically expert in various fields. They utilise their specialised experience, knowledge and practice in advancing new business. These promoters usually charge fees for the services rendered by them.
4. **Entrepreneurial Promoters** : An individual who formulate innovative ideas for the business, find ways to set-up the unit of the business and who shape the business is defined as entrepreneurial promoter. For example, Birla, Ambani and Tata are the entrepreneurial promoters of the India.
5. **Specialised Institutions** : There are some financial institutions that provide financial support and guidance in introducing new ventures. It also cooperates with new entrepreneurs for promoting new businesses. These institutions provide management and technical expertise to the existing business.
6. **Government** : The central and state both governments act as a promoter in the cases where the new business is floated either in joint sector or in public sector that comprises huge risk and huge amount of capital. For example, HMT, ONGC, SAIL, BHEL, etc. are the units set-up by the government.

Q.4. What are the various stages of promotion of a business?

Ans. The promotion of new business comprises of the following stages :

1. **Discovery of Idea** : In this step the promoter will find out the purpose of starting the company. The promoter can find out the idea by experience of their own or by others. The idea should be feasible and applicable. Whenever an individual get an idea about a new business, discovery of some business opportunities begins.
An idea may also be to set up a business unit to provide the product at a cheaper price by cracking the monopoly of the current concern in a specific line of business or else by turning the partnership into a public limited company or a private limited company.
2. **Preliminary Investigation** : After discovering the idea, the next step is to preliminary investigation. In this step, the promoter studies the reliability of the business. By discovering weaknesses of the plan and by finding that whether the enterprise is appropriate for the consumer or not, the reliability or soundness of the new business studied. A rough estimation is made by the promoter about projected sales, incomes generated from business and cost of the projects. In the promotional phase, the feasibility and profitability of the project is taken into account while conducting the initial investigation.
3. **Assembling** : As soon as the promoter is convinced about the profitability and feasibility of the proposal, he takes the steps on the way to organise and collect the essential necessities like capital, tools, machinery, etc. The location, size and layout, etc. are decided for the plant and for raw materials contracts are made with the suppliers. The primary step for starting a new venture is to make agreement with bankers for the purpose of financing.
4. **Financing the Proposition** : The finance is regarded as the lifeblood of every business enterprise. In the financing phase, the promoter associates with financing institutions,

bankers, prospective investors, underwriters and creditors to aid for financing the proposal. The prospectus is prepared by the promoter to subscribe the paid up capital. The promoter also takes necessary steps for incorporating a company and obtaining a certificate of commencement. Many legal formalities have to be maintained for obtaining a certificate of commencement and for integrating a company. An individual should follow all these legal formalities for setting up a new business.

Q.5. What do you mean by sole proprietorship?

Or What is meant by sole trading?

Ans. Sole proprietorship is a form of business organisation in which an individual invests his own capital, uses his own skill and intelligence in the management of its affairs and is solely responsible for the results of its operation. The individual, with the assistance of other workers or by his own labour and capital, may run the enterprise. This form of organisation is also known as individual entrepreneurship : the oldest and the most sought form of enterprise in the field of small-scale industry, and the easiest and simplest form of entrepreneurship from the operational point of view. The individual entrepreneur embarks upon some industrial activity with his own savings or with funds borrowed from his friends or relatives. The industry may be started either in a portion of the entrepreneur's own house or in rented premises. There are no legal formalities to be gone through except those required for a particular type of industry. For example, if the entrepreneur decides to start a small engraving industry, he has no legal formalities to comply with. He and his family members may run the industry in their own residence. In this form of ownership, the liability is unlimited. The small industrialist and the industry are highly interrelated and integrated. If the industry prospers, the entrepreneur is the sole beneficiary and vice versa. Moreover, he enjoys full control over the affairs of the industry and the sole authority to decide, plan and control the operations of his business.

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

As per S.R. Davar, "The sole-trader is a person who carries on business of his own, that is, without the assistance of a partner. He brings in his own capital and uses all his labour. He also gets himself assisted by others to whom he pays a salary by way of remuneration."

Q.6. Write the main features of sole proprietorship.

Ans. Following are the distinctive characteristics of sole proprietorship :

1. **Absence of Legal Formalities** : No legal formalities are associated with the establishment or management of the sole proprietorship business. However, only a license is required for running the business.
2. **Absence of Separate Legal Entity** : A sole proprietorship does not hold any separate legal entity from that of its owner. In the eyes of law, the owner and the business exist together. But the business will have no existence, if its owner dies or becomes insolvent. Both are considered as a single unit.
3. **Unlimited Liability** : The proprietor is the only person liable for all its debts. If the debts of the company are more and cannot be fulfilled by the assets then the proprietor can involve his personal property for clearing all dues.

4. **No Profit Sharing** : A sole proprietor as an individual is entitled to all profits and all losses. There is no one to share the profits or losses with him. He is the only person to bear the entire losses of the company.
5. **Sole Ownership** : In this form, the business enterprise is solely owned by an individual. The capital required for the business is arranged from his personal funds or by borrowing funds from others.

Q.7. Do you agree that one man's control is the best way to run a business? Explain.

Ans. Willian R. Basset has rightly stated that, "The one man control is the best in the world if that one man is big enough to manage everything." In fact, the capacity of a person to collect funds and manage is so limited that he cannot increase the size of its business and carries on its business on small scale only. Later, Basset pointed out "But a business must be small indeed to permit one actually to know and to supervise everything. The danger is always present that he thinks he knows which really he does not know."

It is true that if sole proprietor has requisite qualities and is quite capable, he succeeds in running a business to a large extent. However, one person cannot be fully capable or has all the required qualities so as to run the business efficiently or successfully after a limit. After the size has grown immensely, he may find himself incapable of running it. Kimball and Kimball have rightly stated that "As enterprises grow, the method of individual ownership may become inadequate."

Today, the business is growing so fast, that its size has crossed the national boundary and is becoming international. With the result, the company form of business organisation is becoming more and more popular. There has been so many fundamental changes in process of production and distribution that it is becoming quite difficult to run the business in sole proprietorship or partnership form.

However, in a country, like India, there is still a preference of small businesses and sole proprietorship form of business organisation. In agriculture, cottage industries, tiny and small industries, wholesale and retail trade etc. it is still quite popular. Several professionals such as doctor, lawyer, chartered accountants, artists shall prefer sole proprietorship form of organisation. If we visit the markets of urban or rural areas, we still find the predominance of sole proprietors. Even the big companies depend upon the sole traders to carry goods to the consumers.

Q.8. Explain the meaning and definition of the term 'Partnership'.

Ans. Partnership is a contractual agreement between two or more persons who are willing to share the profits of a business which is owned by all or a single person acting for all. In general, it a business relationship between different persons having a common ownership or management of a business enterprise. The minimum number of persons required for a partnership is 2 and the maximum limit can be of 10 members (for banking industries) and 50 members (for other industries).

In India, such organisations are governed by the Indian Partnership Act, 1932. Section 4 of this Act defines a partnership as "the relation between persons who have agreed to share profits of a business carried on by all or any of them acting for all." Persons who enter into partnership are collectively known as "firm" but individually known as "partners." If we analyse this definition carefully, the following points emerge as the main elements of partnership :

- (i) Partnership is the relation between persons, *i.e.*, at least two persons must be there to constitute a partnership.
- (ii) There should be an agreement between them. This also means that persons should be legally competent to enter into a contract.
- (iii) They should carry-on some business. It implies that an agreement to run a charitable institution will not constitute a partnership. Business here necessarily implies a lawful business.
- (iv) The business must be carried on by all or any of them acting for all. Thus, one or some partners can represent the firm and bind it by his/their actions in the course of business.

According to William R. Spriegal, "Partnership has two or more members, each of whom is responsible for the obligation of the partnership. Each of the partners may bind the others and the assets of the partners may be taken for debts of partnership."

According to L.H. Haney, "Partnership is the relationship between persons who agree to carry on a business in common with a view to private gain."

Q.9. What are the disadvantages of partnership?

Ans. The main disadvantages of partnership firms are as follows :

1. **Unlimited Liability** : In a partnership concern, all partners are liable to unlimited liability. But one wrong step or decision by a partner may lead to huge losses, which will be suffered by all other partners also.
2. **Disputes between Partners** : For having a successful partnership firm, it is essential for partners to maintain a code of harmony and cooperation among themselves. At times, many clashes or conflicts occur due to the misunderstanding or differences on any problem and this may lead to the dissolution of a firm.
3. **Not Suitable for Large-scale Business** : A partnership concern is not suitable for large-scale businesses. Since, there are limited number of partners with limited capital resources and managerial skills. Large-scale businesses such as oil and steel plants, shipping, banks, etc., require huge amount of investments that a partnership firm cannot afford.
4. **Uncertain Existence** : The existence of a partnership firm is uncertain. In case of a partner's death, retirement or insanity, the partnership comes to an end or has to be dissolved.
5. **Problem of Weak Management** : Under partnership business, some partners become self-centred. They want to put in minimum efforts in the business and receive maximum out of it. This deteriorates the firm and leads to critical circumstances like it may hamper the business growth and transfer risks to others.
6. **Non-transferability of Partnership Shares** : A partner cannot transfer his shares to any other person without the approval of all the partners. Because of which, he is bound to remain the part of a firm till it exists.

Q.10. Differentiate between partnership and sole-trade business.

Ans. The distinction between partnership and sole trade may be summarises as follows :

Basis	Partnership	Sole-trade Business
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.
Agreement	To constitute partnership, an agreement is required in the form of a partnership deed. The agreement among partners may be express or implied.	A sole-trade does not require any formality to start the concern. There is no need of agreement in this business.
Owner	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.
Risk involved	The business risk is shared by all the partners in proportion of their shares.	The whole risk is beared by the sole trader.
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.

Q.11. What do you know about a partnership deed? Explain.

Ans. After the selection of partners is finalised the next step is to draft what is known as a Partnership Deed. It is nothing but a detailed agreement between the partners drafted into various clauses that determine their mutual rights and liabilities.

It is a common experience that in the initial stages of a partnership business, the relations between partners are usually very cordial. They are congenial and the spirit of give and take prevails. They carry on business with the best spirit and with the best of faith and friendliness. But gradually their relations are likely to be strained on account of (i) unexpected losses which many a times result into misunderstanding (ii) heavy drawings by one or more partner, may also lead to disputes among partners (iii) disputes may arise over valuation and distribution of goodwill, (iv) in case of death and retirement of any partner, any ugly situation may arise, (v) differences may also be caused on account of unequal distribution of work among the partners.

In the absence of any written agreement it is difficult to prove anything conclusively and complications may lead to expensive litigation. The existence of such a deed will minimise the chances of disputes and prevent the unpleasantness. Consequently it is highly desirable to have a partnership deed that may cover the following important points :

1. The name of the firm and the names and addresses of partners who compose it.
2. Nature and duration of partnership, whether it is a partnership 'at will' or a particular partnership'. The former means a partnership for which no provision is made in the contract for its duration or termination, the latter means a partnership for a particular period of time.
3. Amount of capital that each partner has to bring into the firm.
4. Division of profits and losses and their ratios.

5. Amount that each partner can draw, interest on partner's capital, loans and drawings.
6. Amount of salary and commission, if any, to be given to any partner.
7. Actual division of work and managerial responsibility amongst the partners.
8. Ascertainment of goodwill and its division on the dissolution of partnership owing to death, retirement or admission of a new partner.
9. Expulsion of partners due to gross breaches of duty or fraud.
10. Arbitration clause to settle disputes that may arise amongst the partners without going to the court of law.

Q.12. What is meant by limited liability partnership? Explain its main features.

Ans. Meaning of Limited Liability Partnership

Limited Liability Partnership (LLP) is a legal form which is governed by the Limited Liability Partnership Act, 2008. It means a partnership formed and registered under this Act.

As per Section 3 of LLP Act, a limited liability partnership is a body corporate formed and incorporated under this Act and is a legal entity separate from that of its partners. It shall have a perpetual succession and any change in the partners shall not affect the existence, rights or liabilities of the limited liability partnership. Thus, LLP is a new business vehicle in body corporate form and therefore, a separate legal entity which limits the liability of the partners to their agreed contribution.

Main Features of LLP

The salient features of the limited liability partnership are as follows :

1. **Perpetual Succession** : A limited liability partnership like an incorporated company enjoys perpetual succession. Any change in the partners of a Limited Liability Partnership shall not affect the existence, rights or liabilities of the limited liability partnership. Partners may come and may go but the LLP can go on forever. Law creates it and law alone can dissolve it.
2. **Rights and Obligations as per Agreement** : The rights and duties of partners in LLP will be governed by the agreement between partners and the partners have the flexibility to devise the agreement as per their choice. The duties and obligations of designated partners shall be as provided in the Act.
3. **Separate Legal Entity** : LLP is a separate legal entity separate from its partners, can own assets in its name, sue and be sued. No partner can either individually or jointly claim any ownership rights in the assets of the LLP during its existence or in its winding up. It can sue and be sued in its own name by its partners as well as outsiders. Creditors of the LLP are creditors of the LLP alone and they cannot directly proceed against the partners personally.
4. **Body Corporate** : A limited liability partnership is a body corporate formed and incorporated under the LLP Act. An LLP is formed by the registration of an incorporation document with the Registrar of Companies of the State in which the registered office of the LLP is to be situated.
5. **Partners can Manage Business** : Unlike corporate shareholders, the partners have the right to manage the business directly.

6. **Annual Accounts and Audits :** LLP shall maintain annual accounts. However, audit of the accounts is required only if the contribution exceeds 25 lakhs or annual turnover exceed one crore.
7. **Business for Profit Only :** LLP should be formed to carry business for profit. Thus, LLP cannot be formed for non-economic or charitable purposes.
8. **Number of Partners :** Every LLP shall have at least two partners. However, there is no limit to the maximum number of partners.
9. **Limited Liability :** Liability of the partners is limited to the extent of his contribution in the LLP. No exposure of personal assets of the partner, except in cases of fraud and negligence.
10. **Artificial Legal Person :** A limited liability partnership is an artificial legal person in the sense that it is created by a process other than natural birth and does not possess the physical attributes of a natural person and on the other hand, it is clothed with many of the rights of a natural person. It is invisible, intangible and exists only in the eyes of law.

Q.13. Differentiate between Limited Liability Partnership and a Partnership Firm.

Ans. The difference between LLP and partnership firm is discussed as follows :

Basis	Limited Liability Partnership (LLP)	Partnership Firm
Meaning	It is a type of business which combines both the features of a partnership and a body corporate.	It is an arrangement wherein two or more person agree to carry on a business and share profits & losses mutually.
Contractual Capacity	LLP can sue and be sued in its name.	Partnership firm cannot enter into contract in its name.
Liability	LLP is limited to capital contribution, except in case of fraud.	Partnership firm has unlimited liability.
Name of Firm	It contains LLP as suffix.	Partnership firm can be of any name.
Governed By	It is governed by Limited Liability Partnership Act, 2008.	Partnership firm is governed by Indian Partnership Act, 1932.
Registration	It is mandatory to register the LLP firm.	Registration of partnership firm is optional.
Property	Property can be held in the name of the firm.	Property in partnership firm cannot be held in the firm's name.
Audit of Accounts	Audit of account of LLP is mandatory, only if turnover and capital contribution overreaches 40 lakhs and 25 lakhs respectively.	Audit of accounts of partnership firm is not mandatory.
Relationship	Partners are agents of LLP only.	Partners are agents of firm and other partners as well.

Q.14. What do you know about joint stock company? Elaborate its main features.

Ans. Meaning of Joint Stock Company : The joint stock company is an association of persons in an organisation possessing a separate legal entity, perpetual succession with a unique name and a common seal. The capital of the company is divided into shares which are transferrable and it also has limited liability.

According to Prof. Haney, "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".

Characteristics of Joint Stock Company

The distinctive characteristics of joint stock companies are as follows :

1. **Limited Liability :** In this business form, the shareholders or owners of the company have limited liability. This liability is limited up to the portion of capital invested by each shareholder.
2. **Voluntary Association :** It is a voluntary association of individuals, which is established by the people themselves. There is no obligation to follow any government rules and regulations while forming it.
3. **Perpetual Succession :** This company exists permanently, it continuous until it is dissolved or sold off. It involves shareholders, who may join or leave the company or may change hands, as and when required.
4. **Common Seal :** Since the company has no physical existence, it is not liable to sign any document. For this purpose, the company has a common seal with a unique name on it, which is used for the purpose of signature. This seal is always kept safe and secure. There the presence two directors is required as witnesses whenever the seal is used by the company on any document.
5. **Intangible in Nature :** A joint stock company is intangible in nature and has no physical existence. It is an artificial person having an independent legal entity. A company can sell, purchase, or possess properties under its own seal. A number of properties can be owned by joint stock company and it can purchase or sell them under their seal. This company can conduct any other business and can sign an agreement with other businesses.

Q.15.Explain the disadvantages of a private company.

Ans. Demerits of private companies are as follows :

1. **Lack of Transparency :** Private companies lack transparency and they do not reveal full authentic information about their internal functions to their investors and business associates. This leads to development of conflict among shareholders and the management. The overall performance of the companies may deteriorate due to this situation.
2. **More Focus on Profits :** Unlike the public sector firms which run many socially viable initiatives during the emergencies or difficulties, the main objectives of private sector firms is to increase the profit without giving any concern to public welfare. The motive of establishing a firm is lost due to privatisation and the entire focus shifts to profit maximisation through promoting various immoral activities such as increasing the hidden indirect costs, producing low quality products, unnecessary increase in price and so on.

3. **Fear of Job Loss** : In comparison to public sector, the firms in private sector are more unstable. Employers may dismiss few employees in unfavourable situations like slow business or poor economic conditions. Thus working in private companies has a lot of risk associated with it, especially during unstable economic situations.
4. **Cut-Throat Competition** : In private firms, there is a cut throat competition among the employees. For sustaining their jobs and ensuring growth, the employees have to work very hard.
5. **Limited Job Perks** : Despite limited wonderful insurance and retirement plans offered by few, job related perks are very rare in private companies as compared to public sector jobs.
6. **Corruption** : Corruption and unethical ways of gaining the licenses and business deals are the evils which are promoted by these public sector firms among the government and private bidders. Few popular problems of corruption are bribery and lobbying.
7. **Hectic Working Environment** : The work environment in private sector firms is far hectic than in public sector organisations. Here, targets are set to achieve within a given time-period and perfection is required in production processes. Long working hours and odd working shifts are the common feature of private firms. All this creates mental and physical stress among the employees.
8. **Loss to Small Businesses** : Private companies are not always beneficial. There are certain demerits like they cause hindrance in the growth of small business firms by suppressing their businesses. Hence these firms provide large variety of goods and services to the customers which results in higher competition in the market. Meanwhile, in the process these private companies may crush the small businesses.

Q.16. Differentiate between a private company and a public company.

Ans. Following are the major differences between a private company and public company :

Basis	Public Company	Private Company
Minimum Paid-up Capital	A public company must have a minimum paid-up capital of ₹5 lac at the time of incorporation.	A private company must have a minimum paid-up capital of ₹1 lac.
Number of Members	Public company must have atleast 7 members. In the case of a public company, there is no maximum limit on members.	The number of members in a private company is atleast 2. The maximum number of members in a private company cannot exceed 50, excluding its present or past employees.
Name of the Company	In a public company, the word 'Limited' only shall be added at the end of its name.	In a private company the words 'Private Limited' must be added at the end of its name.
Transfer of Shares	In a public company, the shares are freely transferable. There is no restriction on the transfer of shares.	There is no freedom to transfer shares in a private company. In a private company, the Articles restrict the right of members to transfer their shares.
Public Subscription	A public company may invite the public to purchase its shares or debentures.	Private company cannot invite public for issuing shares and debentures.

Acceptance of Public Deposits	A public company can invite or accept deposits from the public.	A private company, by its Articles, prohibits any invitation or acceptance of deposits from persons other than its members, Directors, or their relatives.
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Q.17. Classify companies on the basis of number of members.

Ans. On the basis of number of members, there are two types of companies :

1. **Private Company** : Private Company as defined by Section 2 (68) means a company having a minimum paid up share capital as may be prescribed and which by its Articles of Association :
 - (i) Restricts the right to transfer its shares, if any;
 - (ii) Except in case of one Person Company, limits the number of its members to 200 not including :
 - (a) Persons who are in the employment of the company; and
 - (b) Persons who having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased;
 - (iii) Prohibits any invitation to the public to subscribe for any shares, or debentures of the company.
 - (iv) Prohibits any invitation or acceptance of deposits from persons other than its members, directors or their relatives.
2. **Public Company** : According to Section 2 (71) of the Companies Act, 2013, "Public Company means a company which is not a private company." It can invite the public to subscribe its shares and does not have any restriction on the transfer of shares. The minimum number of persons required to form a company is seven and there is no maximum limit. Subsidiary of a public company whether constituted as a private company or public company shall be regarded as public company.

Q.18. Classify companies on the basis of ownership.

Ans. On the basis of ownership, companies may be classified into two types which are :

1. **Government Company [Section 2(45)]** : A government company means any company which has at least 51% of the paid-up share capital held either by the Central Government, or by any State Government or Governments or partly by the Central Government and partly by one or more State Governments. A government company also includes a company which is a subsidiary company of a government company. Such companies are formed to enable the government to undertake business ventures and to combine the operating flexibility of privately-organised companies with the advantage of state regulation and control in the public interest.
2. **Non-Government Company** : Companies which are not government companies *i.e.*, which are not owned and controlled by the Central or and State Government are called non-government companies. In other words, a company in which 51% or more of the paid up capital is hold by one or more private entrepreneurs or by public or a group of persons other than government is said to be a non-government company.

Q.19. Elaborate the main feature co-operative organisations.

Ans. Following are the characteristics of co-operative organisations :

1. **Economic Objective** : Along with service objectives, every co-operative organisation also has economic objectives. These objectives include delivering marketing services providing land resources, distributing consumer goods, etc. For example, for an agricultural-based cooperative, economic objectives will be circulation of enhanced seeds, providing best fertilizers, low-priced credit facilities, etc.
2. **Legal Entity** : A co-operative organisation is an autonomous legal entity with a distinctive identity. After getting registered, it attains a common seal and a permanent succession.
3. **Equal Voting Right** : Regardless of the number of shares owned by the members of cooperative society, each member is eligible to vote only once. This confirms that a rich member or a member with more shares is not allowed to apply his own terms and conditions as everyone is treated equally.
4. **Service Objective** : Co-operatives are service-oriented organisations. They provide non-profit services primarily to their members. However, they can earn profits by rendering their services to outsiders other than its members.
5. **Voluntary Association** : A co-operative organisation is a voluntary association of members. It is not at all mandatory to become its member.

Q.20. What are major advantages and disadvantages of co-operative organisation?

Ans. **Advantages of Co-operative Organisations**

Advantages of co-operative organisations are as follows :

1. **Government Support** : The government support provides all type of assistance to co-operative organisations. This can be given in form of low rate loans, subsidies in loan repayment, tax releases, capital funds, etc.
2. **Limited Liability** : In a co-operative organisation, the members have a limited liability. This acts as an advantage for them, since it is only extended to the amount of capital invested by them.
3. **Autonomous Control** : It is an autonomous body, where the members can elect a representative by casting their votes. A representative is responsible to run and administer the organisation.
4. **Open Membership** : Any individual having a common interest can become a member of a co-operative organisation. They can join or leave the organisation at their own will.
5. **Easy Formation** : A co-operative organisation can be formed very easily. A group of ten individuals, with common interest, can start a cooperative organisation by getting it registered with the Registrar of Cooperative Societies.

Disadvantages of Co-operative Organisation

Demerits of co-operative organisations are as follows :

1. **Reliance on Government** : As these organisations are reliant on government and other financial institutions for raising capital, providing loans, subsidies, etc., the

government often interferes and obstructs in their functioning. Moreover, the government also audits the annual accounts of co-operatives.

2. **Ineffective Management** : These organisations do not operate properly due to their ineffective management abilities. The elected representatives and the members of the organisation do not possess enough knowledge and experience which is necessary for managing the society.
3. **Absence of Motivation** : The main purpose of all co-operative societies is to provide services to its members instead of earning profits. This act demotivates the members to operate and manage the society effectively.
4. **Absence of Cooperation** : These organisations are entirely based on mutual trust and cooperation among the members. But, due to the personal differences like selfishness, egoism, arrogance, etc., this often leads to termination of the organisations.
5. **Limited Capital** : The capital raised by a co-operative society is limited to an extent because its members mostly belong to a specific section of the society. Often the assistance provided by the Government is inadequate for cooperative organisations.

Q.21. Explain the suitability of a joint stock company.

Ans. The suitability of a joint stock company is discussed below :

1. **Large-scale Production and Distribution** : The suitability of joint stock company is high when there is a scope of large-scale production and distribution. And, it is more relevant for those companies which involve research and development, as it requires large amount of investment.
2. **High Risk Factor** : In a joint stock company the probability of undertaking business risk is very high. There is no limit on the number of members in a joint stock company due to which, the risk is shared between all the members or shareholders.
3. **International Business Operations** : Since liberalisation, it has become easy to do business internationally. The global markets are mostly ruled by large scale organisations or multinational companies. Therefore, joint stock company is most suitable for performing global business activities.
4. **High Level of Managerial Skills** : Diverse managerial skills are required to manage the large organisations. Joint stock company has the capability to appoint different people for managing different areas like finance, marketing, production, human resource, etc., as it can pay high salaries to them. Conversely, it is very difficult for a sole owner or a partnership firm to do so.
5. **Huge Capital** : It is most appropriate for large scale businesses where huge amount of capital is required. As the company consists of large number of individuals as the shareholders. Some of the businesses which require large capital investments are cement, oil and steel plants, automobiles, etc.

SECTION-C (LONG ANSWER TYPE) QUESTIONS

Q.1. Explain the various forms of business organisations.

Ans. Organisation of every business is based on one or the other accepted legal forms, e.g., sole proprietorship, partnership, joint-stock company, co-operative society, public

Corporation, etc. Such legal form gives the organisation a distinct status and helps outsiders to determine its identity. It also defines the ownership of the business and the scope of its authority and limitations under the law.

Modern business is carried on by the following forms of business organisations :

1. **Sole Proprietorship** : This type of organisation is as old as civilisation. In this form of organisation a single individual promotes and controls the business undertakings and bears the whole risk himself. He supplies the entire capital for starting and running the business. He takes all the profits and bears all risks alone. This is the simple form of organisation requiring no formalities to set it up.
2. **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 of the trading concern or by means of an agreement between two or more persons desirous of forming a partnership. This form of organisation grew essentially out of the failures and limitations of sole proprietorship. This represents the second stage in the evolution of the form of business organisation.
3. **Joint Hindu Family Business** : This form of organisation is prevalent only in India and that too among Hindus as the name is indicative. The business of Joint Hindu Family is controlled under the Hindu Law instead of Partnership Act. The membership in this form can be acquired only by birth or by marriage to male person who is already a member of Joint Hindu Family. All the offices of the undertaking are controlled by a person known as Karta or manager.
4. **Joint Stock Company** : This form of organisation was first started in Italy in the thirteenth century. 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 therefrom. A company is an artificial person created by law with corporate personality, limited liability, perpetual succession and transferable shares. These undertakings are managed by elected representatives of shareholders. Companies may be public or private and registered by share or by guarantee.

Sole trader, partnership and company are termed private capitalist organisations. Sole traders and firms have the disadvantage of being subject to unlimited liability and these forms of ownership organisation do not have a separate legal personality. The limited liability company enables investors to use their money in a business without bearing the risk of unlimited liability and the business can have permanent and stable existence or continuity of life over a very long period.

5. **Co-operative Societies** : Co-operative societies are voluntary associations started with the aim of service to its members. The aim of societies is not to increase profits as in other undertakings but service to members is their important goal. It is a joint enterprise of those who are not financially strong and cannot stand on their legs and, therefore, come together not with a view to get profits but to overcome disability arising out of the want of adequate financial resources. Like joint stock companies, societies also enjoy the benefits of corporate personality, limited liability and perpetual succession. The societies are registered under the Co-operative Societies

Act, 1912 and have more governmental control than other organisations in private sector.

6. **Public Enterprises** : Public enterprises are also called state enterprises or government enterprises. At present, public enterprises have assumed considerable importance in owning and managing many basic or key industries. No longer is the government merely a passive spectator. On the other hand, the government is taking active interest in initiating, promoting and sponsoring of new projects and industries, providing large-scale finance and even managerial help to new industries. The basic and key industries such as iron and steel, heavy engineering, heavy chemicals, heavy electricals, aircraft, etc. are now specially reserved for the public sector in India. All state enterprises, whether newly started or nationalised industries, are managed through government departments or through government companies registered under the Companies Act, 2013 or through a statutory public corporation or board created by a special Act of the legislature.

Q.2. Explain the major factors to be considered while starting a new business.

Or What are the major considerations in establishing new business.

Ans. While starting a business, the following factors have to be considered :

1. **Form of Organisation** : The power and control of the entrepreneur on the business will be determined by the choice of the form of organisation. Duties, rights, tax liability and responsibilities of owners are influenced by the selection of the type of ownership. However, there are certain lines of business that does not provide any choice in selecting the form of organisation, e.g., only a joint stock company can invest in insurance and banking business. Proprietorships or partnership are more appropriate for micro, small and medium enterprises whereas, the company form of business organisation is more suitable for large scale enterprises.
2. **Finance** : It is important to estimate the fund requirement for working business enterprise. The decisions related to the sources of collecting funds should be made and then the funds should be collected through a proper arrangement.

The entrepreneur should ensure that required finances are available at the correct time for properly launching and sustaining the business. General public, commercial banks and various other financial institutions act as sources for raising funds for large scale organisation. Whereas, promoter can use their savings as a fund for a small scale enterprise.

3. **Size of the Business Unit** : Determining the size of the business unit and extent of its operation is an important factor influencing the decision of establishing a new business. Aim of an entrepreneur should be to attain a size at which there is minimum average cost per unit while keeping in mind the factors such as scope of market, finance availability, production technique, nature of product and business competency etc. On one hand large scale operation provided many advantages but on the other hand, it also involves huge capital investment and managerial expertise. If the entrepreneur has the capacity and ability to invest large amount and to handle risk associated with it then they can start with large scale enterprise.

4. **Selection of Business Line** : Selection on the type product to offer in the market is the most basic and significant problem during the start-up of a business enterprise. The entrepreneur needs to analyse the product which is in demand in the market and then produce an organised report from his analysis. The report prepared by the entrepreneur is known as project report or feasibility report. An entrepreneur must keep in mind various factors during the selection of the line of business. The amount of profit returns which will be generated from the investment should be the prime criteria for the selection of business unit. The line of business which is predicted to generate the highest amount of returns on the investments made will be given preference.
5. **Business Location** : Every entrepreneur should select a location which is appropriate for his business unit. Location of business should be selected while keeping in mind the availability and accessibility of various factors such as raw material, transport, banking, waste disposal, power, water. It is an important decision as it put influence on the growth, success and cost of the enterprise.
6. **Construction Problem** : There are several problems associated with the construction of new business units such as civil work (water and electricity connection), supervision of construction work, equipment and machine installation, and acquisition of land.
7. **Manpower** : Filling new enterprise with workforce is also one of the serious problems. Organisational goals can be accomplished when the employees of the organisation are giving their full involvement. Therefore workforce should be provided monetary and non-monetary benefits so that they can be motivated.
8. **Procedural formalities** : There are various formalities that have to be fulfilled in order to set up a successful business enterprise. In case of joint stock company both at the time of incorporation and during its whole life there are various legal formalities which have to be completed like preparation of various documents, deposit of fees with the company's registrar. Public limited company requires a certificate and only after receiving this certificate business can start its operations. Whereas, in partnership and sole proprietorship case there is nearly no such legal formalities only permission to start a business or corporation is to be taken from panchayat or municipality.

Q.3. What are the major qualities required for a successful businessman?

Ans. Following are some important qualities of a successful businessman :

1. **Promotion of Sales** : A business survives on sales only. Businessman has to take necessary measure to promote sales of his product. This may be quality, advertisement, after sales service, communication skills, market requirement etc. The entrepreneur has to carefully handle these factors. Prior experiences may be advantageous, but seminars, reading materials on related subject or internet information can also be useful.
2. **Continuous Learning and Updation** : The pace of change is rapid and highly unpredictable in today's business environment. Product life cycles have become shorter due to changing preference of customers and rapid advancements in technology. Therefore continuous learning and updation of knowledge is the key to

success. Businessmen should learn and keep themselves updated about the changes in the business environment including the latest trends, new products introduced by competitors, fashions, technology, business models, best practices etc.

3. **Vision and Leadership Skills** : Focusing on vision is the important requisite for successful businessman. Instead of caring about tasks and operations of the enterprise, successful businessmen focus on vision. Vision implies the status that a particular organisation wishes to achieve in future. In order to effectively communicate this vision to entire workforce, leadership skill is required. The entrepreneur would be able to share his vision with his team and it would assist in the development of the new venture.
4. **Risk Taking Ability** : Every business venture involves some amount of risk and uncertainty. Profits are not certain and there is possibility of incurring losses. At the same time it is true that 'nothing ventured, nothing gained'. Therefore the businessman should have the ability to take calculated risks by analysing the various business opportunities as well as the risk and return involved in them.
5. **Communication Skills** : Generally, businessman use basic means to communicate with their customers, employees, suppliers, bankers, etc. This includes telephone calls, e-mails, memos, letters, meetings, seminars, etc. Thus, entrepreneurs must have good writing, speaking and listening skills, all at the same time.
6. **Proper Financial Knowledge** : Basic knowledge about finance is essential for every businessman. One must know to manage check-books and invoices related to business. Keeping track of cheques issued, pending dues against the services or goods supplied with schedules of receipts enables to know the cashflow and cash ready in hand. It is also important to recognise and manage time with finance.
7. **Time Management** : As it is said "time is money" the same applies to all successful businessman. Businessman has to systematically distribute his activities and judiciously allot time for each activity. This will enable him to devote more and more time to his activities. He must understand that every minute is precious for him. He should not give unreasonable long time for his leisure. Instead he should concentrate on designing new promotion techniques, dealing with prospective customers, or should be learning desired business skills.
8. **Administration Skills** : All businessmen must possess administrative skills alongwith the management of the business. They need to be capable of handling all the activities such as billing, payment collection, managing receivables, invoices printing, etc.

Q.4. Elaborate the prominent objectives of co-operative enterprises.

Ans. Following are the main objectives of co-operative enterprises :

I. Social objectives

1. **Providing Moral Education** : They also aim at teaching moral values to the members. They aim at developing moral qualities, such as, co-operation, self-dependence, initiative, honesty, selfless service, loyalty and self-confidence etc.
2. **Encouraging Democratic Values** : These enterprises give more emphasis upon the democratic principles and values and their operations are conducted in democratic ways only. This inculcates democratic values among their members.

3. **Educating Thriftness** : They aim at teaching people the advantages of thrift and how to avoid the wastages. They educate them as to how to make the best use of the available resources.
4. **Encouraging Service Motive** : These societies are run voluntarily and with the co-operation of their members. They are taught to be self-dependent and learn the principle of 'service above self' and not to exploit anybody.
5. **Improving Standard of Living** : As they aim at providing quality goods at fair price and in reasonable quantity this results in improvement of the standard of living of the people.
6. **Encouraging Leadership Qualities** : They also aim at encouraging the leadership qualities among the members. This helps them in undertaking their work themselves and not depending upon others.
7. **Uniting the Weak** : By enlarging their membership on voluntary basis, they make efforts to unite them so that they may stand on their own feet in fighting with the evil designs and tendencies.

II. Economic Objectives

1. **Providing Fair Price to Producers** : Often the small producers, like artisans, weavers, cottage industrialists etc. do not get fair price of their products and big traders make efforts to dupe them in many ways. These co-operative enterprises aim at provision of fair price to their products and also provide them a better medium of distribution.
2. **Providing Goods at Fair Price** : One of the main objectives of establishment of these enterprises has been providing of goods to the consumers at the cheapest or fair price. They make efforts to check the tendency of the traders or manufacturers to sell the goods at the maximum possible price.
3. **Providing Best Quality Goods** : They make concerted efforts to supply goods to the consumers not only at fair price but also of the best possible quality. They also aim at checking malpractices like adulteration etc.
4. **Checking Evils of Business World** : In a capitalist economy, the businessmen adopt certain unhealthy practices to maximise their profits. For this, they undertake black marketing, profiteering, hoarding, speculative operations etc. These practices are not in the interest of the general public and the co-operative enterprises aim at removing these evils.
5. **Arranging Cheap and Necessary Capital** : They always aim at providing adequate capital, at desired time, at reasonable rate of interest. In this manner, they make efforts to check unhealthy practices adopted by the moneylenders, indigenous bankers and other capitalists who are engaged in the provision of credit or capital.
6. **Encouraging Necessary and Cheaper Production** : These enterprises are run with the purpose of producing and distributing goods at the minimum possible cost so that the goods may be available to the consumers according to their requirements. At the same time, they concentrate mainly on the production of necessary goods only, in the required quantity.

7. **Preventing Concentration of Wealth and Power** : They aim at prevention of undue concentration of wealth and power in the hands of a few persons, say capitalists. As they do not aim at maximisation of profits, their operation help in achieving this aim.
8. **Eliminating Unnecessary Middlemen** : Often, we find many middlemen operating in between the producers and the consumers and this results in inflation of price. These enterprises aim at elimination of these middlemen so that the consumers may get the goods of fair quality at reasonable rates.

Q.5. What are the main advantages and disadvantages of a sole proprietorship?

Ans. Merits of Sole Proprietorship

The merits of sole proprietorships are as follows :

1. **Easy to Start and Dissolve** : Sole proprietorship is the simplest form of business ownership. No legal laws or government formalities are required to be followed while starting a business enterprise. Only a license is needed to start the business from the appropriate authority. Similarly, on winding-up the business, no legal formalities are involved. The owner can dissolve the business on his own will.
2. **Flexibility in Business** : The sole owner can make alterations in his business according to the changing market conditions. He can adjust his quality and quantity of product in accordance with the varying demand and supply in the market. As there is no one to interfere in his decision whatever the situation may be.
3. **Personal Contacts and Relationships** : The sole owner has a small scale business because of which he is able to maintain close and personal contacts with his customers. This also helps him to know the exact needs and wants of the customers and fulfil those requirements.
For example, a barber makes a close relation with its customers by knowing their preferences and tries to provide them maximum satisfaction.
4. **Low Production Cost** : The single owner of the business works hard for the success of his business as the business is exclusively owned by him. He ensures that resources are fully utilised without any wastage and keep a check on all the business activities. This leads to a low cost of production.
5. **Business Confidentiality** : There are certain secrets and sensitive information within every business organisation regarding new product development, purchase of equipment or raw materials, product sales, etc. In case of a single owner, there is no chance of disclosure of secrets to anyone.
6. **Timely Decision-making** : A sole proprietor may or may not discuss his business issues with anyone. He then accordingly takes prompt decisions regarding the situations in no time.

Demerits of Sole Proprietorship

The demerits of sole proprietorships are as follows :

1. **Instability** : This form of business organisation remains sound and secure till the good health of the owner. The stability of the business entirely depends upon the sole proprietor. In case of the death or illness of the owner, the business is largely affected and lately it may come to an end.

2. **Limited Skills and Knowledge** : A single person has limited skills and knowledge which he applies in his business. Other than this, he also has limited funds; therefore, he is unable to hire plenty of skilled and experienced managers, advisors or accountants.
Alongwith this, he is unable to invest large amount of funds in marketing and promotion of products and services.
3. **No Economies of Large-scale Production** : Sole proprietorship is a small scale business which involves all the factors of production (*i.e.*, land, labour, capital, raw materials, etc.) in low quantities. With this, the owner is unable to gain the economies of large-scale production. Subsequently, the production costs of products in this business are more than the products of large-scale businesses.
4. **Small Income** : Due to small-scale business, a sole owner is able to have only small profits. Therefore, it is very difficult for the owner to start-up a large enterprise. Therefore, the business remains as it is, bringing-in small income.
5. **Inadequate Sources of Production** : A small business organisation has limited resources. A single owner faces several problems while expanding the business, as he is not capable enough to raise funds alone. This limits by business expansion and the owner is only able to develop it as per financial status.

Q.6. Elaborate the various types of co-operative societies.

Ans. Types of Co-operative Societies

Various types of co-operatives are as follows :

1. **Co-operative Credit Societies** : It is a voluntary association of individuals. The aim of these co-operatives is to expand the financial benefits and increase the habit of saving among people or society. In these societies funds are generated by the share capital contributed by these society members. There is unlimited liability of the members which generate more funds from the foreigners and makes sure that the members of the society are concerned about the societal works. While providing loans, society might be more concerned about those people who applied for the small loans. Usually loans are provided for the profitable motives.
On the other hand, while making loans, there is a possibility that society may ask for the security of real assets. In these societies, the interest rate charge at the lowest possible level. Two major types of credit co-operative societies are as :
 - (i) Rural Co-operative Banks and
 - (ii) Urban Co-operative Banks.
2. **Co-operative Housing Societies** : Such, societies are formed by the small income-earners who individually are not in a position to solve their housing problems. They find it difficult to purchase land and get the houses constructed economically. The societies formed by such individuals purchase land, improve it and get houses constructed for the benefit of the members. They also get financial assistance from the Government. Moreover, they get exemption from the registration charges and stamp duties which an individual is required to pay.
3. **Consumers' Co-operative Societies** : The earliest co-operative society, was in the form of a consumers' Co-operative store. These societies are established with a view to

provide better commodities to consumer-members at a cheaper rate. Its importance has been increasing because a lion's share of trading activities are in the hands of the private traders who resort to several malpractices and sell commodities at artificially increased prices. They not only create scarcities to raise the prices but also carry on adulteration. Moreover, such societies are able to do away with the middlemen's profits and try to carry on business operations economically and, thus, are in a position to sell commodities to members at a cheaper rate.

4. **Producers' or Industrial Co-operative Societies** : In such societies small producers, workers, or the consumers may join hands with a view to carrying on production collectively for the purpose of selling manufactured goods to the members in general and also to non-members at a profit. Such societies have been established with a view to eliminate the capitalist or industrialist class which mainly controls production and exploits the consumers and the workers. Thus, its members are able to retain profits for themselves which otherwise would have gone to the capitalists.
5. **Miscellaneous Co-operative Societies** : As mentioned earlier, the co operative societies can be formed in every walk of life. There are several other forms of societies like service co-operatives, labour co-operatives, poultry co-operatives, fisheries co-operatives, transport co-operatives, printing presses co-operatives etc. These societies are voluntary associations formed in the respective spheres to minimise the grievances of the members.
6. **Co-operative Farming Societies** : Co-operative farming society is voluntarily formed by farmers with a view to maximising agricultural production with minimum possible resources. In fact, the individual farmers are not in a position to take advantages of large-scale and mechanised farming. They have also to face the financial difficulties. Moreover, the problems of irrigation, better seeds, manures and fertilisers, improved implements and insecticides etc, can be solved more efficiently if the farmers form a co-operative farming society. Such societies are greatly needed for a country like India, but they have attained only limited success in the country.
7. **Co-operative Milk Societies** : Milk is provided mostly in rural areas and it is consumed in urban areas. The villagers sell milk at lower rates to the middlemen who sell it at higher rate. Co-operative milk societies are formed by the villagers, who produce milk. These societies collect milk at the given centres and then distribute it to the users. AMUL is a world-class co-operative society which sell milk and other dairy products to the consumers.
8. **Co-operative Marketing Societies** : These are also known as Co-operative Sales Societies. Such societies are established with a view to carry on distribution of commodities economically and to eliminate middlemen's profits which are very high. But it may be noted that such societies may be established not only for sale purposes but also for buying purposes. Distribution in a capitalist system is quite defective and there are hosts of middlemen who increase the cost of distribution and therefore the price of commodities.

Q.7. What do you know about a public enterprise? Explain the various features of public enterprises.

Ans. Meaning of Public Enterprise

Public sector is that division of the state which handles the processes, such as production, supply and allotment of the products and services to the government sector or public at

regional, national or local levels. Provision of social security, urban planning and national defence come under the public sector.

The government at local, state and central levels handles the public sector. Sometime, public sector shakes hand with the private sector for generating or delivering particular good and services for the society or government.

In order to offer better services, sometimes, public service providers or public enterprises become private in terms of ownership and management of the enterprises. This is termed as 'privatisation'. The last few years have witnessed abundant privatisation of various public service providers around the globe. In rare cases, private service providers may become public in nature.

Public enterprises means state ownership and operation of industrial, agricultural, financial, and commercial undertakings.

Features of Public Enterprise

Following are the main features of public enterprise :

1. **Provision of Services** : The primary motive of public sector enterprises is not profit generation, but to provide products and services to the public in the most competent manner. Public sector emphasises upon providing services to the public which would help in improving and maintaining their living standards and wellbeing.
2. **Control of State Government** : The responsibility of controlling the working of public sectors lies under the control of government. Various agencies and techniques are involved in managing and controlling affairs of such government-owned enterprises.
3. **Responsibility towards Public** : Government is elected by the people through a democratic process. It has certain rights, responsibilities and powers which are directly accountable to the people and their representatives. Government-owned enterprises generally use funds collected from public (usually in the form of bank savings and investments), and hence, directly or indirectly, the government owns responsibility to serve public. Some of the government bodies involved in fulfilling such responsibility include legislature and its committees, audit institutions, specialised agencies, ministries, etc.
4. **Independent** : Public sector under certain circumstances, operates with the highest level of independence. It can freely conduct all its operations and management without involving any interference from other bodies.
5. **Non-Exchangeable Transactions** : Non-exchangeable dealings arise from rights, authorities and liabilities of public enterprises (such as, fines, taxes, duties, penalties, duties licence fees, regulatory fees and social advantages). These dealings are non-exchangeable and hence, people unwillingly pay them; in contrast to the exchangeable dealings and donations. Mostly, the revenues in the public sector are generated through non-exchangeable dealings.
6. **State Ownership** : Public sectors are owned and managed under the control of government. Their possession can be in the hands of State, Central or local government; or it can be owned by any division of the State.
7. **Re-Allocation of Resources** : Funds are re-allocated as per the set goals, economic growth and socialisation; yet the primary goal of such re-allocation is to provide services to the public.

8. **Development of Policies** : Similar to a normal business which adopts strategic planning, public sector also aims at developing policies and guidelines for resolving existing and upcoming problems. Some of these policies, such as fiscal and monetary policies and foreign affairs, will transcend the service provision and/or resource re-allocation orientation of most government activities.

Q.8. Explain the major factors which influence the choice of suitable form of organisation.

Ans. Major factors which influence the choice suitable form of organisation are :

1. **Tax Liability** : A joint stock company has more tax liability as compared to a sole-trade business and a partnership firm. A joint stock company faces double taxation liability. A company is taxed as an individual first and the profits distributed to shareholders are again liable for tax as income of the recipients. A partnership concern and a sole-trade business are not separately taxed. A small-scale concern will be able to avoid higher tax liability.
2. **Continuity** : This is another factor influencing a decision about the form of ownership. If the concern is stable and there is no fear of discontinuity, it will attract more investment. The trained and qualified persons will like to join the concern. The company form of organisation is the only form which ensures stability and continuity. A sole-trade business may be closed after the death of its owner. Any type of physical and financial problem will force the closure of a business. A partnership firm too does not have a permanent life. It may be dissolved for a number of reasons. Only a company form of organisation will be unaffected by the personal life of its shareholders. A company form of organisation will be suitable if stability of operations is essential.
3. **Relationship between Ownership and Management** : There is a direct relationship between ownership and management in sole- trade concerns and partnership firms. In company form of organisation, management and ownership are in two different hands. The owners (shareholders) are spread all over the country and they do not take active interest in the working of the enterprise. Moreover, shareholders cannot participate in the day-to-day activities of the concern. The management is in the hands of few persons known as Board of Directors. When the investors want to retain management in their own hands, then partnership or sole-trade form of organisation will be suitable. If the investors do not have much time for the business and they want to make investment only then company form of organisation will be suitable.
4. **Ease in Formation** : The nature and extent of formalities required at the time of establishing a concern also influence a decision about the form of organization. A joint stock company requires the services of qualified persons for getting it registered. It involves a lot of money at the time of incorporation too. On the other hand, a sole-trade business can be started at any time without going through various formalities. If the owners are not ready to go through various formalities they cannot start a company.
5. **Stability** : Another important factor that influences the choice of a suitable form of organisation is the continuity and stability of its operations. The discontinuation of business causes wastage of resources and inconvenience to the consumers. This also causes a social loss. The company form of organisation offers the maximum stability or continuity as it is not affected in any way by the death or insolvency of its members. On

the other hand, a sole-trading business comes to an end on the inability or death of the proprietor. A partnership firm also suffers from the uncertainty of duration because it can be dissolved at the time of death, lunacy or insolvency of partners.

6. **Government Regulations** : While deciding about the form of organisation, various kinds of rules and regulations affecting that form will also be considered. A number of formalities are required to be complied with while incorporating a company. A company is expected to provide a large number of information to the government every year. It has to use the services of experts to meet statutory requirements of various laws. A sole-trade business is not expected to meet any legal requirements. Similarly, a partnership concern is also free from government regulations even the registration of a firm is not compulsory.
7. **Nature of Business Activities** : The nature of business is another important factor affecting a decision about the form of organisation. If a concern deals with local market, a seasonal product or perishable goods, then sole-trade business will be suitable. The capital requirements of such concerns will be less and scale of operations will be low. On the other hand, if the concern caters to large markets and the scale of operations is large, then company form of organisation will be useful. If the primary aim of a concern is to serve its members, then a co-operative society will be most suitable.
8. **Flexibility** : A good form of organisation should also provide for flexibility in its operations. It should be possible to change or adjust its operations with the change in circumstances. A sole-trading concern is more flexible than a partnership or a company in operation. A sole-trader has absolute power over the affairs of his business and is able to introduce changes quickly to meet the needs of changing time and situations without involving expenditure.
9. **Liability** : In sole-trade and partnership business, the liability of owners is unlimited. Their liabilities are limited to the capital they have invested but their private property can also be assigned to meet business obligations. In case of companies the liability of shareholders is limited to the value of shares they have purchased. The shareholders can be required to pay only the unpaid amount of shares they are having. The private property of shareholders is not liable for meeting business losses. When a business involves more risks then company form of organisation will be most suitable. The units involving less risk may be started as sole-trade or partnership concerns. A company has large number of persons. The risk bearing capacity of a sole-trader and partners will be limited.
10. **Capital Requirement** : The need for capital will depend upon the nature of business and scale of operations. A manufacturing concern may require more capital as compared to a retail shop. On the other hand, if scale of operations is large, then capital requirements will also be more. After determining the capital needs, the form of organisation should be selected. The form of organisation should be such that it is able to provide required funds. A sole-trade business will be suitable if capital needs are less. A partnership concern may be able to meet the capital needs of a medium size unit. A joint stock company will be suitable if capital requirements are large.
A company will be able to raise outside funds also. A sole-trade concern and a partnership firm have limited capacities for raising funds. So, capital requirements will directly influence the choice of the form of organization.

Q.9. Define the term 'Partnership'. Explain its various characteristics.

Ans.

Definitions of Partnership

Main definitions of a partnership are as follows :

According to Kimball and Kimball, "A partnership firm as it is often called, is a group of men who have joined capital or services for the prosecution of some enterprise."

According to William R. Spriegal, "Partnership has two or more members, each of whom is responsible for the obligation of the partnership. Each of the partners may bind the others and the assets of the partners may be taken for debts of partnership."

According to L.H. Haney, "Partnership is the relationship between persons who agree to carry on a business in common with a view to private gain."

Characteristics of Partnership

Following are the major features of partnership :

1. **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. Anyone or more partners can act on behalf of 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 bounded by the activities of other partners.
2. **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. It 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.
3. **Restriction on 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.
4. **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.
5. **Contractual Relation** : 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.
6. **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 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.
7. **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. If the work is related to social service, we do not call it a business and, hence, no partnership.

8. **Implied Authority** : There is an implied authority that any partner can act on behalf of the firm. The firm will be bound by the acts of partners.
9. **Unlimited Liability** : Like 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 anyone of the partners or from all the partners. The partners are liable individually and collectively.

Q.10. Classify companies on various bases.

Ans. Classification of Companies

Companies may be classified on various bases such as :

1. On the basis of Ownership

On the basis of ownership, companies may be classified into two types which are as follows :

- (i) **Government Company [Section 2 (45)]** : A government company means any company which has at least 51% of the paid-up share capital held either by the Central Government, or by any State Government or Governments or partly by the Central Government and partly by one or more State Governments. A Government Company also includes a company which is a subsidiary company of a Government Company. Such companies are formed to enable the Government to undertake business ventures and to combine the operating flexibility of privately-organised companies with the advantage of State regulation and control in the public interest.
- (ii) **Non-Government Company** : Companies which are not Government [Companies *i.e.*, which are not owned and controlled by the Central or and State Governments are called Non-Government Companies. In other words, a company in which 51% or more of the paid up capital is hold by one or more private entrepreneurs or by public or a group of persons other than government is said to be a non-government company.

2. On the Basis of Control

On the basis of control, companies can be of two types :

- (i) **Holding Company** : According to Section 2 (46), "A holding company in relation to one or more companies means a company of which such companies are subsidiary companies." In simple words, where a company has direct or indirect control over another company or other companies, the controlling company is known as the holding company.
- (ii) **Subsidiary Company** : The Companies Act states that a subsidiary company means a company in which the holding company has control in any of the following ways :
 - (a) Control the composition of the Board of Directors.
 - (b) Exercises control on more than one-half of its total share capital either at its own or together with one or more of its subsidiary companies.

It should be noted that a company shall be deemed to be a subsidiary company of a holding company even if the control is exercised by the another subsidiary of the holding company.

3. On the Basis of Nationality

On the basis of nationality, companies can be classified as :

- (i) **Indian Company** : A company incorporated in India and having a place of business in India is an Indian company.
- (ii) **Foreign Company [Section 2 (42)]** : Foreign company means any company or body corporate incorporated outside India which :
 - (a) has a place of business in India by itself or through an agent, physically or through electronic mode; and
 - (b) conducts any business activity in India in any other manner.

4. On the basis of Incorporation

On the basis of incorporation, there are three types of companies :

- (i) **Chartered Companies** : If a company is incorporated under a special charter granted by the King or Queen, it is called a chartered company. The powers and nature of business of a chartered company are defined by the charter which incorporated it. The Companies Act did not apply to them. For example, The East India Company and The Bank of England was incorporated by the grant of a special royal charter. Such companies are found only in England and find no place in India after independence.
- (ii) **Companies formed under Special Statute/Statutory Companies** : A company may be incorporated by means of a special Act of the parliament or any state legislature. Such companies are called Statutory Companies. The Reserve Bank of India, State Bank of India, Unit Trust of India and Life Insurance Corporation of India are examples of Statutory companies. Statutory companies are governed by the provisions of the Special Act creating it, however, the provisions of the Companies Act which are not inconsistent with the special Act apply to those companies. These companies are usually formed to carry out some special public undertakings requiring extraordinary powers and privileges. The object of such companies is not so much to earn profit but to serve people.
- (iii) **Registered Companies** : Companies registered under the Indian Companies Act, 2013 or under any of the previous Companies Acts are called registered companies. A registered company comes into existence when it is registered under the Companies Act and certificate of incorporation is issued by the Registrar of Companies. Such companies derive their powers from the Companies Act and from the Memorandum of Association. These are the companies commonly found in India.

5. On the basis of Liability

On the basis of liability, companies are classified under the following three heads :

- (i) **Companies limited by Shares** : Section 2 (22) defines a company limited by shares means a company having the liability of its members limited by the memorandum of association to the amount, if any, unpaid on the shares held by them. The liability can be enforced during the existence of the company as well as during the winding up. Where the shares are fully paid up, no further liability rests on them. This is the most common type of company found in India.

- (ii) **Companies limited by Guarantee** : Section 2 (21) defines a company limited by guarantee means a company the liability of whose members is limited to such amount as the members have undertaken to contribute to the assets of the company in the event of its being wound up. A company limited by guarantee may be with or without share capital. If it has a share capital, liability of members shall be two-fold, firstly liable to pay the amount which remains unpaid on their shares and secondly the amount payable under the guarantee.

Such companies are generally non-trading companies and they are not formed for the purpose of earning profits, rather they are formed for the promotion of art, science, sports, culture, etc.

- (iii) **Unlimited liability Companies** : Section 2 (92) : An unlimited company means a company not having any limit on the liability of its members.

In an unlimited company, the liability of its members is similar to that of partners. But the creditors cannot directly sue against the individual members, Creditors have to file a petition for winding up of the company and the company liquidator shall call upon the members to contribute to the company the amount necessary to discharge the debts and liabilities of the company and to meet the expenses of its winding up.

The articles shall state the number of members with which the company is to be registered and if the company has a share capital, the amount of share capital with which the company is to be registered. Such companies are rarely formed/found.

6. On the basis of number of Members

On the basis of number of members, there are two types of companies :

- (i) **Private Company** : Private Company as defined by Section 2 (68) means a company having a minimum paid up share capital as may be prescribed and which by its Articles of Association :
- (a) Restricts the right to transfer its shares, if any;
 - (b) Except in case of one Person Company, limits the number of its members to 200 not including :
 - ◆ Persons who are in the employment of the company; and
 - ◆ Persons who having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased;
 - (c) Prohibits any invitation to the public to subscribe for any shares, or debentures of the company.
 - (d) Prohibits any invitation or acceptance of deposits from persons other than its members, directors or their relatives.
- (ii) **Public Company** : According to Section 2 (71) of the Companies Act, 2013, Public Company means a company which is not a private company. It can invite the public to subscribe its shares and does not have any restriction on the transfer of shares. The minimum number of persons required to form a company is seven and there is no maximum limit. Subsidiary of a public company whether constituted as a private company or public company shall be regarded as public company.

Q.11. Differentiate between a company and a partnership firm.

Ans. Difference between company can and partnership be explained as follows :

Basis	Company	Partnership
Management	A company is managed by a Board of directors elected by the members of the company.	A partnership firm is managed by partners, every member can participate in management of the firm.
Transfer of Share Interest	In case of a public company a shareholder can transfer his shares freely without restrictions.	The partner cannot transfer his share without the consent of other partners.
Mode of Creation	It comes into Existence only when it is registered under the Companies Act.	It is created by mutual agreement between the individuals.
Regulating Act	It is regulated by the Companies Act, 2013.	It is governed by the Indian Partnership Act, 1932.
Entity	It is an artificial person and has a distinct legal entity separate from its members.	It does not have a distinct legal entity separate from the members composing it.
Minimum Number of Members	The minimum number of members in a private company except OPC is two and in case of public company is seven.	A partnership can be created by two persons.
Maximum Number of Members	A private company is limited to 200 members, excluding its present and past employees. There is no limit to the maximum number of members in case of a public company.	A partnership carrying on business may consist of such number of partners as may be prescribed by the central government subject to a maximum of 100 members. At present, the prescribed maximum number is 50. Hence, members of a partnership firm cannot exceed 50.
Liability	The liability of the shareholders is limited.	The liability of partners is unlimited. Each partner is personally liable for all the debits of the firm.
Perpetual Succession	It has a perpetual succession. It comes to an end in the event of winding up.	It has no perpetual succession. A partnership comes to an end due to the death, insolvency or insanity of a partner.
Right on the Property	The property of the company is the property of the company only and not to the individual members.	The Property of the firm is the joint property of all the partners those comprising the firm.
Audit	The audit of accounts of a company is compulsory.	The audit of accounts of a partnership firm is voluntary unless its turnover exceeds the prescribed limit as laid down by the Relevant Finance Act.
Documents	It is governed by the Memorandum of Association and Articles of Association and can be altered according to the procedure laid down in the Act.	It is governed by the partnership deed and may be altered at any time with the consent of all partners.

Mutual Agency	A member of company is not an agent of the company or of other members and therefore, does not bind the company or other members by his acts.	Each partner is an agent of the firm and of other partners and therefore, binds the firm and other partners of the firm.
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Q.12. What do you mean by promotion of a business? Explain the various stages of promotion.

Ans. Meaning of Promotion of Business

Promotion of a business refers to those activities which are undertaken to bring a business enterprise into existence. The promotion of every business requires a process to be followed. A number of formalities have to be completed before a unit came into existence. It is the process of exploration, investigation, planning and organisation of various resources with the objectives of setting up a new business. The length of process and number of formalities vary with the type of organisation and scale of operations. It is easy to start sole trade and partnership concerns but a joint stock company requires a lengthy process.

According to Y.K. Bhusan, "Promotion refers to the act and process of establishing a new business enterprise."

According to Gerstenberg, "Promotion is the discovery of business opportunities and the subsequent organisation of funds, properties and managerial ability into a business concern for the purpose of making profits therefrom."

The process of promotion begins with the conception of an idea from which the business is to be evolved and ends with the translation of the idea into a business as a going concern. Persons who perform the task of promotion are known as promoters or entrepreneurs. A promoter conceives of the idea of a business enterprise, analyses its prospects, works out a tentative scheme of organisation, brings together the necessary resources of money, materials, machinery, people and managerial ability and floats an enterprise.

Promotion may be undertaken for the purpose of setting up a new business, for the expansion of an existing business or for combining two or more business firms.

Stages of Promotion of Business

There are four stages of promotion which are as follows :

- 1. Financing of Proposition :** At this stage, financial plans are prepared with respect to capitalisation, capital structure, time and method of capital issue, etc. The business proposition is presented to the public in the form of a 'prospectus in order to persuade them that it deserves their financial support. Agreements are made with underwriters, stock brokers, stock exchange authorities, etc. The process of promotion comes to an end with the actual marketing of securities.
- 2. Investigation and Verification :** When an entrepreneur conceived an idea a thorough investigation is made to established the soundness of the proposition in terms of technical feasibility and commercial viability. Detailed investigation involved study of market demand, availability and costs of raw materials, machinery and other factors of production, degree of potential competition, probable selling price and profits, etc. Such investigation may be conducted by expert engineers, financial analysts etc.

When the investigation is completed, the findings are presented in a typewritten report, known as 'project report or feasibility report'. The report helps in judging

whether the proposition will yield the fair return on the investment and for the risks undertaken. It is also helpful in procuring licences and finance from governmental agencies. The report contains the data collected, estimates of cost and revenue, experts' opinions and recommendation, etc.

3. **Assembling the Requirements** : After making sure that the proposition is practical and profitable, the promoter proceeds to assemble the requirements. He persuades some more persons to join hands with him by becoming directors or founder members. If he has invented something new, he should get it registered in his name. He may also acquire some patent rights. The promoter selects the factory site, decides about plant and machinery and contacts suppliers or raw materials, etc. He does not purchase all these because it involves huge sums of money. Instead of going for outright purchase he uses option methods. The contracts are finalised by paying option money and the ultimate purchase is done only when the company is incorporated. If the company fails to come up, the promoter only loses option money.
4. **Discovery of Business Idea** : The first stage in company promotion is the conception of a new idea. A person visualised that there are opportunities for a particular type of business and it can be profitably run. The idea, may be to exploit a new area of natural resources or more profitable ventures in an existing line of business. He develops this idea with the help of technical experts in that field. If they are convinced that profitable avenues are available in that line of business then the idea is taken forward for more exhaustive analysis.

Q.13. Discuss the various features of an ideal form of membership.

Ans. Features of An Ideal Form of Membership

An ideal form of business ownership must possess the following features :

1. **Efficient Management** : An ideal form enables maximum possible efficiency in the management and control of the firm. It permits division of labour and specialisation of effort. Decisions can be taken promptly and there is sufficient incentive to motivate managers to operate effectively. Ownership and control should go hand in hand so that there is a direct relationship between effort and reward. It should allow employment of professional executives and freedom of action.
2. **Low Tax Burden** : If different forms of ownership are assessed on different basis under the Income Tax Act, a form that has lower tax liability is preferable to a form involving heavy burden of tax.
3. **Limited Liability** : Every business involves risks and uncertainties. An ideal form is one that keeps liability limited in proportion to the prospects of profits. The company form provides the benefit of limited liability while the liability is unlimited in case of single proprietorship and partnership. However, unlimited liability increases the credit-standing of the firm and provides a spur for initiative and hard work on the part of owners.
4. **Transferability of Interest** : The degree of risk and liability can be reduced if the investment is transferable. In a joint stock company, a member can easily transfer his interest by selling his shares. This is not possible in case of sole proprietorship and partnership.

5. **Ease of Formation** : An ideal form of ownership should be easy to form. Ease of formation implies absence of legal and other formalities and least expense in formation. It should be easy to select proper business partners or associates.
6. **Retention of Business Secrets** : It should be possible to retain vital business secrets without being leaked out to the competitors. Sole proprietorship permits maximum business secrecy. In a partnership secrets can be kept by selecting partners with utmost care. But a company is under legal obligation to disclose important information to the shareholders and the public.
7. **Flexibility of Operation** : Flexibility refers to the adaptability of the enterprise to changing marketing and manufacturing conditions. It should be easy to introduce changes in the firm from time to time and there should be scope for expansion and growth.
8. **Minimum Government Control** : An ideal form of ownership is free from strict legal regulations in its day-to-day operations. Observance of too many regulations involves expense of time and money. From this point of view, sole proprietorship and partnership are preferable in comparison to company form.
9. **Continuity and Stability** : A successful enterprise must enjoy uninterrupted existence over a long period of time. Only a stable firm can provide continuous employment to workers and sufficient returns to owners. Society is also interested in the continuity of business as a source of technological change and public revenue.
10. **Sufficient Finances** : Adequate capital should be available at the initial stages and there should be facility of raising necessary funds in future. A good form of ownership ensures fair returns to investors and safety of their investment so that investors would like to provide ample funds to the firm.

Q.14. What is meant by a private company? Explain the role of private companies in Indian economy.

Ans. Meaning of Private Company

Private company, also referred as citizen sector, is that division of the economy which is managed by private groups or individuals with the prime objective of profit earning, without any direct interference of government. Private and non profit organisations are considered as the part of voluntary sector of the economy; on the other hand enterprises belonging to the government form the public sector. Private parties or institutions aiming for earning profits are involved in owning and managing private companies. Different types of private companies are available in the market like, sole traders, partnership firms, joint stock companies, etc. For example, Bata Shoe, Reliance Industries, Hindustan Unilever, Hindalco, etc., are the current examples of private companies. Shorter and uncertain life with high risk is the main trait of private companies. But these organisations can have the advantage of growth and profitability over the public sector companies if managed efficiently. In some cases, the owners of these private companies form a cartel to gain the higher monopolistic profits or to affect the economic and political factors of the country in their favour.

Role of Private Companies in Indian Economy

The private companies play an important role in Indian economy which is explained through following points :

1. **Enhances the Quality of Life** : Private companies exploit the available market opportunities so as to generate employment in the nation. This employment leads to higher purchasing power of the individuals and different quality products and services are procured by them. Thus, the overall quality of life is improved through private companies.
2. **Increased Access to Essential Goods and Services** : As private companies offer different types of goods and services in different price ranges, it gives consumers variety of choices as per their income. Thus, different segments of the society can avail essential goods and services.
3. **Increased Production Opportunities** : By observing the contribution of private companies to the GDP of the country in last few years, it is clear that they have good production opportunities. It is far better than the performance of the government companies.
4. **Increased Value of Human Capital** : Private companies always consider different human as well as social considerations while designing their mission, vision, core values, policies, strategies, etc.
5. **Improved Social Life of the Indian Middle Class** : Private companies have improved the social life of both the lower and middle class of the society. Different goods and services in different price ranges are available to the society.
6. **Changed Perception** : Private companies have changed the perception of the world about India. Earlier it was considered as an agricultural economy, but due to emergence of different manufacturing and services companies, it is now considered as a growing giant. Different foreign companies have entered the boundaries of the nation to supply different goods and services.

Q.15. What is meant by one man company? Explain its various advantages and disadvantages.

Ans. The Companies Act, 2013 introduced the most radical concept of "One Person Company or "OPC also known as "one man company." The expert committee of Dr. J.J. Irani proposed the concept of OPC for the first time in 2005. OPC offers a completely new platform of opportunities for individuals seeking chances to set-up their own ventures with an organised business format. OPC provides all the advantages associated with a private limited company to young entrepreneurs, thereby enabling them to utilise facilities of bank loans, credits, legal protections, limited liability, access to market, etc.

According to Sub-Section 62 of Section 2 of Companies Act, 2013, "One person company (OPC) means a company which has only one person as a member". In such a company, the entire share capital is owned by a single individual and some dummy members who are mostly relatives or friends of the owner, holding one or two shares. These dummy members are essential in order to meet statutory requirements for OPC.

Advantages of One Man Company

Merits of one man company are as follows :

1. **Adequate Safeguards** : A person can be appointed as a nominee director when there is a condition of death or disability of the single member. All the operations of the firm

will be managed by nominee director in the event of death of the original director, until the transfer of shares to legal heirs of the demised member is done.

2. **Legal Status and Social Recognition for Business** : An OPC has a business setup which is similar to private limited organisation and is considered as the most popular business structure in entire world.

These types of business structures provide a feeling of confidence to customers and suppliers in performing business operations. Big organisations give higher priority to private limited companies against proprietorship firms for conducting business activities. The society considers these organisations similar to private limited organisations, which enable them to attract and retain qualitative manpower by offering corporate designations such as directorship. Thus, OPC have a legal and societal recognition for business.

3. **Easy Loans from Banks** : It is quite easy to get loans from banks for OPCs rather than for proprietary firms. Before providing any kind of loans, banks request entrepreneurs to change their firms into a private limited company. Thus, it is advisable for business persons to register their companies as one person private limited company.
4. **Organised Sector of Proprietorship Company** : The unstructured sector of proprietorship can be transformed into a structured form of a private limited company with the help of OPCs. They can direct various small and medium enterprises functioning as sole proprietors into the domains of corporates. Also, better and favourable banking facilities can be obtained through an organised form of OPC. When proprietors with unlimited liability start performing their business operations with OPC, then the liabilities of involved members will become limited.

Disadvantages of One Man Company

Following are the disadvantages of one man company :

1. **Suitable Only for Small Business** : For an OPC, the maximum paid-up share capital is 50 lacs or a turnover of 2 crores. If the mentioned amount exceeds, the OPC is required to be converted into a private limited company. Thus, one person company is appropriate only for conducting small business.
2. **Minimum Number of Members** : The minimum and maximum number of members under OPC is only one. No minor individual is eligible to be nominated as a member or can hold shares with favourable interest. The single person who can be nominated as a nominee for one person/man company should be a real and natural individual, residing in India with Indian citizenship.
3. **Tax Liability** : The IT Act does not identify the concept of OPCs and therefore classifies them under the tax slabs of private firms for taxations. This implies that OPC has to pay same taxes as paid by other private firms. According to the Income Tax Act, 1961, private firms are placed under the tax slab of 30 per cent on total income.
However, tax slabs for sole proprietors are similar to common individuals. It means that such companies have to pay taxes according to their earnings. Hence, the tax liability imposes a heavy financial burden on OPCs.
4. **Higher Incorporation Costs** : One person company are required to be enrolled with the registrar of companies under the Companies Act, 2013. This requirement entails

high additional costs including fee paid to the experts (such as chartered accountants), and government charges.

Q.16. What are the steps of incorporating one man company? Also discuss its various features.

Ans. Steps to Incorporate One Man Company

Steps to incorporate one man company are as follows :

1. Obtaining Digital Signature Certificate [DSC] for proposed Director(s).
2. Obtaining Director Identification Number [DIN] for proposed director(s).
3. Choosing an appropriate name for the company and filing an application to the Ministry of Corporate Office for its availability.
4. Drafting Memorandum of Association and Articles of Association (MOA and AOA).
5. Electronically signing and filing different documents including MOA and AOA with the Registrar of Companies.
6. Paying fee and stamp duty to Ministry of Corporate Affairs.
7. Scrutinising documents at Registrar of Companies (ROC).
8. Obtaining the receipt for Certificate of Registration/ Incorporation from ROC.

Characteristics of One Man Company

Characteristics of one man company are as follows :

1. **Low Cost of Registration** : The registration cost of OPC is relatively lower than that of a private limited company.
2. **Continuous Succession** : The one person company does not get dissolved due to the death or incapacity of the single member. Continuous succession is the basic feature of OPCs. The life of single member does not determine the life of an OPC, as these companies are totally independent of the life of single member. Unless an OPC is wound-up, firm's operations will remain continued irrespective of its single member's life.
3. **Nominee for the Shareholder** : Under OPC, the shareholders can nominate other person to become the shareholder, if a situation of death or incapacity of the original shareholder occurs. For this purpose, the nominee has to provide consent for being appointed. He/she should be a real person residing in India with Indian citizenship.
4. **Limited Liability** : The most important characteristic of one person/man company is the limited liability of a single member. These companies are treated as separate legal entities and all the liabilities of such firms are to be paid by the owner of assets. In simple words, the single member has a limited liability. His/her contribution cannot exceed company's nominal values. The single member is not liable to pay any due more than OPC's capital, in situations where the total assets of the firm are not sufficient to pay company's creditors.

Q.17. What is the social desirability of a sole proprietorship?

Ans. Social Desirability

This form of organization has a social desirability too. Its social necessity is because of the following reasons :

1. **Equal Distribution of Income** : This form of organization acts as a constraint on the monopolistic tendencies of other forms of organization. A large number of persons enter the business, so this results in equal distribution of income. Every person is able to invest his savings and get an equitable return on it. When the business is in the hands of a few persons, then it results in concentration of wealth in the hands of some persons only.
2. **Providing Goods at Low Prices** : The consumers are provided goods at low prices under this type of business form. The number of sole-traders being large, they have stiff competition from one another and consumers are provided goods at competitive rates. The overhead expenses of the business are generally less; so it enables the sole-traders to sell goods at low prices.
3. **Generation of Social Virtues** : It affords a form of life and work which permits a high degree of self-determination, the enjoyment of purposeful work, the warmth of social contact and a well-integrated family and respectable life. It also develops the qualities of self-reliance, responsibility and initiative, which are of great social importance.
4. **Helpful to Consumers** : The consumers are helped by sole traders in making their purchases. The sole-traders open their shops in streets so that consumers are able to make purchases from nearby shops. The goods are supplied even at the door step by Hawkers, etc.
5. **Less Risk** : Generally, sole proprietorship is started at a low scale and investments made are also less. A person can even change his line of business if it is not suitable because it is less risky to do so.
6. **Acts as a Training Centre** : A sole-trade business provides an opportunity to learn the techniques of business. The investments being less so one can afford to learn by trial and error method. By bearing various pros and cons of a business one can expand it later on. So, this is a good form of organization to get business training.
7. **Employment to Large Number of Persons** : This form of organization is started by one person but he takes other persons for his help. The number of sole-traders is very large in all countries and they employ many persons as their helpers. So, sole proprietorship is able to provide employment to a large number of persons.
8. **Helpful to Small Producers** : The sole traders purchase goods from small producers and sell them to the consumers. A number of intermediaries are eliminated from the channel of distribution. The part of profit earned by mediators in the shape of commission is partly left with the producers and partly passed on to the consumers in the shape of low prices.
9. **Need of Less Capital** : This form of organization can be undertaken by the persons of all means. A person with small resources can start a business at a small scale. A vegetable seller can start his business with few hundred rupees and get his capital back at the end of the day. So, this type of form encourages people to take up their independent business.
10. **Provide Independent Way of Life** : This form of organization provides a way of life for those who take pride in ownership and control of what they own. Such persons are obviously of independent spirit and would not care to serve under others. It gives him an opportunity to utilize his capacity to the maximum and to enjoy freedom of action.

The sole proprietor is his own master and manager and this fact generates the greatest possible satisfaction.

Q.18. What is the procedure of expansion of a sole proprietary business.

Ans. A sole-trade business has a limited scope because of the limitations of the owner. Since only one person invests his funds, so the funds may certainly be limited. The managerial capacities of the proprietor are also limited. He has to take all the decisions himself. He will try to keep the business only to that scale which can remain in his personal supervision. The liability of the sole-trader is unlimited so he will not do anything which may be risky. When a business is expanded, then the risk is bound to be there; the sole-trader will be hesitant of increasing his scale of operations. Despite various difficulties and limitations, the sole-trader will certainly try to expand his business. There are two alternatives before him :

I. Employing a manager/employee

II. Taking a partner

The sole proprietor may choose any one of the two alternatives by considering the relative merits and demerits of each alternatives. The pros and cons of both the alternatives are discussed as follows :

I. Employing a Manager/Employee

The employment of a servant is one of the alternative in an expanding sole-trade business. One person cannot supervise each and every thing. The owner needs the help of other persons, for controlling and managing the business properly. A manager or assistant will share some of the burden of the proprietor. The assistant works in the sphere assigned to him and final authority is retained by the proprietor. This alternative too has some pros and cons.

Advantages of Employing a Manager/Employee : The merits of employing a manager or an employee are as follows :

1. **Expert Services :** A sole proprietor can employ any expert in the field he needs most. Thus, he can have expert services at his disposal.
2. **Complete Control :** The sole proprietor continues having control over the affairs of his business even after the employment of manager/employee. Rather he can even control the activities of the manager/employee appointed by him.
3. **Entitled to all the Profits :** Generally, the sole proprietor will remain entitled to all the profits earned from his business. However, sometimes, a certain percentage of profit is paid by way of remuneration to a manager. In such a case, after paying that part of profit, he is entitled to the remaining profits.
4. **Maintenance of Secrecy :** A sole proprietor is not bound to disclose or share his business secrets with his manager/employee. Hence, he can maintain secrecy of all the important matters.
5. **Prompt Decisions :** Manager/employee can free the proprietor from the routine jobs of the business. The sole proprietor, therefore, can take his decisions more promptly and grab the best available business opportunities in time.
6. **Freedom of Decision-Making :** The sole proprietor will retain his freedom of taking decisions. He still remains the supreme judge of all the matters pertaining to his business. He can make decisions as to plans, policies, procedures as usual without the interference of any one. There is no need to consult the manager or employee appointed by him.

7. **Easy to Hire and Fire** : A sole proprietor will be in a position to hire and fire any of his managers or employees. He can replace any new person wherever he likes or feels fit.
8. **No need to Change the Organisation** : Where sole proprietor employs a manager, he need not change the organisation from sole proprietorship to partnership or company.

Disadvantages of Employing a Manager/Employee : Following are the demerits of employing a manager/employee :

1. **Limited Interest** : A manager/employee appointed on salary will have very limited interest in the affairs of the business. Even if a manager shares profits in lieu of or in addition to the salary, his interest will be limited in conduct of the business. Reason being that an employee usually treats himself as an employee and nothing more.
2. **No sharing in Liability or Risk** : An employee/manager never shares the risks or liability associated with the business. The entire risk is still borne by the proprietor. Hence, his liability continues to be unlimited.
3. **No Additional Capital** : A manager or an employee never brings any capital. Therefore, sole proprietor continues to work under the pressure of limited financial resources. Moreover, additional needs of capital for expansion of business will not be fulfilled.
4. **Fear of Competition** : One of the biggest demerits of engaging a manager is that he may start a competing business after leaving the employment. The fear is not unfounded since a manager or other employee may come to know many secret facts, practices and policy over the period of his employment.
5. **No Positive Impact on Goodwill and Credit Worthiness** : Appointment of manager or employee usually does not have any positive impact on the goodwill or creditworthiness of the proprietor. Hence, manager does not serve the basic requirement of expansion.
6. **Recurring Burden of Expenses** : Appointment of manager or employee creates a recurring burden of expenses in form of salary and other benefits. Hence, the cost of operation goes up and sometimes it adversely affects the profitability of his business.

II. Taking a Partner

When a new person is added as partner, then it becomes a partnership firm instead of remaining a sole-trade concern. The new partner brings in his resources and experience which can help in the expansion of business.

Advantages of Taking a Partner : Following are the advantages of taking a partner :

1. **Certainty** : It is usually said that proprietorship business has no life beyond the life of the founder. But a partnership firm need not necessarily be dissolved on the death or insolvency, insanity or permanent incapacity of a partner. Other partners may continue to do the business of the firm. Therefore, there is little uncertainty of the existence of the business if proprietor takes a partner.
2. **Increased Creditworthiness** : When a sole proprietor takes partner, the creditworthiness increases. Hence, they can borrow more money from the market.
3. **Increased Managerial Ability** : The managerial ability of one person is limited. The sole-trader is the final authority in every decision; so he will personally decide everything. If the business needs to be expanded then there must be a sharing of managerial responsibility. This can be possible by employing a manager too but his

role will be limited because the final decisions will have to be taken by the proprietor. If managerial needs are more, then the addition of a partner will be more suitable. The partner will be able to take final decisions; so the managerial responsibility can well be shared by taking a new partner.

4. **Sharing of Risk** : The liability of a sole-trader is unlimited, so he will have to face all business risk by himself. When a partner is added, then the risk is shared by both the partners. The fear of risk does not, sometimes, allow the sole-trader to expand his business because it will bring more risk also. When expansion is done by adding a partner, then business risk will be shared among two persons.
5. **Better Decisions without Suspicion** : Two-heads are always better than one. All important decisions in partnerships are taken by unanimous consent of the partners. Suspicions and doubts are removed during the course of discussion and decision-making. Hence, decisions taken are usually better and free from suspicion.
6. **No Loss in the Absence** : There is no fear of loss due to absence on account of personal or social engagements, illness or accidents. The other partner may take care of the business and the business may be carried on in the usual manner.
7. **More Capital** : The partner brings in capital which can remain permanently in the business. In a sole-trade concern the investments are limited to the resources of one person only and on the admission of a partner the resources of two persons are combined. Additional funds can also be raised through loans but this will be a temporary source and interest liability of the business will also increase. So it will be better to add a new partner when more funds are needed.
8. **No Burden of Recurring Expenses** : When a partner is taken, no burden of recurring expenses of salary and other expenses falls on the business. Hence, operating cost of business remains within the same level.

Disadvantages of Taking a partner : Main demerits of taking a partner are :

The following are some of the basic demerits of taking a partner :

1. **Delay in Decision Making** : When a partner is added in a business, then decisions are taken with his consent. All business decisions have to be taken with consensus among partners. If the decisions are not taken with the consent of a partner, then there is a fear of business being dissolved. Any partner can ask for the dissolution of a firm. The decision-taking process is delayed because it may take time to come together and then agreeing for a particular decision.
2. **Absence of Retention of Business Secrets** : A sole-trader can keep all business secrets to himself. When a partner is added, then all secrets have to be shared with him. There may be a situation when relations with partner become strained; then the secrets can be passed out. On the other hand, if an assistant is employed, then business secrets are not shared with them and there is no fear of passing them out.
3. **Division of Profits** : When a partner is added, then business profits will be shared by two persons. In sole trade business, all profits belong to the owner and he takes more interest in the business. On the other hand, if a manager is added instead of a partner, then the question of sharing profits does not arise. The sharing of profits will certainly reduce the interest of proprietors.



UNIT-III

Plant Location

SECTION-A (VERY SHORT ANSWER TYPE QUESTIONS)

Q.1. Define the term 'plant location'.

Ans. Plant location refers to the area or a place where the plant will operate to produce the goods or services. Goods can be produced at a location away from the market. Services, however are produced and consumed simultaneously, in the presence of the consumers. Many service facilities like medical, police and hair saloons are near to the customers. But in case of certain services such as telecommunications, electronic mails and entertainment, there is flexibility in location.

Q.2. What do you know about 'Theory of maximum profit location'?

Ans. Agus Losch proposed the theory of maximum profit location. In comparison to any other writers, he proposed that the location of the establishment of the manufacturing is highly related to the production cost of the firm at the different locations in the market and that has to be controlled for every site.

The general theory of plant location for the maximisation of profit was also proposed by Green Hut. He came up with a mathematical model that includes total revenues, total cost, the sales periphery and maximising the net-mill price. Though the mathematical model does not include any personal considerations, this theory only considers the fluctuations in psychic income between different locations.

Q.3. Discuss the load distance method of plant location.

Ans. This method is a mathematical technique in deciding the location of the plant after giving due consideration to the proximity factors. An attempt is made to reduce the weighted load movement inwards and outwards of facility. Grids are used on the maps to measure the distance between the two locations and alternatives are sought.

Q.4. What do you mean by plant layout?

Ans. Layout refers to the arrangement of facilities in a particular work station. Layout problems are fundamental to every type of organisation/enterprise and are experienced in all kinds of undertakings. Housewife must arrange her kitchen, retailer must arrange his counters and display the items in such a manner which facilitates movement and attract the attention of customers, office management position the desks, tables and other equipment in such a way that it facilitates the flow of work. The manufacturing organisations must arrange their facilities, not only the departments within the factory but also the plant, stores and services so as to achieve smooth flow of products.

Q.5. Discuss about product layout.

Ans. Product Layout is also referred to as 'Straight Line Layout', 'Line Processing Layout', 'Flow Line Layout, or 'Layout for Serialised Manufacture'. This type of layout provides arrangement of equipment in an order that represent their sequential role in the process of production. In the sequence, one end is the entry point of the raw material, while the other end is the exit point of the finished goods. In between these two points, various steps of production cycle take place in a pre-decided order.

Q.6. What do you mean by group technology?

Ans. Under the cellular manufacturing, the processes are assembled into cells through group technology, which is associated with the identification of parts with same features in respect of design (size, shape and functions) and processes (category of required processing, available machinery for undertaking that kind of processing and order of processing).

According to Shri V.B. Salaja "Group technology is the realisation that many problems are similar and that by grouping similar problems, a single solution can be found to a set of problems, thus saving time and effort".

Q.7. Enlist the factors determining the size of the firm.

Ans. Following are the main factors which determine the size of the firm :

1. Capital investment of the firm.
2. Power used.
3. Number of employees.
4. Volume of the output.
5. Total assets.
6. Value of output.
7. Capacity of plant.
8. Raw material used.

Q.8. Write any four disadvantages of hybrid layout.

Ans. Following are the main disadvantages of hybrid layout :

1. Low level of flexibility.
2. Heavy capital investment.
3. Replacement of machineries is not easy.
4. Some of the machines are compelled to remain unused for a significant period of time.

Q.9. What are the major types of plant layout?

Ans. Main types of plant layout are as follows :

1. Product or line layout.
2. Process or functional layout.
3. Fixed position layout.
4. Group layout.

Q.10. What do you mean by mass production?

Ans. Mass production refers to the production of standardised products with the help of a standard set of processes and operation sequence on a large scale and in anticipation of

demand. As goods are produced through repetitive operations there is continuous flow of output. Henry Ford of USA said "to have started the system of assembly like production in his Ford Motor Company the work flows through a series of inter-connected operations arranged in a line so that materials pass from one operation to another without interruptions.

SECTION-B (SHORT ANSWER TYPE) QUESTIONS

Q.1. Explain the term plant layout.

Ans. Plant layout implies the physical arrangement of machines, equipment and other industrial facilities on the factory floor in such manner that they may be handled efficiently. It may be defined as a technique of locating machines, processes and plant services within the factory so as to achieve the right quantity and quality of output at the lowest possible cost of manufacturing. As a floor plan of production facilities, plant layout indicates the space allotted for material movement, storage and all supporting facilities for overall economy in production.

In the words of James Lundy, "Layout identically involves the allocation of space and the arrangement of equipment in such a manner that overall operating costs are minimised." Alternately, plant layout is an effort to arrange machines and equipment and other services within a pre-designed building ensuring steady, smooth and economical flow of material.

Q.2. What are the advantages of plant location?

Ans. Following are the main advantages of plant location :

1. **Withstand Competition** : Considering the competitive aspect, the decision as to the location of the plant also holds a significance. For this purpose, the location that brings reduction in the transportation cost, reduces the labour cost and brings economies to scale is preferred.
2. **Selecting the Best Location** : After considering the different alternatives for the location, the geographic location that comes up with the maximum facilities at a lower cost is selected. Emphasis is given on the productivity, costs, customer service and number of other varied issues. In case, error in selection of location happens, it results in shut down or shifting the location. In reality, there are number of factors that influence the decision regarding the location of the plant. The wider analysis is made for selecting the location for national, state or international operations.
3. **Fixation of the Production Technology and the Cost Structures** : Issues relating to the production technology and the cost structures are answered once the location is finalised. For example, if the site is established in an underdeveloped economy, then the project is bound to be labour intensive and the majority of processes are to be carried-out in manual form and the costs associated will also be less.
4. **Determine Nearness of Location from the Market** : Location of the plant also depends on the size and structure of the market. A small organisation where the requirement in terms of land and capital is less, the location that is close to the market is preferred. On the contrary, large firms put their operations basically in the out part of the city.
5. **Providing Better Service to the Customers** : Location of the plant also affects the ability of the company to provide timely and uninterrupted service to the customers.

Q.3. Explain the Alfred Weber's Theory of industrial location.

Ans. The first systematic theory of industrial location was propounded by Alfred Weber, a German economist. His pure theory of location was published in 1909 in German language and it was translated into English in 1929. Weber's theory is based upon a deductive analysis of the factors causing localisation of a particular industry at different geographical locations. His theory was based on the following assumptions :

1. The centres of consumption are fixed.
2. The cost of raw materials is same at all places even though the distribution of deposits of raw materials is uneven.
3. There are fixed centres of labour supply and they have unlimited supplies of labour at constant cost.
4. Transport costs depend upon weight of materials and distance. In other words, transportation rates are equal throughout the country and there is an absolutely even plane.

He divided the factors affecting location into two categories :

1. **Primary Factors** : Primary factors are the factors which influence the distribution of industrial units over the different regions.
2. **Secondary Factors** : Secondary factors are the factors which either cause concentration of industries in certain regions or their dispersal from the original regions.

Q.4. Explain the strategies which should be adopted by an organisation having multi-facility location.

Ans. For an organisation to have multi-facility location, three strategies are adopted :

1. **Separate Facilities for Different Processes** : The best example for this can be automobile or the electronic industry. In certain manufacturing units of the cars, some parts are manufactured at a distant location and assembly is done at some other location. Facility that requires more labour is located in the region that has abundance of labour and the technical part is carried out in the location where the technology is available.
2. **Separate Facilities to Serve Different Geographical Areas** : The most suitable example for this category is the strategy adopted by Coca-Cola and Pepsi. This strategy features reduction in the overall cost of transportation and also uninterrupted supply of the product in the market. Any fluctuation in the demand can also be duly taken into consideration. In addition to this, various service sector organisation like insurance companies, banks, hospitals, etc. have several offices that provide services in different localities and regions.
3. **Separate Facilities for Different Products/Services** : Those companies that produce more than one type of products, prefers separate facilities for their different products and the services. Each facility is responsible to satisfy the requirement of the entire population residing in a particular geographic region. This eliminates confusion and conflicts that may arise while trying to achieve the economies to scale. Companies like Tata have different plants for manufacturing vehicles, food products, watches and so on. Godrej has different plants for manufacturing washing machine, air-conditioners, etc.

Q.5. Discuss the principles that should be followed while designing the layout of a plant.

Ans. While designing the layout of a plant, the following principles should be followed :

1. **Principle of Maximum Accessibility :** The layout of the plant should ensure that all essential resources are accessible to the labour and machines without any delay. The aisles should be free from obstacles. The materials should be placed as close to the machines concerned, as possible.
2. **Principle of Flexibility :** Layout should be so designed that production facilities can easily be rearranged when it becomes necessary in future on account of expansion or technological changes.
3. **Principle of Space :** All available cubic space should be effectively used both horizontally and vertically. Besides using the floor space of a room, if the ceiling height is also utilized, more materials can be accommodated in the same space. Overhead material handling equipments save a lot of floor space which can be utilized for productive purposes.
4. **Principle of Safety :** Due consideration should be given to the safety and convenience of workers. There should be built-in provision for the safety and comfort of employees. Working places-safe, well-ventilated and free from dust, noise, fumes, odours and other hazardous conditions helps to increase the efficiency of workers and improve their morale. This should be a major priority while designing the layout.
5. **Principle of Flow :** The work areas should be arranged according to the sequence of operations so that there is a continuous flow of materials without backtracking or congestion. The layout should allow for easy movement of materials without interruptions or delays. As far as possible movement of materials should be continuous.
6. **Principle of Interdependence :** Interdependent operations and processes should be located in close proximity to each other. For example, materials should be stored near the area of requirement, transport, etc. This will minimise product travel.
7. **Principle of Overall Integration :** All the plant facilities and services should be fully integrated into a single operating unit so as to maximise efficiency and minimise costs of production.
8. **Principle of Minimum Investment :** The layout should yield savings in fixed capital investment through optimum utilisation of available facilities.
9. **Principle of Minimum Movement :** As far as possible materials and labour should be moved over minimum distances. The material should be transported in bulk rather than in small amounts. Men and materials should travel the shortest distance in between the production operations. This will avoid wastage of labour and time and the speed of production will be maximised.

Q.6. What is meant by plant location? Explain the need for enterprise location.

Ans. Meaning of Plant Location

Plant location refers to the area or a place where the plant will operate to produce the goods or services. Goods can be produced at a location away from the market. Services, however are produced and consumed simultaneously, in the presence of the consumers. Many service

facilities like medical, police and hair saloons are near to the customers. But in case of certain services such as telecommunications, electronic mails and entertainment, there is flexibility in location.

Plant location is a function of determining the location for a plant for maximum operating economy and effectiveness. Decision about location of the unit is very important and can have bearing on the working or future of the enterprise. The choice of a location for the place of business is one of the early and most important problem facing the entrepreneur.

Location of an industrial enterprise plays an important role in the development of the industry in terms of cost-structure, growth potential and profitability of an enterprise. A location that is most beneficial to an enterprise in all respects is known as an optimum location. An optimum location is essentially an idealistic concept. Such a location is difficult to obtain and still more difficult to retain.

An ideal site certainly contributes to the smooth and efficient functioning of an enterprise. It not only saves on costs but also enhances productivity and profits. An ideal location is a boon to a manufacturing unit to grow, diversify and prosper, as well as provide quality products on an ongoing basis.

Need for Enterprise Location

The need, for plant location arises under the following circumstances :

1. When a new enterprise is to be established.
2. In the case of established enterprise, the need for enterprise location arises when expansion, decentralisation and diversification is undertaken to meet the increased demand for its products.
3. When an undesirable location is to be abandoned.
4. Whenever the existing factory is not in a position to obtain renewal of lease.
5. When the tendency of shifting the market, depletion of raw materials, changes in transportation facilities, new processes requiring a different location are observed in a factory.
6. When a new branch or branches are to be opened for increasing the volume of production or distribution or both.

Q.7. Explain the nature of plant location.

Ans. The factory location has the following nature :

1. The size of the business is one of the major determinant in selecting the plant location. In small scale industry, the plant location is decided on the basis of demand for the product and it can move to other place, if the need arises. But for large scale industry, it is not possible to move the plant to other place because it is costly procedure. The decision for locating the plant for large scale industry must be taken with proper care.
2. Government is taking various decisions to make overall development in the country. In order to encourage industrial development, it has provide subsidies, tax rebates and various other assistance to those industrialists, whose factories are located in undeveloped areas or located in specific area decided by the government.
3. The nature of the business is the other important determinant in selecting the plant location. While in many cases, the nature of product is also considered for selecting an

appropriate location. For example, the organisation requiring unskilled workforce may locate its plant at undeveloped area and the organisation requiring skilled workforce may locate its plant at metropolitan city.

4. The success of business is depends upon the appropriate location of the plant. Earlier, it was not significant to decide about the plant location and it's totally depends upon the priority of owner of the business and practices prevailing in the society. Many of these organisations failed because of the wrong decisions taken in respect of plant location. If proper care was taken, it is possible that they may have success.

Q.8. What are the critical appraisal of Weber's Theory?

Ans. Weber's theory is criticised because of following reasons :

1. Weber's theory is based upon faulty analysis. According to S.R. Dennison, the theory is overburdened with geographical considerations and is devoid of the considerations of costs and prices. Several mathematical coefficients have been used which make the theory complex and difficult.
2. Weber takes into account only a few selected factors of location in an arbitrary manner. His theory does not take into account factors like climate, Government policy and personal likings which may exercise an important influence on location.
3. The classification of factors as 'primary and secondary' is arbitrary. A particular factor which is of prime significance to the location of one industry may have little influence in case of another industry. The effect of a particular factor varies with time and place.
4. This theory is based upon following over-simplified and unrealistic assumptions :
 - (i) The assumption that there are fixed centres of consumption is not true. In actual practice, the consumers of a product are usually so widely scattered that it is not possible to pin-point a fixed point of consumption in relation to which transportation costs may be calculated.
 - (ii) The assumption that transportation rate are uniform throughout the country is objectionable. In reality, the freight rates vary from one region to another. Weber calculated the cost of transport only on the basis of weight and distance. He overlooked the influence of the mode of transportation, the topography of the region and the nature of goods. Thus, Weber's treatment of transportation costs is not very realistic.
 - (iii) The assumption that there are fixed centres with unlimited supplies of labour is not correct. The mobility of labour has increased so that plant location is not only the result but also a cause of distribution of labour. Further, wage levels do not remain constant when there is a high degree of concentration or localisation of industry at one place.

Q.9. What are the major importance of plant location?

Ans. Following are the main advantages of plant location :

1. **Select the Best Location :** After considering the different alternatives for the location, the geographic location that comes up with the maximum facilities at a lower cost is selected. Emphasis is given on the productivity, costs, customer service and number of other varied issues. In case, error in selection of location happens, it results in shut

down or shifting the location. In reality, there are number of factors that influence the decision regarding the location of the plant.

2. **Determine Nearness of Location from the Market** : Location of the plant also depends on the size and structure of the market. A small organisation where the requirement in terms of land and capital is less, the location that is close to the market is preferred. On the contrary, large firms put their operations basically in the out part of the city.
3. **Better Service to the Customers** : Location of the plant also affects the ability of the company to provide timely and uninterrupted service to the customers. For example, location of a transport company should be close to the highway with connectivity lines to the main city to provide uninterrupted supply of the material.
4. **Withstand Competition** : Considering the competitive aspect, the decision as to the location of the plant also holds a significance. For this purpose, the location that brings reduction in the transportation cost, reduces the labour cost and brings economies to scale is preferred.
5. **Fixation of the Production Technology and the Cost Structures** : Issues relating to the production technology and the cost structures are answered once the location is finalised. For example, if the site is established in an underdeveloped economy, then the project is bound to be labour intensive and the majority of processes are to be carried out in manual form and the costs associated will also be less.

Q.10. Explain the needs to be considered while selecting a single location.

Ans. While selecting a single location, the following needs to be considered :

1. **Identifying Relevant Decision-making Criteria** : Location should be selected after considering different factors that influence the decision. The factors may be economic, social, political or other and may relate to material or the labour cost which have an overall impact on the location.
2. **Relating the Objective to Criteria by Using Various Appropriate Models** : Different models may be used like that of linear programming (LPP), break-even analysis, or qualitative factor analysis for taking relevant decisions. It is important to quantify the decision process of the location but the same is hard to do. So, the managerial opinion is sought on the matter before arriving at a conclusion.
3. **Evaluating Alternative Locations** : Data should be collected and analysed to the maximum possible extent from the primary as well as the secondary sources while deciding the location. Primary data refers to the one that is collected for the first time for the underlying study and the secondary data means the one that is already available as a result of the study that is conducted by the others. Various trade journals and magazines are available that contain good volume of data to carry out the research. Both the secondary and the primary data are compiled together to arrive at the optimum solution.
4. **Defining the Location Objective and the Associated Constraints** : After considering the need and opinion of the owners, promoters, suppliers, employees and the customers of the firm, the objectives of the location and the associated constraints are defined.

5. **Selecting the Location that Best Suits Criteria :** Finally a location is selected after carrying out all the necessary tasks to suit the criteria and are which is in the favour of the society.

Q.11. Explain the main strategies that should be adopted for an organisation while having multi-facility location.

Ans. For an organisation to have multi-facility location, three strategies are adopted :

1. **Separate Facilities for Different Processes :** The best example for this can be automobile or the electronic industry. In certain manufacturing units of the cars, some parts are manufactured at a distant location and assembly is done at some other location. Facility that requires more labour is located in the region that has abundance of labour and the technical part is carried out in the location where the technology is available.
2. **Separate Facilities to Serve Different Geographical Areas :** The most suitable example for this category is the strategy adopted by Coca-Cola and Pepsi. This strategy features reduction in the overall cost of transportation and also uninterrupted supply of the product in the market. Any fluctuation in the demand can also be duly taken into consideration. In addition to this, various service sector organisation like insurance companies, banks, hospitals, etc. have several offices that provide services in different localities and regions.
3. **Separate Facilities for Different Products/Services :** Those companies that produce more than one type of products, prefers separate facilities for their different products and the services. Each facility is responsible to satisfy the requirement of the entire population residing in a particular geographic region. This eliminates confusion and conflicts that may arise while trying to achieve the economies to scale. Companies like Tata have different plants for manufacturing vehicles, food products, watches and so on. Godrej has different plants for manufacturing washing machine, air-conditioners, etc.

Q.12. What do you mean by factor-rating system as a method of plant location.

Ans. While selecting an appropriate location, factor rating system is the most widely adopted technique. Under this system, a wide range of factors are analysed in a very simple manner. A list of factors is prepared, which the company believes are most important in selecting a location and the weights are allotted accordingly. Each of the alternate site is rated and the costs and the benefits associated are made the base and then the same is multiplied with the respective weight.

The total weights allotted are then summed up to arrive at the final score. In a similar way, rating of all the sites is carried out. Finally, the site getting the highest score is selected. Because of its simplicity and wide coverage, the technique is highly popular when it comes to selection of the site.

Mostly all the factors that are supposed to have an impact are taken into the consideration and the rating is done using the weighted rates.

Steps that are involved in Factor Rating : There exist six steps in factor rating. They are :

1. Developing a list of the critical success factors which may have an impact.
2. Assigning weight to all the factors depending upon their significance to the company.

3. Developing scale for all the factors (for example, 1 to 10).
4. Allotting score to each location of each factor after using the scale.
5. Multiplying the score and the weights to arrive at the total score.
6. Analysing the score and making a recommendation for the site selection.

Q.13. Elaborate the criteria for measuring the size of business unit.

Ans. The criteria for measuring the size of any business unit is described as follows :

1. **Quantity of Materials and Power Used :** The amount of raw materials and the level of power used in the process of production are highlighted by this measure. Per unit utilisation of raw materials and power is also depicted by this. However, due to the inefficiencies prevailing at various organisational levels, there is a possibility that smaller firms consume more inputs and power as compared to larger firms.
2. **Output Volume :** Another measure of firm size can be output volume manufactured or sold. However, organisations producing a wide array of products might not find this measure suitable. It is only appropriate for those firms which produce homogeneous or identical products.
3. **Number of Employees :** The scale of operations can also be calculated by the level of employment. The scale of operations is large if there are a large number of workers or employees involved and vice-versa.
4. **Plant Capacity :** The organisations that produce a wide array of products can find this measure suitable. For example, the capacity of plant in textile and jute firms is set up by the number of looms and spindles.
5. **Total Assets :** A popular measure of a firm's size is its value of total assets. Both the values of current and fixed assets are included in it. By calculating the total value of their assets, the sizes of various firms can be ranked or compared in an easy manner.
6. **Output Value :** Output value is expressed in monetary units. Firms producing a wide array of products can find this measure suitable. However, changes in the level of price influences this criterion.
7. **Net Worth :** The total of a free reserves and paid-up capital of a firm is known as the net worth. It helps in ascertaining a firm's growth rate and making comparisons regarding the sizes of various firms.

Q.14. Explain the factors that affect the size of a business unit.

Ans. The size of a business unit is influenced by the following factors :

1. **Technological Factors :** The possibility of technical advantages is more in cases of large-scale business operations since there will be an effective division of both labour and machinery. Hence, there will be minimum idle capacity.
2. **Managerial Factors :** In management, one can realise the benefits of division of labour. The managerial functions can be divided into different departments and sections in case of a large business unit. These departments can be of production, finance, sales, purchase, accounts, etc. All these departments can be headed by appointing high salaried individuals. Plenty of work is offered by the large organisations to the different experts and specialists so that their capabilities can be utilised in the organisation's best interest.

A very low unit cost contribution is made by the experts because of the large scale production. Further, coordination is required for the division of labour.

3. **Financial Factors** : Small businesses are financially less benefitted in comparison to large business firms. Large business firms often possess good reputation and credit standing and hence they can easily acquire both short term and long-term funds.

The shares and debentures of large firms receive a positive acceptance because of their huge profitability and sound financial position. Such businesses also get funds from various commercial banks on reasonable terms.

These organisations possess a large amount of assets which can be used as security for raising funds. These organisations are capable to reinvest a greater amount of profits back in the business to earn more in future.

4. **Marketing Factors** : Economies which favour buying and selling in bulk can be tapped by large organisations in a profitable manner. There are several benefits to large firms engaged in bulk production, viz., effective bargaining, availing expert services, achieving economy in transportation, effective salesforce employment, effective advertising, and effective channel of distribution.

Q.15. The following informations are available regarding X, Y and Z industries :

Industry	Raw Material used (in tonnes)	Manufactured goods (in tonnes)	Cost of Labour (in tonnes)
X	500	400	600
Y	500	250	500
Z	500	125	100

Calculate Material Index and Labour Cost Index for each industry according to Alfred Weber's theory of industrial location.

Sol.

$$\text{Material Index} = \frac{\text{Weight of Raw Material}}{\text{Weight of Manufactured goods}} \times 100$$

$$\text{Industry X} = \frac{500}{400} \times 100 = 125\%$$

$$\text{Industry Y} = \frac{500}{250} \times 100 = 200\%$$

$$\text{Industry Z} = \frac{500}{125} \times 100 = 400\%$$

Material Index in Industry 'Y' is higher in comparison of Industry 'X', so Industry 'Y' tends to be located near the sources of raw materials. Material Index of industry 'Z' is extremely high which shows that the nature of raw material is weight losing. Hence, it will be established near the sources of raw materials.

$$\text{Labour Cost Index} = \frac{\text{Cost of Labour}}{\text{Weight of Manufactured goods}}$$

$$\text{Industry X} = \frac{600}{400} = 1.5$$

$$\text{Industry Y} = \frac{500}{250} = 2.0$$

$$\text{Industry Z} = \frac{100}{125} = 0.8$$

Industry 'X' and Industry 'Y' tends to be located near the Labour supply centres as labour cost index is greater than one. Industry 'Z' will be located near sources of raw materials as labour cost index is less than one.

Q.16. The following data have been collected in survey :

Area	Percentage of total workers	% of Workers engaged in Textile Industry	% of Workers engaged in Juge Industry
J	30	40	20
K	20	30	25
L	25	-	15
M	15	20	20
N	10	10	20
Total	100	100	100

In the context of Sargent Florece's theory of industrial location, find out the co-efficient of localisation for each of the two industries mentioned above.

Ans. Co-efficient of Localisation by Sargent Florence's Theory

Area	% to Total Workers	Textile Industry		Jute Industry	
		Percentage of Workers Engaged	Positive Deviations	Percentages of Workers Engaged	Positive Deviations
J	30	40	10	20	-
K	20	30	10	25	5
L	25	-	-	15	-
M	15	20	5	20	5
N	10	10	-	20	10
Total	100	100	25	100	20
Coefficient of Localisation		$\frac{25}{100} = 0.25$		$\frac{20}{100} = 0.20$	

$$\text{Where, Co-efficient of Localisation} = \frac{\text{Sum of Positive Deviations}}{100}$$

Coefficient of localisation in both industries have less than one, so there found situation of decentralisation in both industries.

Q.17. What are the main objectives of plant layout?

Ans. According to Riggs, the overall objective of plant layout is "to design a physical arrangement that most economically meets the required output quantity and quality". An optimum layout would permit an uninterrupted flow of work through the factory. It ensures

best possible utilisation of machines, workers and space. A plant layout study is required to create an arrangement that will minimise unit production costs. Such a study involves a careful analysis of all factors affecting layout. Plant layout is an important decision as it represents a long-term commitment. It is also important because it affects the flow of materials and processes, labour efficiency, supervision and control, use of equipment, use of space, expansion possibilities, etc.

The basic objective of layout is to develop a production system that meets requirements of quantity and quality in the most economical way.

The various objectives of a good plant layout are as follows :

1. To minimise handling and transportation of materials,
2. To ensure economic utilisation of available floor space,
3. To minimise work-in-progress inventory by eliminating bottle-necks,
4. To ensure efficient control over the various processes of production,
5. To maximise convenience and safety of workers,
6. To obtain more efficient utilisation of machinery, equipment and other facilities,
7. To minimise cost of production.

Q.18. What are the principles that should be followed while designing the layout of a plant?

Ans. While designing the layout of a plant, the following principles should be followed :

1. **Principle of Flexibility** : Layout should be so designed that production facilities can easily be rearranged when it becomes necessary in future on account of expansion or technological changes.
2. **Principle of Flow** : The work areas should be arranged according to the sequence of operations so that there is a continuous flow of materials without backtracking or congestion. The layout should allow for easy movement of materials without interruptions or delays. As far as possible movement of materials should be continuous.
3. **Principle of Maximum Accessibility** : The layout of the plant should ensure that all essential resources are accessible to the labour and machines without any delay. The aisles should be free from obstacles. The materials should be placed as close to the machines concerned, as possible.
4. **Principle of Safety** : Due consideration should be given to the safety and convenience of workers. There should be built-in provision for the safety and comfort of employees. Working places-safe, well-ventilated and free from dust, noise, fumes, odours and other hazardous conditions helps to increase the efficiency of workers and improve their morale. This should be a major priority while designing the layout.
5. **Principle of Minimum Movement** : As far as possible materials and labour should be moved over minimum distances. The material should be transported in bulk rather than in small amounts. Men and materials should travel the shortest distance in between the production operations. This will avoid wastage of labour and time and the speed of production will be maximised.

6. **Principle of Interdependence** : Interdependent operations and processes should be located in close proximity to each other. For example, materials should be stored near the area of requirement, transport, etc. This will minimise product travel.
7. **Principle of Overall Integration** : All the plant facilities and services should be fully integrated into a single operating unit so as to maximise efficiency and minimise costs of production.
8. **Principle of Minimum Investment** : The layout should yield savings in fixed capital investment through optimum utilisation of available facilities.
9. **Principle of Space** : All available cubic space should be effectively used both horizontally and vertically. Besides using the floor space of a room, if the ceiling height is also utilized, more materials can be accommodated in the same space. Overhead material handling equipments save a lot of floor space which can be utilized for productive purposes.

Q.19. Explain the given theories of plant location :

1. **Location Analogue Model.**
2. **Linear Programming Technique.**
3. **Theory of Maximum Profit Location.**

Ans. 1. **Location Analogue Model** : People who are working in the operations research field give a lot of considerations to the plant location. In majority, their interest is mainly restricted to the issues related to transportation.

The location of service is determined if one who serve in the customer location is known and the location through the service points where the demand at each of the customer location is known in order to minimise the total cost of transportation by using analogue computer.

2. **Linear Programming Technique** : One can find optimum solutions for practical problems by using linear programming technique. Situations where it is needed to optimise some quantity, i.e., minimise or maximise a set of variables depending on some rules and constraints. The quantity to be optimised takes the form of linear equation and is known as the objective function. A series of linear equations or inequalities is used for writing the constraints. There will always be an original or primal solution and a dual for every linear programming problem. The dual can be seen as the primal problem that has been reversed inside out if there is a primal problem of maximisation then the dual will be of minimisation and *vice versa*.

By formulating the location issues in terms of linear programming reveal something about their universal nature, emphasising their structural similarities.

Following problems can be solved with the help of linear programming :

- (i) The location of a certain organisation.
- (ii) Flow of inter-regional commodities and the production allocation.
- (iii) The dual and location rent.
- (iv) Transportation of incoming and distribution of final products.

3. **Theory of Maximum Profit Location** : Agus Losch proposed the theory of maximum profit location. In comparison to any other writers, he proposed that the location of the

establishment of the manufacturing is highly related to the production cost of the firm at the different locations in the market and that has to be controlled for every site.

The general theory of plant location for the maximisation of profit was also proposed by Green Hut. He came up with a mathematical model that includes total revenues, total cost, the sales periphery, and maximising the net-mill price. Though the mathematical model does not include any personal considerations, this theory only considers the fluctuations in psychic income between different locations.

Q.20. What are the advantages of a good plant layout?

Ans. Advantages of Good Plant Layout

An ideally laid out plant reduces manufacturing costs through reduced materials handling, reduced personnel and equipment requirements and reduced in-process inventory. Thus, following advantages accrue to a unit by a good layout :

1. **Ensure Safety and Better Work Conditions** : An efficient plant layout provides higher safety and improved work conditions for workers.
2. **Effective use of Available Area** : A good plant layout utilise every inch of plant area efficiently. It ensures efficient utilisation of machinery and labour by avoiding delays and bottlenecks.
3. **Minimisation of Production Delays** : Repeat orders and new customers will be the result of prompt executing of orders. Plant layout is a significant factor in the timely execution of orders. An ideal layout eliminates such causes of delays as shortage of space, long distance movements of materials, spoiled work and contributes to the speedy execution of orders.
4. **Improved Quality Control** : Timely execution of orders will be meaningful when the quality of the output is not below expectations. To ensure quality, inspection should be conducted at different stages of manufacture. An ideal layout provides for inspection to ensure better quality control.
5. **Improved Production Process** : The production process as a whole is improved on account of less energy consumption, less costs, less fatigue and high worker morale.
6. **Minimum Equipment Investment** : Investment on equipment can be minimised by planned machine balance and location, minimum handling distances, by the installation of general purpose machines and by planned machine loading. A good plant layout reduces capital investment in plant, equipment, tooling and other physical facilities are reduced. Installation and maintenance costs due to efficient routing of services are also reduced.
7. **Better Production Control** : Production control is concerned with the production of a product of the right type, at the right time and at the reasonable cost. A good plant layout is a requisite of good production control and provides the plant control officers a systematic basis upon which organisation and procedures are built.
8. **Economies in Handling** : Nearly 30 percent to 40 percent of the manufacturing costs is accounted for, by materials handling. Every effort should, therefore, be made to cut down on this cost. Long distance movements should be avoided and specific handling operations must be eliminated. An efficient layout reduces material handling cost and

the amount of work-in-progress, due to minimum movement of materials between processes.

9. **Avoidance of Bottlenecks** : Bottlenecks are caused by inadequate machine capacity, inadequate storage space or low speed on the part of the operators. The results of bottlenecks are delays in production schedules, congestion, accidents and wastage of floor area. All these may be overcome with an efficient layout.
10. **Effective Utilisation of Labour** : A good plant layout makes possible individual operations, the process and flow of materials handling in such a way that the time of each worker is effectively spent on productive operations.

Q.21. What are the disadvantages of product layout?

Ans. Disadvantages of Product Layout

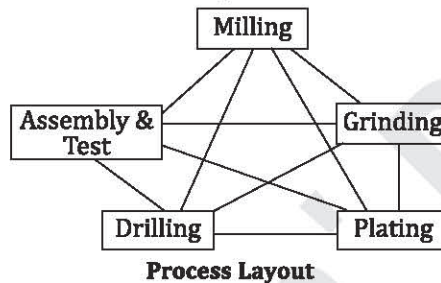
Following are the main disadvantages of product layout :

1. **Ineffective Supervision** : A supervisor under product layout has to supervise diversified activities. Supervisors need more specialized skills. A supervisor under product layout is more prone to neglect one or other of his responsibilities due to heavy burden of supervisory work. This may affect the speed and quality of production.
2. **Loss of Productive Time** : Even if a single machine breakdown, the whole line remains idle and stop working resulting in overall loss of production line. The interruption in the production line may be due to labour absenteeism or poor production scheduling. This loss of production time can however be prevented by avoiding efficient maintenance service. However, the production schedule is disturbed.
3. **Product Layout is Expensive** : If production capacity has to be increased, it cannot be achieved by simply adding a few more machine to the line. Either a whole duplicate line has to be laid out or the old machines have to be replaced by new machines of higher capacity. This involves substantial capital investment.
4. **Inflexible Nature** : Product layout lacks flexibility as the machines are adjusted to certain operations only and adjustment in the course of production cannot be made easily and quickly. The machines cannot be interchanged either in capacity or with regard to any other operation. This leads to frequent interruption. In short, product layout system cannot easily adjust to some modifications in the production process.
5. **Possibility of Idle Production Capacity** : Many a time, all machines in a line may not be used to their full capacity. For example, a desired production rate of one thousand units may require five lathes for one operation, but the next operation using lathes may require only 41 lathes to turn out these 1000 units. This means that the fifth lathe will have to remain idle for sometime. Similar situations might develop at other stages in the production process resulting in a number of machines remaining idle for sometime each day.
6. **Involves Higher Initial Capital Investment** : All the machines require have to be installed at once. It results in high overhead charges.

Q.22. What do you mean by process layout?

Ans. In this type of layout all machines that perform a similar function or task are grouped together. In a machine shop the lathes perform a similar function and are located together in

one section. The grinders are in another section of the shop. Equipment that performs a similar process is grouped together. Process layout is suitable when different products are produced in lots or batches, ideal for service organisations such as bank, hospital, car service stations, etc. In a bank the loan officers are in one area, the credit card people occupy another area, the locker service people choose another space and the manager in another cabin. The process layout has great potential to economies of scale. For example having all painting done in one spray painting area means that fewer machines and people are needed to paint all products for the organisation. In a bank putting all tellers in one location provides increased security. Placing all operating rooms together in a hospital makes it possible to control the environment for all the rooms simultaneously.



Q.23. What do you mean by optimum size of a firm?

Ans. In each and every industry, there is more or less a fixed minimum size of plants, below which production is technically impossible or economically unprofitable and is known as the minimum 'technical' or 'economic' size. The small belonging has many advantages, but few business units are started on a larger than the minimum economic size. No business unit, however, is likely to be satisfied with this minimum economic size and is formed to expand to a large size which will yield the benefits of big size production. There is a point beyond which it will not be possible to enlarge with profit and this is an important point, in the scale of operation and is known as "optimum" size. The unit is called the optimum unit or optimum firm, and so long as conditions remain constant, to take the producer's point of view this firm will produce its products at the minimum average cost per unit. In other words, it is the best firm exactly the right size, neither too large not too small.

Optimum is a relative and not an absolute concept. What is the optimum in relation to a given set of resources, changes with every modification in one or more of those factors. Technical progress, improvements in the art of marketing, and new facilities for the acquisition of capital, may change the size of the optimum unit very considerably in an upward direction. On the contrary, new difficulties in the way of obtaining command over one or more types of resources may titove the optimum in a reverse direction.

According to Bye and Hewatt, "Optimum firm is that organisation of business enterprise, which in given circumstances of technology and the market for its product, can produce its goods at the lowest average costs in the long-run."

According to Robinson, "An optimum firm is a firm in which existing conditions of technique and organisation ability has the lowest average cost of production per unit, when all those costs which must be covered in the long-run are included."

Q.24. Explain the difference between product layout and process layout.

Ans. Following points highlight the difference between product layout and process layout :

Basis	Product Layout	Process Layout
Suitability	Consumer goods produced on a massive scale.	Suitable for job based production, carried out as per market requirement.
Flexibility	Inflexible as each machine can perform pre-designed operation only.	Flexible as different sections can adjust the operations according to change in operation.
Floor Space	Requires less space.	Require more space.
Production	Mass production, standardized products, can be controlled easily, few checks need to be carried out; work flow is smooth; it is not amenable for changes; excessive use of machines could lead to machine breakdowns; machines arranged in the order in which they are put to use.	Low volumes; non-standardized production, frequent quality checks needed; production control is relatively more complex; there is flexibility to control the flow and volume; machine breakdowns may not occur as frequently; machines are arranged on a functional basis-cutting, grinding, etc.
Supervision	Easy job; no specialized attention is required; cost therefore is less.	Complex job; frequent visits and checks at different points and departments is required, cost is relatively higher.
Materials Handling/ Equipment Utilization	There are mechanical operations requiring little effort from workers; raw materials sucked at one end and finished products come at the other end.	High inputs from workers needed; specialized equipment must be in place; materials/parts/components used in different places and in different departments.
Efficiency Levels	Mass production helps in getting economies of scale.	Difficult to obtain volume benefits since production process is spread over a number of departments.

SECTION-C LONG ANSWER TYPE QUESTIONS

Q.1. Explain the major factor which should be considered while selection of a plant location.

Ans. The selection of site for the setting up of a unit is influenced by a number of factors which are as follows :

- 1. Availability of Transportation and Communication Facilities :** Successful operations of an industrial plant requires that management be informed on market situations regarding raw materials, finished goods, supplies and market prices. The ideal plant from these points of view is one that is centrally located, directly served by water, rail, road and air facilities and has a network of efficient communication system. Places with high transport disadvantage are not likely to attract industries. Government of India provides transport subsidy to industrial units located in certain hilly regions and islands with a view to encouraging the industrial development of these regions.

2. **Nearness to Sources of Motive Power :** The sources of energy for turning the wheel of industry has a dominant role in plant location and development of industrial centres. The availability and cost of sources of energy play an important role in the decision regarding location of industrial enterprises.
3. **Proximity to Market :** Numerous advantages accrue to the entrepreneur whose plant is situated in the heart of the market as he enjoys low transportation cost and at the same time is also in a position to render better and quicker service to the customers. Industries producing perishable goods have a tendency to be located closer to the market.
4. **Availability of Raw Material :** Since the cost of raw material constitute a large part of total production cost, efforts should be made to establish the enterprise close to the source of material. It helps in ensuring the continuity of production and reducing the cost of transportation and thus enables the unit to operate successfully. It is particularly true of industries based on gross (weight losing) localised material-industries with a high Material Index (the proportion of the localised material to the final product). Nearness to raw materials is especially important in case of heavy and bulky materials of small value or in case of weight losing goods.
5. **Attitude of People :** Attitude of the local people is a very important factor affecting industrial location. Positive attitude promotes cooperation and facilitate the working of an enterprise. Whereas negative attitude can lead to various problems for the functioning of enterprise.
6. **Supply of Labour :** Labour cost is an important item of the total production cost in most of the industries. Priority should be given to the site which is in the vicinity of adequate supply of labour at cheaper cost. One of the important factors influencing the location of plants in less developed countries by multinationals is said to be the cheap supply of labour. It may be difficult to get professional skilled manpower if plant is located in a very remote place deprived of basic civic amenities.
7. **Socio-economic and Political Factors :** Socio economic and political factors play important role in decisions particularly in respect of location of public sector units. Public sector units may be set up in backward and remote areas to give a boost to the economy of these areas.
8. **Existence of Supplementary or Complementary Industries :** The history of industrial development throughout the world shows that the existence of supplementary or complementary industries leads to concentration. This is especially due to advantages that are derived from the association with such industries. It helps in improving labour market both for employers as well as employees. It gives boost to various services like banking, repair workshops, warehousing, packaging, grading, advertising etc.
9. **Incentives :** Government in order to tempt entrepreneurs to a particular region, offers various incentives like land, infrastructural facilities, power, raw material, sales tax concessions etc. Incentive at one place serves as disincentive at another place i.e. where these incentives are not available. Certain disincentives like higher taxes may discourage industries in certain areas.

10. **Prevailing Wage Rates and Productivity** : Entrepreneurs on seeing statistics show that one state or region has lower average wage rates than their own, try to move to that lower wage region. However the average wage rates reveal only half of the picture, for it may be that the average wage in one region is lower than the other while the average wage for a particular class of work are same, the difference being due to a greater predominance of lesser skilled and lower paid workers in one area than another.
11. **Suitability of Climate and Topography** : Soil, climate and topography also influence the industrial location to some extent. Non rocky and fertile soil offers encouragement to those industries which utilise agriculture products. Rocky and infertile soil forces people to seek other means of employment such as fishing, mining and manufacturing. Favourable climatic conditions and other environmental factors play a major role in the location of industries.

Q.2. Elaborate the various needs for selection of location.

Ans. Needs for Selection of Plant Location

Following are the major needs for selection of plant location :

1. **Selecting a Location for the First Time for New Organisations** : When selecting a plant location for a newly established organisation, the cost factor needs to be considered. One should consider that the business is going to operate for indefinitely long period of time. Location should be made after considering the present and the future requirements :
 - (i) **Identification of Region** : Some key factors like availability of technology, marketing, internal management, regional resources availability, social and legal environment, geographical positioning, operating facilities, etc., influences the decision about the location.
 - (ii) **Choosing a Site in a Region** : After the region has been duly selected, the next step is the identification of the site within that particular region. Selection of the site is remotely related with the long-term strategy of the organisation. Various alternate sites may be considered and evaluated in terms of both tangible as well as intangible costs. This problem of site selection can be best answered by adopting cost oriented non-interactive model, also popularly termed as the dimensional analysis.
 - (iii) **Dimensional Analysis** : It would be better and easy if the costs can be quantified and were tangible in nature. The answer would have been straightforward and the location having minimum cost would have automatically been selected. In majority of cases, intangible costs expressed in relative terms over the absolute terms are considered. The benefits and the limitations could have also been compared easily.
2. **Selecting Location for an Existing Organisations** : Here an existing set-up requires multiple plant locations or wishes to shift from the existing location to extract economies to scale. The new location may dwell within the existing location itself or may require a distinct location.

The following factors are considered in this case :

- (i) **Plant Manufacturing Different Products** : Ideally a plant should be able to cater the requirement of the total market of the organisation. This strategy holds the key while satisfying the technological and other needs for the alternate product lines and channels. For example, a product line that demands high degree of efficiency and control cannot be set-up allied with the other product line that requires very little control or less precision. Contradictions should be avoided in terms of the use of the machinery, requirement of the skilled and semi-skilled labour, supervisory staff, and use of other resources. If such contradictions appear, then presence of both the production lines will not be justified as either one of them will not get the adequate resources. Where the market is characterised by presence of high competition, product specialisation holds the key. The resources that are available in a respective geographical region must be exploited to the maximum extent. Decentralisation is preferred in management and location of the plant which assists in better control of the resources.

The valid reasons may be technology, availability of the resources, etc. The above factors are mainly applicable to the service units where the strategies, priorities and objectives may be different from the manufacturing units.

3. **Case of Global Location** : Since the inception of globalisation, many multi national companies have opened their units in India and similarly Indian companies have also established their units in foreign countries. In such circumstances, there is virtual proximity. The advancement that is made in the telecommunication sector has brought the concept of virtual proximity into the picture. In firms that are into the line of providing the software services, majority of work takes place only through this route. High end communicating devices are used to share the information through long distances. The cost and the time involved in the logistics have certainly reduced and these are also considerable factors in finalising the location. The market reach has increased and thus there is also increase in the customer base. While selecting a location, there is a need of thinking about a large number of factors which may influence the decision. It is almost impossible to finalise a location which possesses all the essential characteristics that are needed for the initiation of the process. But an attempt is made to ensure that maximum possible facilities are available and alternative actions are sought for those that are unavailable.

Q.3. Explain the primary and secondary factors of plant location as divided by Alfred Weber.

Ans. Factors Affecting Plant Location

Alfred Weber divided the factors affecting location into two categories :

1. Primary Factors of Plant Location

Weber referred to various factors of location as cost of production. He says that the cost of production varies from region to region and this causes the concentration of industries at some places and not others. The entrepreneur will set up his unit at a place where cost of production is minimum.

Weber found out two general regional factors, namely, 'transportation costs' and 'labour costs'. Transportation costs are determined by two basic elements : (a) weight be transported,

and (b) distance to be covered. Each industry will be first drawn to those sites which have the most favourable transport relations with regard to both the sources of raw materials and markets.

Weber considered that the industry will either be located where raw materials are available or where market for finished goods is available. According to him, if the cost of carrying raw materials from the place of its origin to the plant is more than the cost of transporting finished products to the market, then the industrial unit will be located at the place where raw materials are available; on the other hand, if the cost of transporting of finished goods to the place of market is more than the cost of transporting raw materials, then the plant will be situated near the market. He classified raw materials into two categories :

- (i) **Ubiquitous Materials** : These are the materials which are available at every place, e.g., water, bricks, clay, etc.
- (ii) **Localised Materials** : These are the materials which are available only at certain places like coal, iron ore, cotton, etc. These raw materials are concentrated at certain places only.

It is the localised materials which causes concentration of industrial units at certain places. The localised materials are further sub-divided into two categories :

- (i) **Gross Raw Materials** : These raw materials are weight losing materials and are consumed in the process of manufacture. Coal is the best example of gross raw materials. The coal is consumed in the furnace and adds no weight to the finished product.
- (ii) **Pure Raw Materials** : These raw materials do not lose weight in the process of manufacture and impart whole or part of their weight to the finished product. The examples of such raw materials are cotton, wool, etc. The weight of finished products using pure raw materials, will almost be the same as that of the input i.e. pure raw-material.

The industry using gross raw materials will be situated at places where these raw materials are available. The cost of transporting finished goods to the markets will be less than the cost of transporting gross raw materials. On the other hand, industries using pure raw materials will be set up near the consumption centres because there will be no economy in the cost of transport by locating the unit near the sources of raw material supply. Weber gives a material index for deciding the place of location.

$$\text{Material Index} = \frac{\text{Weight of localised material}}{\text{Weight of the finished product}}$$

If the material index tends to be more than one then the industries will be located near the source of raw material supply, on the other hand when this index is less than one, the industries will be located near the place of consumption.

Labour Cost is another primary factor which influence the location of industries. The pull of labour depends upon labour cost per unit of product and locational weight. Labour cost per unit of finished product is measured by labour cost index i.e., proportion of labour cost to the weight of the product. Locational weight is the weight to be transported during the process of production. To measure the attracting power of labour, Weber gave the following formula :

$$\text{Labour Coefficient} = \frac{\text{Labour Cost Index}}{\text{Locational Weight}}$$

Higher the labour coefficient, greater is the tendency for a plant to be located near the centre of cheap labour supply.

2. Secondary Factors of Plant Location

Secondary factors lead to the concentration or dispersal of industries. Weber has called them agglomerative and deglomerative factors. Agglomerative factors are the external economies, e.g., development of auxiliary industries, banking, insurance, transport, warehousing and such other facilities, supply of skilled labour, etc. which result the concentration of industries at a particular place. Deglomerative factors are the external dis-economies, e.g., rise in wage rates or rents, taxes, cost of land, etc. that arise due to excessive localisation of industries. Deglomerative factors cause geographical dispersal of industries. To measure the influence of agglomerative and deglomerative factors, Weber used the following formula :

$$\text{Index of Manufacture} = \frac{\text{Total Manufacturing Costs}}{\text{Locational Weight}}$$

Index of manufacture is the ratio of manufacturing costs to the total weight of the product. Industries with high Index of Manufacture tend to agglomerate, while industries with low coefficient tend to deviate from the point of minimum transport and minimum labour costs.

Q.4. Explain about the policy of Government of India towards industrial location.

Ans. Where the infrastructure has come under serious pressure. To encourage balanced regional development across the country, the government has taken lot of measures :

1. **Measures to check Concentration of Economic Power :** The Government of India is empowered to pass inter alia, the following orders on the report by the MRTP Commission upon its enquiry :
 - (i) Orders for the division of any trade of the undertaking by the sale of any part of the undertaking or assets thereof; or
 - (ii) Orders for the division of any undertaking or inter-connected undertakings into such number of undertakings as the circumstances of the case may justify.
2. **The Competition Act :** The main objectives of the Competition Act are to promote and sustain competition in markets in India, to protect the interests of consumers and to ensure freedom of trade for market participants.
 - (i) The Competition Act prohibits anti-competitive agreements; prohibits abuse of dominance; regulates combinations, such as acquisitions, mergers and amalgamations of a certain size: establishes the CCI and sets its functions and powers.
 - (ii) **Anti-competitive Agreements:** In terms of the Competition Act, agreements with respect to production, supply, distribution, storage, acquisition or control of goods, or provision of services, which cause or are likely to cause an appreciable adverse effect on competition are void.
 - (iii) **Abuse of Dominant Position :** The Competition Act restrains enterprises from the abuse of their dominant positions. "Dominant Position" means the position of strength enjoyed by an enterprise in the relevant market in India, which enables it

to operate independently of competitive forces prevailing in the relevant market, or affects its competitors or consumers or the relevant market in its favour.

- (iv) **Combination** : The Competition Act has introduced the concept of "Combination" of enterprises and persons. In terms of the Competition Act, a combination may be formed by either the acquisition of enterprises by persons, or the acquiring of control by enterprises; or the merger or amalgamation of enterprises. The provisions of the Competition Act render any combination which causes or is likely to cause an appreciable adverse effect on competition within the relevant market in India void.

3. **Prohibitive Measures** : The government can prevent concentration of industries in a location by imposing heavy taxes.

- (i) It can slap fines on polluting units. It can stop granting fresh licenses to units in a sector where it is difficult to accommodate the entry of units.
- (ii) Real estate regulations could be altered to force industrial units to run for cover in remote, semi-urban areas (as it happened in Delhi where polluting units have been asked to shut shop and set up units in far flung areas).
- (iii) Courts could also step into this arena actively and see that such units causing damage to environment and human life are taken to task.

4. **Steps to Encourage Dispersal of Industry** : Making infrastructural facilities available in semi-urban areas, centres like Mysore, Coimbatore, Vijayawada, Visakhapatnam have been actively promoted to attract investments in areas that have all facilities in place.

- (i) Developing infrastructure in economically poor and backward regions-education, health, transport, credit, insurance, facilities.
- (ii) Setting up industrial parks/industrial estates in backward areas.
- (iii) Offering subsidies, tax concessions, credit at economical rates, power at concessional rates, avoidance of duties, etc., for units set up in notified areas.
- (iv) Liberally issuing licenses to prospective entrepreneurs willing to set up units in notified backward areas.
- (v) Offering marketing, technical support, quality testing, design facilities through government agencies especially to small and medium enterprises.
- (iv) Making inputs, raw materials, etc., available at concessional rates ; special tax rebate sometimes as high as 20 per cent, for new industrial units set up in select backward regions.

Q.5. Discuss the major factors that affect the plant layout.

Ans. The following factors should be considered while planning the layout of a plant :

1. **Plant Location** : Plant layout is intimately connected with plant location. As a matter of fact the size and shape of the site and its topography influence the general pattern of layout. Plant site also influences the type of building, mode of transport and the scope of expansion which in turn influences layout. Thus, plant layout is considerably affected by both the specific site and the general location.

2. **Nature of Product** : Standardised products require a product layout whereas custom-made products may need process layout. A fixed position layout would be required for heavy and bulky products. Products involving hazardous and dangerous operations would require isolation of processes. Similarly, value, fragility, volume and quality of product are important considerations in plant layout.
3. **Type of Industry** : The nature and type of production process exerts considerable influence on plant layout. Generally, product layout is more appropriate in continuous process industry, whereas intermittent production requires process layout. The sequence of operations should also be taken into consideration. A synthetic process requires a line layout so that various materials and parts, merge into the completed assembly in a flow. On the other hand, an analytic process takes the form of a tree as it starts out with a single material and spreads out into a variety of resultant materials. A conditioning process requires a layout to accommodate lot or batch manufacture. In such a layout the material undergoes no merging or separation but it is simply subjected to physical conditioning as it flows in separate lots through the variety of operations and processes.

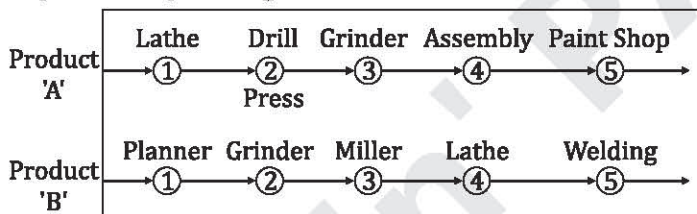
Thus, the layout designer should keep in mind the type of industry and the nature of the manufacturing process while planning a layout.

4. **Plant Environment** : In planning factory layout, heat, light, noise, ventilation and other aspects of plant climate should be given due consideration. For example, paint shops and plating sections should be located on an outside wall so that dangerous fumes may be removed through proper ventilation. Type of machines, materials and equipment used also exercise considerable influence on plant location.
5. **Spatial Requirements** : The spatial needs for machine, material handling equipment and available floor space are considerable influences on plant location. Spatial requirements also depend upon the position and needs of workers. Employee facilities and safety is duly considered.
6. **Repairs and Maintenance** : Machines and equipment should not be fixed so close to each other that it may create problems in repairs, maintenance and replacement. Access to machine parts for repairs and maintenance should be provided.
7. **Balance** : Proper balance between processes helps to avoid bottlenecks. The arrangement of machine capacity should be such as to ensure a uniform flow of work. At the same time the layout should be designed in such a manner that there is minimum possible movement of materials and men.
8. **Management Policy** : Management policies regarding size, quality, employee facilities and delivery schedules should be considered while deciding plant layout. For example, size (demand forecast) will determine the size of work stations. Need for flexibility should also be considered. The layout designer must have a complete understand of management policies that have a bearing on plant layout.
9. **Facilities Required by Workers** : Workers require certain basic facilities like wash rooms, drinking water, dispensary, canteen etc. Within the factory building such facilities should be provided conveniently. This aspect should be given due consideration while designing plant layout.

10. **Type of Machinery and Equipment :** General purpose machines require a different layout than special purpose machines. The size, speed and operating characteristics of machinery should be considered. Proper utilization of machinery and equipment has to be given due weightage.

Q.6. Elaborate about product or line layout. Also discuss its advantages.
Ans. **Product Layout**

In product layout, machines and equipment are arranged in the sequence of the manufacturing operations required for the product. The materials move from one work station to another sequentially without any backtracking or deviation of material. It is called line layout because machines are arranged in a straight line. The raw materials are fed at one end and taken out as the finished product on the other. It is a grouping of machines in one sequence. A product layout may assume a straight line shape, a U-shape or a circular shape. A straight line type of product layout is given below :



Product Layout Showing Movement of two Products

The major features of a product layout are as follows :

1. The production facilities are arranged in a sequence as per the needs of the product so as to enable employees to perform operations easily and efficiently.
2. There is a continuous flow of materials from the input of raw materials to the finished product.
3. The machines which are laid in a sequence can perform only the designated task in the sequence of operations.

There is a continuous flow of material during the production process from start to finish. This type of layout is used for continuous type of manufacturing systems, producing items of the same type on mass scale, e.g., textile, sugar, petroleum, paper and pulp etc. Manufacturing of a large quantity of standardised product is the primary prerequisite to the line production upto which the product layout is based.

In these industries, product/line layout reduces inventory handling and supervision cost.

Advantages of Product Layout

Main advantages of product layout are :

1. **Helps in Providing Easy and Economical Supervision :** As all production activities are on the same floor, a single supervisor can easily supervise them reducing the cost of supervision and making the supervision work effective, easy and economical.
2. **Facilitates Use of Automatic Conveyors :** Under product layout, the direction of the movement and the quantity of material to be handled is definite. This makes it possible to utilize automatic materials handling devices such as gravity and power conveyors. These are relatively cheaper.

3. **Reduces the Amount of Work in Process** : As the product line runs continuously, the amount of work in process is much less reducing the amount of capital locked up in such materials and saving the interest charges on that amount. Even the buffer stock need is minimum.
4. **Minimizes Clerical Work** : Continuity of the production line avoids the necessity of counting, inspection and recording at intermediate stages. It is enough to count at the start and at the last stage when the finished product emerges. This reduces clerical work and expenses.
5. **Facilitates Planning of Work Schedules** : As the capacity of a line is known, it is easy to plan work schedules and control production effectively.
6. **Optimum Use of Floor Space** : Under product layout, the direction of the movement and the quantity of material are handled automatically. It means less space and so lesser cost of construction. The available space is utilized fully under product layout.
7. **Boosts Speed of Production** : As production proceeds from the first operation to the last, without interruption, the speed of production is greater requiring less process time. In addition, it enables management to introduce effective production control techniques. There is shortening of processing time.

Q.7. Give the merits and demerits of process layout.

Ans. Advantages of Process Layout

The process layout has the following main advantages :

1. **Lower Capital Investment** : Lower capital investment is required in machines and equipments etc. as they can be utilised fully and there would be minimum possible duplication.
2. **More Flexibility** : It ensures greater flexibility and any change in operations or the sequence of operations would not require change in layout itself. It also ensures flexibility in planning production.
3. **Scope for Expansion** : It ensures scope for expansion in production as the capacities of each line of product can be easily increased without much difficulty and without heavy involvement of cost.
4. **Lower Overhead Cost** : Lower capital investment results in lower overhead cost even when the plant is kept idle. If the plant is operating at low capacity, total cost would be much lower as compared to the product layout. Moreover, the risk in capital investment is also comparatively reduced.
5. **Less Work Stoppage** : Unlike product layout, if a machine fails or breaks, it would not seriously disrupt the production schedules. If there is a breakdown in one machine unit the work can easily be transferred to the other machine unit.
6. **Maximum Utilization of Machines** : Under the process layout, a greater quantity of material has to be processed through only one process, naturally, it is enough to add only one or two machines in that department ensuring full utilization of the available production capacity.
7. **Facilitates Training of Workers** : As each machine performs only one process all the time, workers can be systematically trained in that particular operation. They are

bound to become more efficient in that work in due course of time and acquire a high degree of skill.

8. Miscellaneous Advantages :

- (a) Better and efficient supervision is possible through specialization.
- (b) Greater scope for expansion as the capacities of different departments can be raised easily by adding new machines.
- (c) Easy handling of breakdown of machines and equipment by transferring work to another machine/equipment available in the same department.
- (d) Greater incentive to individual worker to show better performance.
- (e) Lower proportion of fixed costs to total costs.

Limitations or Disadvantages of Process Layout

It has, however, the following disadvantages :

1. **Needs Extensive Supervision** : Under process layout, it is necessary to plan and supervise the work of every person and each machine in every department so as to prevent them from remaining idle. This requires a production planning cell with qualified and experienced persons.
2. **Higher Skilled Labour and Labour Cost** : Under it only skilled workers may be employed and they require sufficient training also, as they have to “operate a number of sizes of general-purpose machines doing a wide variety of work and performing many specialised operations”.
3. **Requires More Floor Space** : As materials and parts, accumulate in the departments where they are manufactured, more floor space is required for temporary storage. More space between work stations is also needed due to storage and inspection.
4. **Requires More Production Time** : The total processing time in process layout is greater than that required for processing the same work in product layout. This is so because parts and materials remain in one of the departments for some time and hence volume of production is low.
5. **Greater Work in Process** : There is some work in process in each department under process layout. This implies locked up capital and higher interest charges. Thus, work in progress (WIP) is more in process layout and less in product layout.
6. **Raises Clerical and Inspection Work** : Inspection and recording is needed before the work goes to next operation in another department to fix responsibility of quantity and quality. This increases clerical and inspection work resulting in a greater cost.
7. **More and Higher Cost of Materials Handling** : As the material has to be moved from one department to another there is need for more material handling. In the process of production, the materials have to be carried forward or backward and since in this process automation cannot be easily applied, it increases cost of material handling also.

Q.8. What do you mean by mass production? Explain the main features and suitability of mass production.

Ans. Meaning of Mass Production

Mass production refers to the production of standardised products with the help of a standard set of processes and operation sequence on a large scale and in anticipation of demand. As goods are produced through repetitive operations there is continuous flow of output. Henry Ford of USA said "to have started the system of assembly like production in his Ford Motor Company the work flows through a series of inter-connected operations arranged in a line so that materials pass from one operation to another without interruptions. Generally mass production involves the manufacture of products by a series of operations, each item going on to a succeeding operation as soon as possible." Petroleum, chemical, steel and sugar are the examples of industries using mass production.

Mass production is capital-intensive and energy-intensive as it uses a high proportion of machinery and energy in relation to workers. It is also usually automated to the highest extent possible. With fewer labour costs and a faster rate of production, capital and energy are increased while total expenditure per unit of product is decreased. The benefits of economies of scale are also available to mass production.

Features of Mass Production

The main characteristics of mass production system are as follows :

1. **Continuous Flow of Material** : The flow of materials is continuous; there is little or no queuing at any stage of processing.
2. **Special purpose Machines and Layout** : Special purpose machines are used and the plant assembly stages are laid out on the basis of product type and layout-by-sequence.
3. **Mechanized Materials Handling** : Materials handling is comparatively less firstly because materials move through a short distance between stages and secondly the materials handling activity is mostly mechanized by conveyors and transfer machines.
4. **Less Skilled Labour** : Relatively less skilled labour is employed and supervision is relatively easier as only few instructions are necessary that too at the start of the job.
5. **Limited Work-in-Progress** : Work-in-progress is comparatively less since the manufacturing line is balanced.
6. **Less Flexibility in Production Schedules** : Interruptions due to breakdowns and absenteeism seriously affects production as stoppage of one machine usually disturbs the working of other machines. Systematic maintenance and provisioning of stand-by operators' are therefore two important management functions.

Mass production offers the benefit of low cost of production per unit due to economies of scale. However, mass production is inflexible and unresponsive to the varying tastes and preferences of consumers. In today's global economy flexible manufacturing is necessary to cater to the requirements of different customer groups and markets.

Suitability of Mass Production

Mass, production is suitable under the following conditions :

1. Financial incentives can motivate workers to increase output.

2. Economies of scale require production on a large scale.
3. Automatic machinery and equipment are available.
4. Division of labour is possible.
5. When the product is standardised or uniform in design and quality.

Q.9. Differentiate among mass production, job production and batch production.

Ans. Comparison among mass production, job production and batch production is discussed below :

Basis	Mass Production	Job Production	Batch Production
Meaning	It means production of one or two standard products on a large scale.	It means manufacture of products as per specifications given by the customer. It is a special order production.	It means production of a number of identical items to meet a specific order or to satisfy continuous market demand.
Skilled/Unskilled Workers	Unskilled or semi-skilled workers are used as most of the work is machine based.	Highly skilled workers are required in a large quantity as production is highly specialized.	Semi-skilled and skilled workers are required according to the type of production undertaken.
Flexibility	It is highly inflexible.	The job production method using general purpose machines is more flexible.	It is more flexible than mass production method but is less flexible than Job production method.
Capital Investment	Huge capital investment is required due to the duplication of machineries.	The capital investment required differs from type of job undertaken. For e.g., a tailor undertaking stitching job requires low investment whereas a road or dam constructing company requires huge capital investment.	Low capital investment is required as compared to mass production and job production.
Work in Process Inventories	Work in process inventories is small as output of one process becomes input of the next process.	Raw materials and work in process inventories are high due to the uneven and irregular flow of work.	Work in process inventory is high and large space is required due to production of more variety of products.
Method of Production	Here, the flow of materials is in a straight line. All facilities are arranged as per the sequence of operations. Standardization is the keynote of mass production method.	Job production is the manufacture of a single complete unit by an operator or a group of operatives. It is providing goods or services according to the needs of the customers.	In batch production, the work content of each unit is broken into a number of operations and operations are divided into groups for the completion of work group-wise.

Q.10. Discuss the criteria for measuring the size of a business unit.

Ans. Despite want of preciseness one or more of the following measures are generally adopted to determine the size of a business unit :

1. **The amount of Power Used :** The amount of power used for a business unit is another index of the size and growth of manufacturing plants. : Very often the combination of the value of product, the number of workers employed and the amount of raw material consumed reveals the dominance of the same tendencies in the size of units.
2. **Amount of Raw Materials Consumed :** The annual consumption of raw materials by an establishment also provides a good standard where the units are self-sufficing and where the differences in the character of the output are not very great.
3. **Plant Capacity :** This is a fairly good measure of size. For example, number of spindles and looms together with their capacity in cotton mills may be a good measure of size. Similarly, in industries like paper, chemicals, glass or iron and steel, the number of plants with their production capacity may be a reliable index of size.
4. **Value of Products :** The value of products in terms of rupees provides a good basis of size, particularly where outputs of various types of products are not comparable. If the value is of fluctuating nature, it may be difficult to get accurate results. It will not be appropriate to apply this measure to compare size at two different periods of time, one during depression and the other during boom.
5. **Number of Wage-earners Employed :** This is another measure commonly employed and is useful for comparing units producing similar type of goods and in the same stage of development. But when there are vast differences in the technique of production and also in the character and variety of output, the results are likely to be misleading.
6. **Volume of Output :** This is an important measure of size of industries with uniform or homogeneous product like cement, sugar or coal, etc. But in industries like the cotton textile which produce wide varieties of goods, the volume of output will fail to reflect the differences in the size of the industrial unit.
7. **Capital Investment :** One measure of size usually adopted is the capital investment. The larger the capital investment, the bigger will normally be the size of the business unit. But the difficulty of this measure is non-availability of the accurate data concerning capitalisation. This is so because the capital requirements of the individual units and the methods of financing them vary widely. As a result the figures of paid up capital or the total capital invested do not provide an adequate measure of size.

Q.11. Explain the factors which affect in determining the size of a business unit.

Ans. The following factors affect the size of a business unit :

1. **Government Regulation :** 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. Moreover, large scale units attract more tax burdens. Sometimes, entrepreneurs try to keep the scale of production upto a certain level, where government regulations are less. Small scale units are generally free from government regulations. So excessive government regulations can have a dampening effect on the growth of units.

2. **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. It will be useful to have large scale operations in such industries. If the law of decreasing returns is applicable, then increase in production will mean higher cost of production. It will not be advantageous to increase production beyond a certain limit.
3. **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. In case of iron and steel, cement and ship-building industries, large investments are necessary. The scale of operations will naturally be large in these industries. If a concern needs small amount of capital, then tendency will be to keep the unit small.
In case of public utility services like railways, electricity, etc., large amounts are spent on fixed assets. In such cases, only large scale concerns can start these enterprises.
4. **Market :** If market of a firm is limited, the production should be on a small scale. When the market for the products is national or international, production should be on a large scale basis. So, market also affects the size of a unit.
5. **Transportation Cost :** 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. In such cases, the unit should be small. The raw materials should be procured locally and production should also be for local markets.
6. **Nature and Demand for the Product Produced :** If the product is durable in nature and can be transported to distant places easily the production will be possible on large scale. If the product is of perishable nature and cannot be stored for a long period, then small scale production will be more suitable. Secondly, the type of demand for the product is also an important consideration. If the demand is large, then the scale of operation may also be large. On the other hand if demand only local, then production will also be small.
7. **Production System :** If a business unit is using specialisation, doing distribution of work, complexity of industry is also there and using multi-raw-materials, the size of business unit is big. On the contrary, if above things are not there, the size of business firm will be small.
8. **Extent of Risk :** If the business is having higher amount of risk, the bigger will be the size of business. On the other hand, the small size of business is having lower amount of risk.

Q.12. Explain the factors determining optimum size of a firm.

Ans. The size of the optimum firm or business unit, have been classified into the following five categories :

1. **Financial Forces :** Availability of finance directly influence the size of business unit. The finances are required firstly for establishing a unit and then for expanding it. The financial needs will be in the form of fixed and working capital. Fixed capital is required for the acquisition of fixed assets and working capital is needed for day-to-day working of the business. 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., rates of interest. If a concern can raise funds at lower rates of interests, then size of a business unit can be increased. If, on the other hand, the cost of raising finances is more, then expansion of a unit will be difficult and costlier.

Sole traders and partnership concerns have limited financial resources. These concerns largely depend upon the capital contributions of their owners. Commercial banks and other financial institutions are hesitant to extend them loans for lack of securities and low profitability. Joint stock companies, on the other hand, can raise large finances through the issue of shares and debentures. These concerns can also raise funds from the market at lower rates of interest. Moreover, bigger concerns can manage reserves and surpluses too. So the availability of funds directly and indirectly influences the size of a unit.

2. **Managerial Forces** : In case of a large firm, managerial economies are possible. 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 services of experts are required to deal with different functions of management. The appointment of functional experts will involve more cost. The expansion of production is necessary to distribute the managerial cost among large units.

Some limitations are there in the use of managerial forces. Excessive specialisation can lead to inefficiency and it can also be unprofitable. If different functions are not properly co-ordinated, then there will be more confusion. The specialisation of managerial functions should only be upto an extent, where it keeps to increase production and control costs.

3. **Technical Forces** : Production technique largely affects the size of a unit. Technical forces operate in favour of an increasing size. In order to realise the full advantage of technology improvement, the scale of operations should be large. The full capacity of the unit should be utilised and it will enable the reduction of cost. The increase in the production will spread the overhead expenses over large units meaning thereby lower cost per unit.

To realise technical economies, there is a limit. Beyond a certain point, increase in production will not bring in economies. Other factors such as finance, marketing and organising ability, will limit the advantage of technical forces, beyond a particular size.

4. **Forces of Risks and Fluctuations** : While planning the size of a firm the frequent changes in demand should also be considered. There are always fluctuations in demand. The demand for goods may be influenced by a number of forces. The fluctuations in demand may be both for a short period and long period. The concern will have to withstand fluctuating demand. The size of a unit should be such that it should be able to adjust the production according to market requirements.

Cyclical variations are caused by the maladjustments between demand and supply. In times of cyclical fluctuations, adjustment has to be made either by dropping out the weakest links in the business chain or by reducing the output of all or as many of the firms as possible. A good number of units are likely to lose their optimum character

during depression. The factors of risk and fluctuations favour, in general, small units and they force producers in narrower and more fluctuating markets to perfect the technical development of the small plant. The trade cycle, however, may result in business combination and thus in enlargement of the size of business units.

5. **Marketing Forces** : Certain marketing economies are available, if the scale of purchase and sales is higher. When buying is done on a large scale, it brings in a number of economies, saving in freight, etc. 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 marketing specialists will be able to select proper products and will be in their knowledge of right time and place for purchases. All these economies are possible in bigger concerns only.

Now-a-days, the selling operations are complicated in the present 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 large size firm has an advantage of spreading, selling and distributing expenses over larger number of units. Large scale firms can afford to advertise their products and attract a large number of customers. They cannot only exploit national but also international markets. A selling organisation will have to be created to co-ordinate sales activities.

The marketing forces too, like other factors encourage large scale production. The larger the size of the unit, the more will be the economies in marketing costs. Small scale concerns will not be able to achieve marketing economies to a larger extent.

Q.13. Elaborate about scale of operations. Also discuss various merits of large scale operation.

Ans.

Scale of Operation

The scale of operation of a business unit is largely determined by the decision about the extent of its size. Production may be carried on large scale or small scale. In a big business, the production is carried on large scale and the goods are produced on mass scale, whereas in a small business the scale of operation is small. Technological advancement has now made it possible and necessary to undertake production of goods on a mass scale. It has definitely put a premium on large size and scale of operation.

Large-scale operation is used to denote production on a large scale, of course, when conducted within one organisation. It has definite advantages over small size of business operating on a small scale, But it does not mean that small size of business has lost its ground in business world. In spite of tremendous growth of business concerns of large size, specially after the Industrial Revolution, concerns of small size are still predominant in most countries of the world.

Advantages of Large Scale Operation

The various advantages which can be derived by large scale operation may be grouped and studied under four heads. They are discussed below :

1. **Economies in Production** : The various economies which may be derived in production on large-scale are as follows :

- (i) Raw materials can be purchased in bulk by large firms, If bulk purchasing is made, the quality of the goods available would be better and the price payable would be cheaper, as experts can be appointed who may effect lots of economies in purchasing. On the other hand, the firm can save a lot on freights in bulk purchase.
 - (ii) A large firm may be able to utilise the labourer in the best possible manner as it can take advantage of division and specialisation of labour. It may bring about improvement in their efficiency in various ways.
 - (iii) Production can be carried on the basis of most scientific methods under the best possible conditions. The goods produced may be standardised. The use of automatic machines and equipments of the latest designs can be made to produce goods economically. Experts can be appointed to manage production in the most efficient way so that any bottlenecks are avoided and wastes minimised.
 - (iv) Raw material may be utilised for production in the best possible manner avoiding any type of waste and the by-products may be utilised in an efficient manner to reduce the total cost of production.
 - (v) Machines and equipments may be utilised to the maximum possible capacity. Work stoppage on account of the breakdown of machines can be avoided by proper repair and maintenance.
 - (vi) A large firm is in a better position to undertake research and investigations in connection with the goods produced by it. It may result in the improvement of technique or methods of production which may lead to reduction in the cost of production considerably.
2. **Economies in Management** : A firm operating on large scale can effect various economies in management which are as follows :
- (i) It can appoint the experts in management who may conduct its operations efficiently. The small firms cannot afford to employ these experts.
 - (ii) Since management is carried on efficiently, the overhead charges or the fixed charges would not increase proportionately to the quantum of production. Thus, proportionately, the overhead expenditures would be lower.
 - (iii) Sound, skilful and economical organisation can be built up by a large firm which is not possible by a small firm. Suitable persons can be appointed to manage the organisation. It can fit the suitable persons to suitable jobs in a better way.
 - (iv) Application and use of mechanical devices may be made to assist the management. These machines are quite costly and can be afforded by large firms only but in the long run they prove economical.
3. **Economies in Financial Administration** : Firms operating on large scale can have the following economies in financial administration :
- (i) They can raise the initial capital easily and the cost of raising such funds is also lower. However, they can raise large volume of capital which is not possible for the small firms. The various financial institutions and banks are always ready to help them in this matter. The services of issue houses, brokers, under-writers etc. can

be had for raising the capital. Later on, capital for the expansion of business can also be raised without much difficulty.

- (ii) They can borrow for working capital whenever necessary. They can take loans from the banks easily, as the securities available with them are valuable and are accepted by the banks. The rate of interest payable by them on funds borrowed is also relatively cheaper.
 - (iii) These firms are in better position to plough back large part of profits for reinvestment in the business itself. It adds to the financial strength of the concern. The rate of earning can be made more or less stable and fluctuations in earnings can be mitigated easily.
 - (iv) These firms are in a better position to face the severity of depression or slumps, whereas small firms may be ruined by them.
 - (v) Such firms can minimise or eliminate the bad debts, particularly if they are monopolist or semi-monopolist in which case the debtors cannot afford to refuse payments.
4. **Economies in Marketing** : Following are the economies in marketing available to big business concerns :
- (i) Sales can be effected in large quantities which may result in economy in various selling expenses. Thus the selling expenses per unit of goods sold would be proportionately lower.
 - (ii) A large firm can employ the best possible agencies for the advertisement of goods offered for sale. It can devote large funds for this purpose.
 - (iii) Specialised agencies for selling the products can be appointed and maintained easily which may promote the sales effectively on mass scale. If varieties of goods are produced there may be no special difficulty in pushing up sale of all the varieties, and they can be sold economically too.
 - (iv) A large firm is in a better position to offer prompt services to its customers as it has resources at its command to handle bulk orders efficiently and promptly.

□

UNIT-IV

Business Combination

SECTION-A (VERY SHORT ANSWER TYPE QUESTIONS)

Q.1. What is meant by the term 'Business Combination'?

Ans. To combine is simply to become one of the parts of a whole and a combination is merely a union of persons, to make a whole or group for the prosecution of some common purposes. Profit maximisation is the main objective of business combinations. There can be a permanent combination or a temporary combination among firms. It can also be an oral or a written combination.

Q.2. Explain two merits and two demerits of horizontal combination.

Ans. Advantages of Horizontal Combination :

1. Horizontal combination leads to achievement of economies of scale in finance, manufacturing, marketing, and other functional areas.
2. It also leads to the engagement of experts. The merged entity can also earn profits if there is no competition.

Disadvantages of Horizontal Combination :

1. The combination may weaken because of the inability to get the necessary raw materials or other inputs regularly.
2. It can also lead to management inefficiencies because of its big size.

Q.3. What is circular combination?

Ans. When different firms or organisations, which are engaged in totally different businesses and product lines (belonging to different industries), come together under a central theme then it is called circular combination.

This type of combination is totally different from the other types of combinations that have been discussed. An example of this type of combination can be the DCM group which is engaged in different types of industries like, sugar, fertilizers, chemicals, business machines, electronic products, etc.

Q.4. Define the term 'Rationalisation'.

Ans. Rationalisation is defined as the process of rearranging a company so that the efficiency increases. Rationalisation can lead to many after effects. It can lead to the organisation increasing or reducing in size, an alteration of policy may also happen, the underlying strategy or product mix can also get changed. Just like reorganisation, rationalisation also has far reaching impact on the organisation.

Q.5. Explain any two features of rationalisation.

Ans. Two main features of rationalisation are :

1. **Promotion of Industrial Research** : This can also be treated as a vital trait of rationalisation. Research and development are boosted to gain greater benefits. The substitution of old methods and techniques and introducing the new concepts, sophisticating the conventional systems and methods, promotion of mechanisation and automation, it is important to promote research and development.
2. **Social Motive** : The social objective of rationalisation is related to the eradication of waste and unproductivity and by following the logical and rational methods and techniques, it is possible to enhance productivity, reducing the production cost, and improving efficiency. This will result in a loading price that is beneficial for the customers.

Q.6. Write any three main principles related to technological aspect of rationalisation.

Ans. Three such principles are as follows :

1. **Industrial Research** : This principle aims at identifying the most economical process of production.
2. **Scientific Management** : This principle, also known as fictionalisation, aims at using scientific methods in order to optimum use of man, money and material to optimise the production.
3. **Modernisation** : The principle of modernisation aims at removal or replacement of old technologies with the new ones in order to optimise the production.

Q.7. Explain social and human principles of rationalisation.

Ans. Rationalisation also emphasises the social and human factors other than the financial, organisational and technological aspects. For this reason, rationalisation is known as both the process of mechanic and art. According to C.S. Myers, rationalisation demands the consideration of business not in its own purely selfish, technical and commercial aspects but also in its wider economic social and generally human aspects, without all these aspects it will be pseudo rationalisation of business affairs.

Q.8. Explain the merits of rationalisation for workers.

Ans. Following are the merits of rationalisation for workers :

1. **Helps in Increasing Morale** : The working conditions of the employees improve under rationalisation. This leads to an increase in morale and efficiency. This increases the performance of the organisation.
2. **Higher Disposable Income** : As the costs decrease and the profits increase, this leads to an increase in the salaries and remuneration of the employees. This in turn leads to a higher disposable income and a better quality of life.

Q.9. Explain about specification as an element of rationalisation.

Ans. This involves the allotment of manufacture of products to different units. This results in specialisation of manufacture of goods. Workers are also allotted particular types of work and they are made to specialise in that work. Specialisation also means the division of markets

among members of the rationalised industry. This results in the elimination of unnecessary transport charges and cut-throat competition among the units.

Q.10. What is meant by diagonal combination?

Ans. It refers to integration of the main firm with auxiliary services or auxiliary products required for keeping up the production or service process. For example, a newspaper concern may integrate transport services to ensure quick delivery of the paper to different places. It is also termed as "service integration". Under the diagonal or service integration, the main producer combines with those units which either supply auxiliary goods to him or various services required by him.

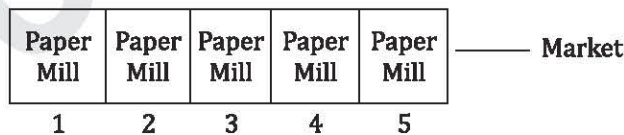
SECTION-B (SHORT ANSWER TYPE) QUESTIONS

Q.1. Elaborate horizontal or parallel business combination. What are its objectives?

Ans. Horizontal combination is that form of business combination when two or more than two companies producing same or homogeneous products work together. It was first experimented in India when many small scale industries producing cement combined to form a large scale industry known as Associated Cement Companies (A.C.C.).

In this type of combination units engaged in the same stage of production amalgamate and come under one management and control.

It is also known as "trade", "parallel" or "unit" combination. In this type of combination, the business units combine in the same plane, or, in other words, they carry on the same trade or are engaged in the same productive activity. They are more or less similar in character and compete on the same plane. For example, if two or more sugar units combine, or two or more paper mills combine that will be known as horizontal combination. This is quite a popular form of combination. The Sugar Syndicate and Associated Cement Companies provide good example of this type of combination in India. This can be explained with the help of the following diagram :



Thus, if various paper mills combine together, it would be known as horizontal combination.

Objectives of Horizontal or Parallel or Trade Combination : Following are the objectives of Horizontal combination :

- (i) To reduce intense competition.
- (ii) To bring uniformity in production technique.
- (iii) To get the advantages of combined purchase and sale.
- (iv) To get the advantages of large scale production.
- (v) To represent the unit before the government.
- (vi) To control over demand and supply.

Q.2. Explain the advantages and disadvantages of vertical combination.

Ans. Advantages of Vertical Combination : The following are the main advantages of vertical combination :

1. **Protection against Trade Cycles :** During the periods of depression, firms can easily meet the situation by reducing cost of production which otherwise may not be possible. The integrated units become stronger and organised.
2. **Control over Supply :** Under the vertical combination, the combined units get sufficient control over supply of the product and this results in higher profit.
3. **Assurance of Raw Materials :** Since all the firms operating at different stages come under common control, the supply of raw materials at successive levels becomes continuous and uninterrupted.
4. **Improvement in the Quality of Products :** Because the needed supplies may be made to conform more closely to the requirements, the quality of the product can be improved. The previous stages of production can be controlled properly.
5. **Economy in Expenses :** Middlemen's margins are saved by integration. There may also be economy in tax payments. Economy can also be achieved in selling expenses, since bulk goods can be marketed more cheaply and effectively through a single agency.

Disadvantages of Vertical Combination : Following are the disadvantages of Vertical Combination :

1. **Limited Scope :** The scope of vertical combination is very limited.
2. **Less Co-ordination :** After combination, it is not easy to bring co-ordination in the activities of enterprises, consisting of dissimilar units. The cost of co-ordination may outflank the gains, expected from combination.
3. **No Advantages of Large-scale Production :** In vertical combination, there is no advantages of large-scale production.
4. **Mutual Dependency :** In vertical combination, every next units is depend on the production of first unit. If the production of any process stops, the production work of next process will also be affected.
5. **Limited Utility :** Vertical combination of firins can only be possible where finished products of one unit become the raw material of another unit.

Q.3. Differentiate between horizontal and vertical combination.

Ans. Following points highlight the difference between horizontal and vertical combination :

1. **Economies of Scale :** Horizontal integration provides economies of scale whereas vertical integration does not provide economies of scale.
2. **Competition :** Horizontal combination eliminates competition among combining units but vertical combination cannot get rid of competition in distribution of ultimate products.
3. **Objectives :** The main objective of horizontal integration is to eliminate competition. Vertical integration, on the other hand, is created to achieve self-sufficiency in the supply of raw materials or in the marketing of intermediate products.

4. **Self-sufficiency** : Vertical combination can make the combination self-sufficient in the supply of raw materials as well as in the disposal of intermediate products. In case of horizontal combination, the combining firms do not become self-sufficient and scramble for raw materials continues.
5. **Flexibility** : Horizontal combination is flexible and the breakdown of one unit does not lead to the stoppage of work on the entire combination. Under vertical combination, failure of one firm may result in the dislocation of all units engaged in successive stages of production as the various units are interdependent.
6. **Specialization** : Every member of a horizontal integration produces the same final product and there is no specialisation among member units. On the contrary, every member in vertical integration specialises in one process or stage of production.
7. **Monopoly** : Through horizontal combination, competing business firms can gain monopoly over supply. Vertical combination cannot secure monopoly over market supply and prices.
8. **Nature of Combining Units** : Under horizontal combination, the various independent business units which combine together operate on the same level of operation in the same industry. In case of vertical combination, on the other hand, the combining units operate at different or successive stages of manufacture in the same industry.

Q.4. What is circular combination? Explain its advantages and disadvantages.

Ans.

Circular Combination

It is the integration of those units which are producing and marketing different types of goods and services and they want to have common administration. It is also known as mixed or complementary combination. The main cause for the growth of such combinations may be that of a firm having surplus funds cannot grow in a particular line and it may take the advantage of existing investment opportunities in other lines. Personal ambition of certain managements to become big may also be the cause for such combinations. In India, Tatas, Birlas, J.K. Group, Dalmias etc. are good examples of circular combinations.

Advantages of Circular Combinations

The circular combinations have the following advantages :

1. **Economies of Administrative Integration** : It results in reduction of administrative cost because common management controls a number of units.
2. **Entrepreneur can grow without acquiring Monopoly** : The circular combination results in the control over units producing different commodities by single management and one entrepreneur can grow his business upto any extent without acquiring monopoly on any field.
3. **Expert Management** : Such concerns, under this combination, are able to get the services of the experienced and efficient managers who steer the course of the concern in the best possible manner. The individual unit may not get advantages of services of expert managers.
4. **Better Goodwill and Image** : Under such combination, the various combined units develop into a group, such as Tata Group, Bula Group, Reliance Group etc. when they develop into a group, their goodwill and image increases considerably and their management strive hard to maintain it duly for a longer period.

5. **Expansion of Industrial Empire** : Such combination facilitates expansion of industrial empire easily without much difficulty. This has happened in many case. Tata or Birla or Reliance has been able to develop industrial empire and has been able to earn their name in the business world.

Disadvantage or Limitations of Circular Combination

Following are the disadvantages of circular combination :

1. **Centralisation of Wealth and Power** : Such combination certainly leads to centralisation of wealth and power in the hands of few. They may take the advantage of their position and may exploit the consumers as well as society, They may carry on such business activities which may not be in the larger interest of the public as a whole.
2. **Against Establishment of Welfare State** : Our country is devoted to establishment of welfare state and such combination is against it. In practice, such combination has been working against the interest of the welfare state.
3. **Evils of Monopoly** : Several business groups, with the result of circular combination, develop into monopoly. Monopolistic practices are not in the interests of consumers or society. The Government of India has been, forced to enact the legislation for it in the name of Monopolies and Restricted Trade Practices Act.

Q.5. Differentiate between trade association and chamber of commerce.

Ans. Following are the main distinctions between trade association and chamber of commerce :

1. **Scope** : A trade association consists of business firms operating in the same industry or trade. On the other hand, a chamber of commerce includes business firms operating in different fields of business activity. Thus, it is wider in scope than trade association.
2. **Nature of Member-firms** : The various firms which constitute a trade association are essentially competitors. But all member-firms in a chamber of commerce are not competitors.
3. **Representation** : A chamber of commerce represents the interests of business community in general while a trade association seeks to protect and promote the interests of a particular trade or industry.
4. **Structure** : A trade association contains business firms operating in different regions as it is organised on trade basis. A chamber of commerce is often organised on regional basis, and therefore, its members are located in a particular region or country.
5. **Name** : A trade association is often known by the trade or industry it represents, e.g., Indian Sugar Mills Association, etc. On the other hand, the name of the chamber of commerce is decided after the name of a region or community, e.g., Bengal Chamber of Commerce, Marwari Chamber of Commerce, etc.

Q.6. What are main dangers that may rise due to rationalisation.

Ans. Following are such dangers :

1. The first and the foremost danger is the price policy of the rationalised industry. In spite of the fact that rationalisation claims low cost of production and reduction in prices, there is always a danger that the industrialists may charge monopoly prices by manipulating the demand and supply (by restricting the supply of goods) and may

exploit the consumers. However this danger may be overcome through the Government interference.

2. The second danger of rationalisation is that it leads to unemployment owing to its increased productivity per worker through a rapid technical progress. This technical advancement, of course, throws many workers out of employment. Rationalisation thus involves the process of closing down inefficient units concentrating production with up-to-date machinery and labour saving devices in those units which are best suited for the purpose. This ultimately results in unemployment but it is merely a temporary affair. With the increased habit of investment and greater diffusion of education, there will be no unemployment in the long run. Because with every increase in the number of machines, more and more people would be employed both in manufacturing and repairing processes.
3. Thirdly, rationalisation may enlarge the size of the unit too large to be managed efficiently. Such units become unwieldy owing to lack of directive ability. Executives who can direct the affairs of such a business unit are rare and the efficiency of a rationalised industry deteriorates for want of suitable executives.
4. Finally, co-operation and harmony between large combinations are rarely found. Such combinations have caused over capitalisation and have failed to attain higher standard of efficiency. Hence poor coordination in the activities of combined units results in heavy administration cost without lowering the cost of production.

Q.7. What are the main features of rationalisation?

Ans.

Main Features of Rationalisation

Following are the main features of rationalisation :

1. **Promotes Industrial Research** : This can also be treated as a vital trait of rationalisation. Research and development are boosted to gain greater benefits. The substitution of old methods and techniques and introducing the new concepts, sophisticating the conventional systems and methods, promotion of mechanisation and automation, it is important to promote research and development.
2. **Macro Approach** : A rationalisation is mainly a macro approach rather than the micro approach and is industry-oriented instead of firm-oriented. The implementation of rational and logical thinking is done in the entire industry. Rationalisation of the entire industry is feasible due to the collective efforts of each unit in the industry so that the maximum benefits can be achieved.
3. **Comprehensive Process** : Rationalisation can be seen as an inclusive activity that is not limited only up to production. In fact, the entire class of technologies, labour relations, financial management, and personnel management, transportation and warehousing, marketing practices and methods, and so on will be included in it. This is done to ensure that the economy is operating in the right direction and expected rate of growth can be accomplished.
4. **Social Motive** : It is related to the eradication of waste and unproductivity and by following the logical and rational methods and techniques, it is possible to enhance productivity, reducing the production cost, and improving efficiency. This will result in a loading price that is beneficial for the customers.

5. **Eliminates Waste and Inefficiency** : One of the important characteristics of rationalisation is elimination of waste and inefficiency. The main objective of using the rationalisation is to avoid the inefficiencies and wasteful activities related to the use of money, material, and manpower.
6. **Application of Rational and Scientific Method and Techniques** : Old methods, conventional techniques and unscientific and unsystematic thinking can be substituted by new methods, modern processes and scientific and rational thinking with the help of rationalisation.

Q.8. Differentiate between rationalisation and nationalisation.

Ans. Following are the differences between rationalisation and nationalisation :

S. No.	Rationalisation	Nationalisation
1.	It's process is suited in every industry form.	It is suited in industries whose are in community and public interest.
2.	Private entrepreneurs are responsible to plan the measures in rationalisation.	In case of nationalisation, the planning process is carried out by the government.
3.	It is a major realignment done in an organisation to increase the efficiency.	It occurs when the Government takes over the control of private sector enterprises.
4.	The objective of rationalisation is to eliminate all kinds of waste from the industry.	Nationalisation is done with the objective of imparting social justice.
5.	In rationalisation the power and ownership remain with the private sector.	In nationalisation, the power passes to the Government, which takes over control from the private sector.

Q.9. Elaborate various prominent objectives of rationalisation.

Ans. **Objectives of Rationalisation**

Following are the various objectives of rationalisation :

1. **To Increase the Standard of Living of Society** : Enhancing the living standards is also one of the objectives of rationalisation. It helps in improving standard of society by eliminating waste and inefficiency, by introducing modern techniques, by maximising production, by improving product quality, by proper utilisation of resources and by reducing cost.
2. **To Improve Quality of Product** : Rationalisation aims at both increasing the quantum of production and product quality. It ensures the use of quality raw materials, standardisation and specification and thus enhances the product quality.
3. **To Maximise Production** : The other objective of rationalisation is to implement the rational and logical approach in order to maximise the production. This lowers the costs and facilitates products to consumer at low prices.
The production can be maximised by using better equipment and machinery. And thus, it also increases overall efficiency of industry.
4. **To Maximise Efficiency at Minimum Effort** : Since the overall performance and profitability of industry is affected by the efficiency, therefore rationalisation aims at improving the working conditions in order to improve the efficiency of the workers.

5. **To Simplify Marketing and Distribution System** : Improving the efficiency and effectiveness of the distribution system is one of basic objectives of rationalisation. This objective is achieved by eliminating unnecessary transport practices, removing multiplication of middlemen and terminating financial burden related to transport system.
6. **To Ensure Maximum Utilisation of resources** : Ensuring the optimum use of resources is another objective of rationalisation. Since every firm has limited resources and irrational use decreases the resources and thus leads to an increase in production cost. Therefore, maximum production at minimum costs is not possible without ensuring optimum utilisation of resources.
7. **To Reduce Waste** : Eliminating all the types of waste and inefficiency from industry is the basic objective of rationalisation. Rationalisation solves the problems originated from ineffective organisational structure, faulty production system, unbraced competition, and improper coordination among production factors.

Q.10. What are the advantages of rationalisation?

Ans. Advantages or Merits of Rationalisation

Merits of rationalisation are as follows :

1. Merits for the Nation

- (i) **Improves Export Earnings** : It makes the industries of the economy more competitive. They are able to compete better with their global peers. The exports are also increased as the local industry churns out products which are of high quality.
- (ii) **Effective Utilisation of Resources** : The aim of rationalisation is to reduce wastage of all forms. This brings in a better and more equitable utilisation of the resources of the economy.
- (iii) **Helps in Increasing National Income** : The economy benefits as the level of productivity improves. This leads to a rise in the level of national income and the per capita income of the economy. The purchasing power and the standard of living also increase as a result.

2. Merits for Workers

- (i) **Increased Efficiency** : The working conditions of the employees improve under rationalisation. This leads to an increase in morale and efficiency. This increases the performance of the organisation.
- (ii) **Higher Remuneration** : As the costs decrease and the profits increase, this leads to an increase in the salaries and remuneration of the employees. This in turn leads to a higher disposable income and a better quality of life.

3. Merits for Consumers

- (i) **Better Quality Products** : Increased standardisation and simplification of the processes leads to better quality of products that are designed for customers.

- (ii) **Convenience of Choice** : As standardised and better quality products are offered by the organisation with limited varieties, it assists the customers in making easy selection of the choices without wasting their time and money. Therefore, rationalisation offers convenience of choice to the customers.

4. Merits for Producers

- (i) **Lesser Cost of Production** : It leads to lesser cost, as it causes the lesser variety of products and production processes are simplified and specialised.
- (ii) **Increase in Profits** : It also leads to an increase in profits as it seeks to eliminate all forms of wasteful expenditure. Rationalisation actually converts loss making units into profitable and sustainable ones.

Q.11. Explain the main drawbacks of rationalisation.

Ans. Drawbacks of Rationalisation

Following are the major drawbacks of rationalisation :

1. Demerits for Nation

- (i) **Leads to Monopoly** : It leads to the birth of monopolies. In this environment, the small and cottage industries are often given poor opportunities.
- (ii) **Effects Small Scale Industries** : Rationalisation leads to an increase in the scale of the businesses. Small organisation and cottage industry often suffer as a result. They are either merged with larger entities or they are closed down.
- (iii) **Wastage of Resources** : Rationalisation seeks to replace the old with the new. The resources of the nation are wasted.

2. Demerits for Workers

- (i) **Creation of Unemployment** : Rationalisation involves large scale automation and mechanisation. This leads to massive unemployment and retrenchment. Rationalisation also looks at closing down or combining weak and loss-making units, which leads to unemployment.
- (ii) **Increased Work Load** : Rationalisation aims at increasing the productivity of workers. It aims at generating the maximum output from workers. This leads to an excessive stress on the workers and can lead to fatigue and boredom.

3. Demerits for Producers

- (i) **Heavy Capital Expenditure** : Heavy capital expenditure may incur due to implementation of several rationalisation techniques like, standardisation, specialisation, and mechanisation, etc., and getting an adequate return on such investment is also not sure. It is possible that during the time of recession or depression in business activities, the whole investment is lost and may not be easily recovered later.
- (ii) **Situation of Conflict** : Workers also get demanding and seek a higher share of the profits of the organisation earned due to rationalisation. The management is in dilemma regarding the share that must be given to them. Very often this leads to a situation of conflict.

SECTION-C (LONG ANSWER TYPE) QUESTIONS

Q.1. Explain the meaning definitions and features of business.

Ans. Business Combination

Meaning : The term combination has been derived from combine' which means joining together. Combinations are the important developments in modern business organisation. Whenever two or more business units engaged in the same line of business or in different related processes unite or associate together with a view to carry on their activities and shape their policies on common coordinated basis for mutual benefit, they are said to form a 'Business Combination'.

Definitions : Some important definitions of business combinations are as follows :

According to Haney, "to combine is simply to become one of the parts of the whole, and the combination is merely a union of persons to make a whole or group for the production of some common purpose."

According to M.L. Kothari, business combination "refers to any informal or formal combining of two or more industrial units producing similar or different articles or engaged in the successive processes of manufacturing of an article with a view to earn maximum profit on the capital employed."

According to D.H. McGregor, "Combination is a method of economic organisation by which common control of greater or lesser completeness is exercised over a number of units which have operated hitherto or could operate independently. This control may be either temporary or permanent for all or only for some purposes."

On the basis of the analytical study of the above definitions, it can be said that when two or more business/industrial units join their hands together to achieve maximum profit interest through eliminating competition and developing the element of co-operation, it is known as combination.

The motivation behind the combination may be to obtain economies of large scale production or eliminate wasteful competition or enhance prestige etc.

The combinations established by several business units in an attempt to attain a common objective (which is usually to reduce competition) are known as business combinations. These combinations can be fastest if developed through consolidations and loosest if through associations.

If 'association of persons' striving for a common business goal is the description of an organisation, compound associations of persons' is the description of business combinations.

Features of Business Combinations

Following are the characteristics of business combinations :

1. **Destructive Competition :** Most of the organisation may be stopped due to destructive competition. To overcome the apprehension of strong rivalry, some type of understanding is developed among the rival organisation to manage the price and avoid overproduction.
2. **Effective Management :** The facilitation of effective business practices within the business can be seen as an important trait of the business combination. There will be a greater centralisation of the business combination management. Apart from this, due to their good financial position, these types of firms can easily hire talented, skilful, and

innovative employees by paying higher compensation. Skilled managers who are adequately experienced can also enjoy working in these types of large firms.

3. **Division of Labour** : The other vital trait of business combination can be seen as it facilitates the effective and efficient manpower division and can facilitate smooth workflow in the organisation.
4. **Economy in Production** : The main feature of business combination is that it provides economy in production. In the case of the business combination, there will be a unification of the competing firms so that they can take the advantage of large-scale production. The raw material is being purchased in larger quantities, production of the standard products takes place with specialised knowledge, curtail the operational cost of the business and the price of the product is fixed at a point that yields the maximum profit.

Q.2. Elaborate the various causes of business combination.

Ans.

Main Causes of Business Combination

The different causes of business combination have been studied under the following heads :

1. **Desire to Control the Market** : Desire to secure monopoly power in the market is another cause of business combinations. Monopoly enables maximisation of profits through restriction of output and increase in prices. Such combinations are very common in industries comprising of a few business firms with inelastic demand. The possibility of exploiting monopolistic control of the market is, therefore, an important cause of combination.
2. **Economies of Large Scale** : Large scale production and distribution brings a number of internal and external economies. Small and uneconomical business firms, therefore, join hands to secure these economies. Combinations reduce costs of doing business and staying in business. Combinations lead to optimum size and better utilisation of resources thereby resulting in lower costs per unit. The whole system of production may be organised on a scientific basis and the wastes can be eliminated considerably. The economies can also be achieved in the area of advertising and marketing of the products. The finances can be obtained easily and at a cheaper rate. The advantages of research can be obtained easily. All these lead to reduction in cost and maximisation of profits which attract the smaller concerns to combine.
3. **Business Cycles** : In almost every business, booms and depressions occur one after another. During booms, firms combine and expand to take maximum advantage of rising demand and to eliminate competition. During depression, inefficient and weak firms, finding it difficult to survive, often sell themselves to large firms. Cartels have been described as the 'children of distress'. Business ups and downs generally lead to collusion among businessmen.
4. **Cut-throat Competition** : Destructive or wasteful competition is the most common cause of combinations in industry. Unhealthy competition results into price war and wasteful expenditure. Realising that mutual rivalry is in the interest of none, the competing businessmen arrive at some sort of mutual understanding to regulate prices and eliminate over-production. Combinations, thus act as a means of furthering self-interest by common action. Haney rightly pointed out that "competition begets combination. The business managers, who were otherwise "quite sectarian and

individualistic in their outlook' and approach, had to give a rethinking to the whole problem and came to the conclusion that the competition had become 'inconsistent and futile, obsolete and sterile', and they were forced to unite for the common cause. Kimball and Kimball stated that "combination came into existence in order to hold ruinous competition in check."

5. **Tariff:** Tariff is said to be mother of all combinations. The practice of levying high tariff has led to the development of combinations among home producers. In order to retain the benefits of protected home market intact, combinations are formed for the purpose of presenting a united front against the removal of such protective tariff.
6. **Government Pressure :** The government may compel the weaker units to amalgamate with the stronger units so as to improve the overall efficiency of the industry. Even the government may take over the sick units and combine them to form a viable unit and introduce rationalisation in it.
7. **Organising Ability :** Persons with good organising capacity are not available according to the requirements and many business units have to be combined together or put under one common management simply to derive full benefits of organising capacity of a few skilled organisers and managers. It has been rightly remarked that in a country like India "no permanent relief from the evils of concentration of industrial power can be expected until the highest type of business skill, talent, and enterprise become well diversified". One facilitating factor in this respect is that these few brains are quite ambitious and they try to retain control over various concerns. The managing agents in our country provide a good example of this. They had virtual monopoly and brought about financial, managerial and administrative integration in the business units of the country and majority of them were under their control.
8. **Lust for Power :** Many dynamic businessmen and Industrialists have been led to combine by the philosophy of power and ambition for the superlatives in all spheres of active life. They have a keen desire to build "industrial empire" and once they attain success their lust for increased power leads them to have still bigger sizes of the business units and control over a large number of such units which results in some sort of combination among various business units.
9. **Patent Laws :** Every country has been enacting patent laws under which the inventor gets the sole right to use that patent product. This encourages the tendency to monopolise the product in the market. But later, they are induced to combine with others to expand the market, specially the foreign one.
10. **Cult of the Colossal (Respect for Bigness) :** The tendency to consider big firms more efficient and the fancy for everything big has also encouraged combinations in industry. Ambitious businessmen are inspired by the ambition of power and prestige that comes from the ownership of giant enterprises. Lust for power has led people to build industrial empires.
11. **Popularity of Joint Stock Organisation :** As the joint stock form of organisation started gaining importance in the business world, it created another cause for combinations. Haney has called it as the "facilitating condition." He pointed out that through the agency of joint stock shares, control over a large number of business organisations may readily be concentrated in the hands of a few man. It is easy to gain

control over various corporate enterprises by a company simply by purchasing the controlling amount of their shares.

12. **Dominance in International Market** : Today, various companies, domestic as well foreign, are making efforts to dominate over the market of other countries. Several companies are combining together to have control and dominance over the markets of other countries. Unless the companies combine together, they cannot succeed in capturing markets of other countries.
13. **Rationalisation** : The various aims of rationalisation can be fulfilled if the programmes for production and distribution and adjustment of supply with demand are taken in co-operative and well co-ordinated manner. It involves combination of inefficient units with efficient ones to reduce the wastage of efforts and materials and to make them viable units in the Industry concerned. It may also become necessary under rationalisation to amalgamate the smaller units to enlarge their size that the economies of large scale production could be achieved.

Q.3. What are the main objectives of business combination?

Ans. Objectives of Business Combination

Major objectives of business combinations are as follows :

1. **Facilitating Research Work** : Business combinations result in reduced competition, less production costs and low amount of marketing efforts. This results in an increase in the profit and capital income of two combined firms. More number of experts and professionals also result from business combinations.
As research works produce higher output, therefore, research on goods and services can be commenced by such professionals and experts. Hence new products can be brought into the market through research which will in turn, improve the image of the company.
2. **Utilising the Latest Technology** : Nowadays, technological advancements occur at a fast pace. New and advanced machinery, tools and instruments get introduced in the market every so often. Such latest technology can be quickly adopted by a business which is combined. This will ensure that the process of production is running at a smooth pace which will thereby bring in sophistication to the processes and lead to an increased level of productivity.
3. **Maintaining Selling Prices** : Maintaining the selling point is not an easy task in the process of sales. For generating high sales, goods and services are offered at competitive rates by the different competitors. In a business combination, products are offered at lower prices as compared to the competitors, thereby easily maintaining the selling prices.
4. **Utilising the Idle Working Capital** : When business units operate in a separate and independent manner, their aggregate working wealth goes beyond its requirements. This results in an idle capital because of wastage of a country's scarce resources. Business combinations ensure proper utilisation of the idle capital.
5. **Reducing Competition** : "The enemy of my enemy is my friend", is an old saying which is followed by business firms. Due to intense market competition, firms are not able to capture larger share of the market. Business combination results in the formation of a

bigger entity. This bigger entity combines the market shares of the two combined businesses and is also able to exercise increased market control. Online businesses also follow the similar rule.

For example, combination of two online businesses results in an increase in their market share. They are also able to develop better marketing techniques since their business development teams also get combined.

6. **Competing in International Market** : Competing in the global markets is facilitated through business combinations. A large business unit has wide channels of distribution and a large number of skilled and trained employees. Therefore, by entering into new markets, the operations of a large business unit get diversified.

Moreover, business combinations involve a large number of people. Therefore, a combination of firms, results in an enhanced mind power since the number of individuals who think about the firm's overall improvement gets increased.

Q.4. What are the advantages of business combination? Also explain major problems faced in business combination.

Ans. Advantages of Business Combinations

Advantages of business combinations are as follows :

1. **Better Utilisation of Resources** : There is also a better utilisation of resources by the combined entity. As the scale of manufacturing increases, the cost per unit of production also reduces. As already mentioned, marketing cost including advertising, sales promotion, publicity, and personal sales would be reduced. Hence, the overall cost of production substantially reduces because of combination effects.
2. **Efficient Administration and Management** : The business combination also gains from the centralisation of administration as well as managerial activities. The organisation also gains from the best available human resources and can give them the best pay and other benefits. The managers of the organisation also enjoy working in better conditions. These conditions bring out the best in the managerial abilities.
3. **Research Facilities** : The combined entity has adequate financial resources. Comparing to the individual level of operations, the scope of operations in combined entities is wider in nature. Another benefit of business combinations is the availability of talented researchers in the organisation who can help reduce the production as well as marketing costs and recognise new markets. Individual entities had to spend a large amount of money on advertising and sales and promotion.

In a larger entity much of the cost is reduced as the advertisement cost comes down because of the larger budgets that are now at the organisation's disposal.

4. **Accumulation of Capital** : A small business suffers from the lack of finance. The advantage of business combinations is that it allows different companies to accumulate their capital and this brings down the risk for the individual organisation. Also, the creditworthiness of the combined entity is often better than the single one. As a result, it is able to get the necessary external finance on far more easy terms. The organisation is also able to get economies of scale in manufacturing in the form of standardised equipment which can produce large quantity of output at a lower cost and better quality.

Problems Faced in Business Combination

Following problems are generally faced in business combination :

1. **Can Lead to Monopoly** : Combinations can lead to monopoly like situations. Monopoly creates a lot of distortions in the market. It can also have negative impacts on the society. It can lead to loss of jobs in the society. A business organisation normally runs for making profit. A combination generally tends to fix the price of the product higher than the market based price. The consumers have no choice but to accept this price. The suppliers of the raw materials are also forced to accept the price. They have to supply the raw material at whatever price is quoted by the combination. The workers are also exploited and they have to accept a very low level of wages. Very often the quality of the product also suffers in the absence of any meaningful competition to the combination.
2. **Over-Capitalised Market** : Another major drawback of a combination is that it leads to over capitalisation of resources. The combinations tend to raise excess capital from the market. The combination does not face any competition in the market and very few choices of goods and services are offered to the customers. The excess capital raised by the combination can often be wasted by it. In the long-run this reduces the efficiency of the combination. It brings down the profit level and the credit standing of the combination.
3. **End of Old Organisations** : The combination leads to an end of the old organisation and all that it stood for. Employees often feel lost in the new organisation and cultural issues may arise. There is a certain loss of identity in the organisation. The combination also makes it difficult for smaller entities to exist. They are often forced to shut down. This leads to massive unemployment and other economic pressures.
4. **Pressure in New Management** : There may also be pressures that are exerted because of the new management. In comparison to individual units, it becomes difficult to manage the combinations.
5. **Increases Rift between Poor and Rich** : Combination often leads to an inequitable distribution of wealth in the society. It increases the rift between the poor and rich. The wealth gets concentrated in the few hands.
6. **Public Opinion** : Public opinion is often against the combination. The combination is always viewed as an entity that is out to exploit the public and seek unnecessary profits. The combination also adds to layers of management and this increases the cost of production.

Q.5. What are the merits and limitations of horizontal or parallel combination?

Ans. Merits or Advantages of Horizontal Combination

The following are the main advantages of horizontal combination :

1. **Facility of Common Research and Development (R&D)** : In the world of fast changing technology, it is quite necessary to allot adequate funds for R&D. A smaller firm cannot do it but a larger firm can take the advantage of necessary R&D.

2. **Safeguarding Interests** : Such combined units are in a position to get a collective platform to raise their voice to safeguard their interests. Combined together they are in a better position to present their case before the public.
3. **Advantages of Monopolistic Control** : When the units combine horizontally, they are in a position to achieve monopolistic control over the supply of product. This facilitates them in increasing their profits considerably.
4. **Adequate Arrangement of Capital** : After various units combine and gain economic strength, they develop a position to take advantage of obtaining necessary fund from banks or other financial institutions. It is because, their credit worthiness enhances and they get loans easily.
5. **Elimination of Cut-Throat Competition** : When several units combine in the same industry, they eliminate competition among them. This helps the combining units considerably in earning sufficient profits.
6. **Economic Strength and Stability** : After combining such units are able to gain economic strength as the small or weaker or uneconomic units combine. They are able to take advantage of strength and stability which help them in the long run. Thus, they avoid sickness.
7. **Economies of Large-Scale Production** : Such combination results in the increase in the size of the combined units. When they become large in size, they are able to achieve the economies of large-scale of production, which was not possible when they were smaller. The economies of large scale business are realised since the constituent firms after combining operates certain business activities under common and coordinated management, such as purchase, marketing, research, transport, banking services, etc.
8. **Control over Supply** : After combining, such units are in a position to control supply according to demand of their product. Thus, they are in a position to save themselves from the losses of excess supply. The firms can obtain the equilibrium or balance in demand and supply in the market by estimating demand and controlling production.
9. **Convenient for Government** : When such units combine, it becomes easier and convenient for the Government to control the combined units. It becomes difficult to the Government to control smaller units in larger number.

Limitations or Disadvantages of Horizontal Combination

In spite of various advantages of horizontal combination, it has following disadvantages also :

1. **No Assurance of Raw Material or Market** : Under the horizontal combination, there is no assurance of either raw material or market, as it happens in case of vertical combination. Thus horizontally combined units face the problem of raw material as well as market which will ultimately affect the production and profit.
2. **Over-Capitalisation** : After combination, the capital accumulates and with the result there are chances of over-capitalisation. It has got its own consequences.
3. **Monopoly** : Horizontal combinations lead towards monopolistic control in the market and may exploit the consumers by creating artificial scarcity in the market or by lowering quality. Thus such combinations are anti-social. They indulge in deliberate curtailment of output in order to raise the prices in the market.

4. **End of Small Businesses** : It gives an end to small business. Every firm works as a whole and all the business is in the hands of the committee formed to organise the business.
5. **Economic Risks are Involved** : After combination of such units, the size increases, the work increases and its problems and challenges also increases. With result, the economic risk enhances considerably. In the event of recession, the risk increases and with the result, the chances of losses grow more and more.
6. **Lack of Quality Improvements** : As the competition is reduced, the combined units may not take active interest in bringing about the necessary improvement in the quality of product and its production processes etc. This ultimately affects the goodwill of the company.
7. **Possibility of Government Interference** : Under horizontal combination the monopoly power increases and there is a concentration of wealth and power. If the abuse of such combination affect the public quite adversely, the Government may be forced to interference into this matter.
8. **Centralisation of Wealth and Power** : Such combination results in concentration of wealth and power in a few hands, They start misusing this power and this affects the public adversely.

Q.6. What are vertical combinations? Explain the main types of vertical combination.

Ans.

Vertical Combination

Meaning : In vertical combination the subsequent units of industry are joined together. This combination involves combination of those enterprises which are engaged in different stages of production or processes of manufacture.

The units combined stand end to end so that the finished product of one becomes the raw-material of the other. It is also known as "industry" or "sequence" or "process" combination. Under the vertical combination, the combining units represent various successive stages of the productive activity either in the same industry or various industries connected in a sequence. They do not operate on the same plane as in the case of horizontal combination.

For example, if in cotton textile industry, cotton ginning factory combines with the spinning factory and spinning factory combines with weaving factory, and the weaving factory combines with the factory producing ready-made clothes, this would result in vertical combination. The combination is devised in such a manner that the finished product of one firm may form the raw-materials for the other. In the above example, the ginning factory produces the ginned cotton which is the raw material for the spinning factory, the spinning factory produces yarn which is the raw material for the weaving unit and the weaving unit produces cloth which may become the raw material for the factory manufacturing ready-made clothes. Similarly, in case of sugar industry, the sugarcane cultivation firm may combine with the sugarcane crushing plant, the sugarcane crushing plant with the sugar manufacturing plant, and the latter may combine with the factory engaged in the manufacture

of confectionery and jams etc. The paper industry provides another example of vertical combination where the pulp producing units, the paper mill, the printing press and the book company may combine together to form such combination.

Thus, it is the union of the successive stages or processes of manufacture of the finished article beginning from the raw materials passing through manufacture to the finished product and distribution.

Types of Vertical Combination

The vertical combination may be called "integration" also. It may be of two types discussed as follows :

1. **Forward Integration** : When a company involved in production combined with another company which sell its product, then it will be known as Forward Integration. For example, if a refining company combine with the company involved in sales store of oil, it will be called Forward Integration. Such combination eliminates middlemen and earn more profit and may provide goods to consumers at cheaper rate.
2. **Backward Integration** : Such integration takes place when a unit producing finished goods combines with it another unit producing raw material, it is called backward integration. For instance, if a paper manufacturing company combines with pulp producing company, it works result in such integration.

It may be noted that the industries having the following characteristics usually tend to be vertically integrated :

- (i) Where the quality of the product is important, thus necessitating a control over the supply of raw materials.
- (ii) Where the finished product of one industry can easily be consumed by the other as its raw material.
- (iii) Where one process is complementary to another, and
- (iv) Where balanced production is significant, viz., spinning and weaving, pulp and paper.

Q.7. What do you mean by lateral or allied combination? Explain its types and advantages.

Ans. Lateral or Allied Combination

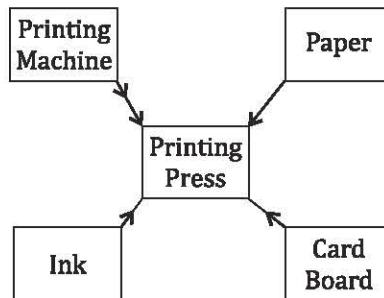
Meaning : It is a combination of firms producing different materials which are required for manufacturing a particular product or supplying particular service or products connected with another. For example, a building construction company may integrate with some suppliers, brick manufacturers, steel concerns, cement supply units, wood suppliers etc.

Types of Lateral Combination

It may be subdivided into two following types :

1. **Convergent Lateral Integration** : It involves combination of various units related with different industries but producing and supplying goods and services which may be used in one major common undertaking. But the combining units may be such that finished products of many may be used as the raw material by one undertaking. A good example of such integration is provided by the printing press which may combine a number of units engaged in the manufacturing of paper, ink, types, cardboards,

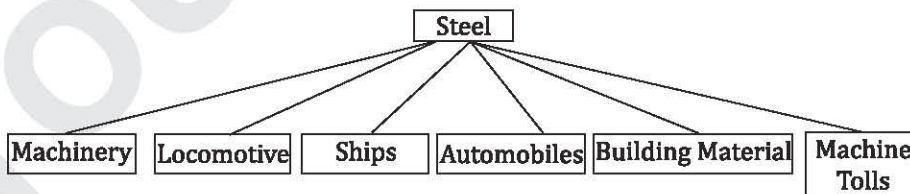
printing machinery etc. The supplies made by all these units would form the raw material for the printing press. This can be explained by the following diagram :



It is clear from the above diagram that there are five units engaged in the production of different articles but those articles are used as raw materials by the printing press and that way the finished products of those units are converging' to one undertaking.

2. **Divergent Lateral Integration** : It is just the opposite of convergent lateral integration and this involves combination of different units which draw their raw materials from one undertaking alone. This is possible in case of an enterprise manufacturing such product which may be used as raw material by many units. To the enterprise supplying the raw material the market is duly assured and to other enterprises the supply of raw materials is almost guaranteed. For example, a steel works may combine with units manufacturing machinery, engineering goods, locomotives, ships, automobiles, building materials and machine tools etc. Illustration of such integration is provided by leather industry also which may be supplying leather for the manufacture of shoes, suitcases, bags, saddles, harnesses etc.

It would be clear from the following diagram that at the top there is one industry, i.e. steel industry, which is supplying steel as raw material to units manufacturing machinery, locomotive, ships, automobiles, building materials and machine tools etc. and if they combine together that will be called divergent lateral combination as the steel works is diverging raw material to other industries.



Advantages of Lateral Combination

The convergent lateral combination affects economies in obtaining raw materials from various combining units and they may remain fully assured of the market. It may also result in improvement of the quality of the products as the quality of raw materials produced by various units can be controlled properly and brought up to the mark. Similarly, it results in reduction of cost of production to a considerable extent, as it eliminates the intermediate profits. The divergent lateral combination assures the market of the products of the unit

supplying raw materials to many. It also helps in diversifying the market and thus the loss of one may be made good by gain in the other. It also assures the supply of raw materials to the various units.

Q.8. Discuss about associations as one of the form of business combination.

Ans. Association

When business enterprises form some organisation voluntarily for some common purpose it is known as association. There need not be any express agreement or understanding among them. The implied agreement need not be binding upon the members and they cannot be forced to follow a certain course of action.

Types of Association

There are following types of associations :

1. **Trade Association** : A trade association is a non-profit organisation of business competitors for the promotion of one or more economic interests of these in the line of business, or of the members in the territory covered. Thus, the purpose of such association is not to earn profits but to protect the interest of the members. These associations cover all concerns dealing in a particular trade or engaged in a particular industry in a particular locality or region. They are voluntary in character and do not bind their members compulsorily with any agreement. They do not affect the working of the business concerns which are completely free to act in the manner they like and pursue their own policy without any interference of their association. Thus, these associations prove to be essentially educational in character, enlightening their members on matters of common interest. "The general purpose of trade associations is usually to improve the positions of the members by establishing better conditions within the trade and protecting the trade against adverse influence." Usually, these associations meet periodically, discuss matters of common interest and try to arrive at general solutions.

The main functions of these associations, in brief, are as follows :

- (i) It provides protection to the members by representing to the Government on their behalf and helping them in getting necessary legislations passed in their interest.
 - (ii) It discuss matter, in the interest of the members with the officers and Government with a view to ensure sufficient protection to them.
 - (iii) If some bill is being presented to the parliament which may affect the members interest, it present the views of the members.
 - (iv) It makes efforts and develop R & D for the growth of the members business.
 - (v) It increases efficiency of the members by educating them.
 - (vi) It brings about necessary development in the trade through various technical works.
 - (vii) It brings about co-ordination and co-operation among the members and reduce competition among them.
 - (viii) It provides a common platform to traders where they meet frequently and discuss the matters in their interest.
2. **Gentlemen's Agreements or Informal Agreements** : These are those in which businessmen promise to restrict their competition in marketing goods or to stop

price-cutting of goods. The informal agreement is based upon a verbal promise which is no more than a mere understanding between the parties to the agreement. The validity of the agreement rests on the party's word of honour and for this reason the informal agreement is referred to as a gentlemen's agreement. In case the members to the agreement do not honour the terms of the agreement other members have no remedy for securing compliance with the agreement.

The main object of a gentlemen's agreement relate to the division of markets, the restriction of production, the fixation of prices and like other combinations for eliminating competition and increasing the amount of business profit.

3. **Chambers of Commerce** : A chamber of commerce may be regarded as an association of the businessmen for the protection of the interests of its members in a particular locality or region. Like trade association, it works for the benefit of individual members but the main point of difference between the two is that a trade association confines its activities to a particular trade or industry of a particular locality or region whereas the chamber of commerce protects the interests of the business community of a particular region, country, or the world as a whole. It may be a voluntary association as it is found in India or it may be a semi-official body comprising the representatives of the business community as well as those of the Government.

The main functions of the chambers of commerce are :

- (i) It arranges for arbitration in the settlement of disputes among members arising out of trade or commerce.
- (ii) It protects the interests of the members against business policies affecting them and acting as their spokesman before the Government.
- (iii) It offers suggestions to the Government regarding certain legislations proposed to be enacted and helping the Government in enacting the legislations protecting the interest of their members.
- (iv) It collects and disseminate information for the benefit of the members.

Q.9. Explain 'Federations' as a form business combination.

Ans.

Federation

Federation is a loose form of combination. It has two important features, viz., (a) it is an alliance of independent business units into an association; and (b) the competing business units combine regarding one or more external affairs affecting them. The combining units form an alliance for mutual benefit but such alliance does not affect their internal affairs and autonomy. They combine in relation to one or more external aspects only.

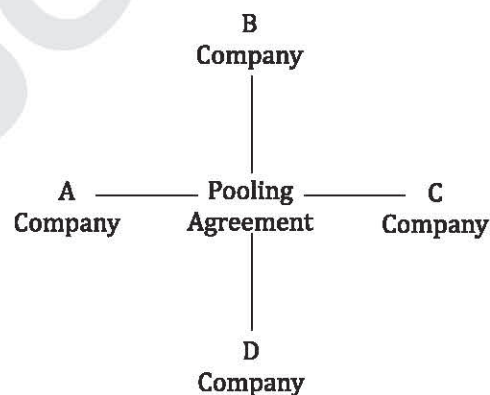
Types of Federations

These are of following types :

1. **Formal Agreements** : Under formal agreement the combining units enter into some agreements which are expressly declared. They may relate to the conditions of the trade such as terms of credit, packing, advertising, transportation and employment of labour etc. They may also relate to the price of the products or the services. Usually the agreement is entered into to control the price of the products or services. This is done to avoid competition resorted to by price-cutting which may prove harmful for all the members of the business community. This prevents prices from falling too low and

thus protects the interests of the members in general. It is to be noted that price agreements are not confined to big business concerns alone. They may be entered into by small shopkeepers, men of ordinary business or profession also. We find in practice that the barbers or washermen of a particular locality enter into such agreements and fix prices for their services. They prescribe penalty for not adhering to the agreement. This form of combination may be advantageous to the business community as it is easy and more convenient to form, it is flexible, secrecy can be maintained, and the autonomy of the members is not affected at all. The greatest weakness of this form of combination is that it suffers from instability as the members may violate it easily. If there is a price agreement it may prove to be infructuous as there is no control over the quantity of output.

2. **Pools** : Combinations which are called Cartels in European countries are known as pools in America. The pool has been defined as "a working agreement that is based upon a definite contract, is usually in writing and frequently provides penalties for violation. In other words a pool is a combination of producers whose object is to eliminate competition by restricting the output and maintaining the prices or dividing the market or dividing the earning on an agreed basis. Like gentlemen's agreements members to the pooling agreement retain their separate existence of individual and enjoy a large measure of freedom in the conduct of their business operations. Haney has defined pool as a form of business organisation established through federation of business units whose members seek a degree of control over prices by combining some factor in the price-making in a common aggregate and apportioning that aggregate among the units. Thus under pool agreement something is to be pooled that is brought into common, and whatever is common is always to be shared by all the members of pools. It follows that to the extent a factor is pooled, the independence of members to that extent is just. The diagram given below gives an idea of the structure of pools.



A pool, however, preserves the member units in existence in the same manner as before, but some of their rights and liberties are transferred to a central body. That is to say the members exercise their rights as per their common agreement and that they make a reasonable profit on their individual investments by the same terms of the pool. There are various types of pools which are enumerated as follows :

- (i) **Output Pool** : This type of pool is formed for the purpose of limiting the production of goods manufactured by the members of the pool and apportioning the total output among the various members on a certain basis. Members who exceed their allotments are liable to penalties including fines. These fines are turned into a fund out of which contributions are made to those which fall short of allotment. Sometimes the prices at which the products should be sold by the members are also fixed by the pool.
 - (ii) **Market Pool** : Under market pool the market is divided among the members on the basis of products, customers or territories served. Here an equitable division of the territory is made by taking into consideration the volume of sales made in the past and the proximity of customers. Each member sells in his own territory.
 - (iii) **Income or Profits Pools** : These types of pool aim at dividing the gross income or net profits among the member units through allocating contracts or undertaking actual marketing by a central agency. For allocating contracts, all contracts for the supply of goods are made by the Central Agency at certain prices, and these contracts are subsequently allocated through bidding among those members who offer the lowest price for the supply of goods. The profit made by the central agency through making contracts with outsiders at higher prices and securing goods from members at lower prices is distributed among the members. Alternately, the central agency may take over the entire production of the combining units at agreed price and the products thus acquired are sold in the market at the best obtainable prices. The central agency, after deducting its expenses divides the balance of the income credited to it among its members in proportion to the quotas.
 - (iv) **Traffic Pools** : These are agreements among transportation concerns, particularly shipping, railway and track lines, for limiting their competition by way of dividing. Shipping Conferences are illustrations of traffic pools. To prevent the entry of newcomers in the business, a deferred rebate on the aggregate freight charges over a year is allowed by the members of the pooling agreement.
 - (v) **Price Pool** : Under price pool, some price fixing agreements are entered into. The members meet periodically and discuss matters related to the price of the product or services. They may also discuss about matters related to selling such as, advertising, terms of delivery, discounts etc. and may agree to adopt common practices in all these matters.
3. **Cartels** : Cartel is the European counterpart of American pools. What is called a pool in America, the same is named as cartel in Europe. The greatest development of cartels had taken place in Germany where they were encouraged and developed by the Government of the country. A cartel may be defined as a voluntary union between independent undertakings of similar type for entering into a contract to regulate output, to fix quotas, to divide market, and to control sales and prices for the purpose of eliminating competition among themselves, The member units (usually producers in the same line of business) aim at securing a monopoly of the market and maximising profits by rooting out competition through various restrictive measures. Because of

these monopolistic aim that cartels differ from pools which have no such aims. Like pools cartels may be formed with the following different objects in view.

Q.10. What do you mean by Rationalisation? Also give its various definitions.

Ans.

Meaning of Rationalisation

The word rationalisation derived its name from the German word 'rationalisierung' which was first used in Germany at the end of the World War I when Germany, after her defeat in the war was found her industries almost in a state of collapse. Therefore the German people made rational attempts for reviving and revitalising their war-shattered industries. They were of the view that unless some strong measures were taken to re-organise industries her position on the map of industrial world would be wiped out. In fact the devastation of German industries was so threatening that she had no other alternative but to take effective measures for her industrial regeneration or re-birth. Consequently the measures adopted to achieve industrial reorganisation were so novel and captivating that they come to be recognised as new industrial revolution.

The term rationalisation, is derived from the word rational which means an act based on rational thinking and scientific and logical methods. Rationalisation, therefore, lies in a scientific attitude and rational thinking towards the problems besetting the industrial sector of the economy or a particular industry. To rationalise is to reform an industry by trying to create an equilibrium between consumption and production. The only rational on the part of industrialists is to secure the highest industrial efficiency through cost reduction. Essentially it aims at the elimination of waste of all kinds in the entire industry, increase in the efficiency and standard of living of the workers and to raising the general level of prosperity.

As the scope of rationalisation is very wide, it is difficult to compress the full implications and intricacies of the term within the four walls of any rigid definition. Various authorities have defined it in various ways, emphasising the different aspects of rationalisation.

Definitions of Rationalisation

Definitions given by some of the eminent are as follows :

1. According to E.A.G. Robinson, Rationalisation refers to the "reorganisation of the relationship of the individual firm to the industry as a whole." Besides the achievement of internal efficiency, he regards combination of firms as the means of achieving maximum economies of production and marketing.
2. Professor Urwick interprets, rationalisation both as an attitude and a process. "As an attitude, it records the belief that a more rational control of world economic life through the application of scientific methods is possible and desirable. As a process it implies the application of the methods of science to all problems arising in the organisation and conduct of production, distribution and consumption".
3. Professor Sargent Florence defines it as "a movement to eliminate waste and inefficiency scientifically and logically by some sort of joint action between all the firms within one industry". This definition implies the elimination of waste and inefficiency by applying scientific technique and logical thinking. Further, it also implies that rationalisation achieves its objectives through combination.
4. The German National Board for Economy and Efficiency which was incharge of rationalisation programmes defined it 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. Its aim is to raise the general level of prosperity by cheaper, more plentiful and quality goods”.

Q.11. Discuss the main causes of inefficiency leading to rationalisation.

Ans.

Causes of Inefficiency

The need for joint action on the part of all the firms in an industry arose because of the following causes of wastage, inefficiency and low productivity :

1. **Scramble for Scarce Resources** : Many times some essential factors of production may not be available in sufficient quantity and this creates scramble for scarce resources. If all the firms in an industry compete for the factors which are not in adequate supply, the prices will rise high, leading to high cost of production. Moreover, in such a situation, while a few firms may be in a position to get all their requirements, most of the individual firms may have to rest contented with a small share of the scarce resources. Generally such firms cannot make a proper use of their resources and this means waste of material. The chief cause for this type of situation in an industry is the lack of planning and control in the distribution of various factors among the various firms in an industry. The only solution to this problem is rationalisation which ensures a joint and planned utilisation of the available resources.
2. **Idle Plant Capacity** : Economic activity consists of periods of prosperity and periods of depression. During the periods of prosperity firms increase their productive capacity in order to meet the increased demand. But when depression sets in, there will be a fall in demand and the firms have to reduce their production in view of the reduced demand. This means firms have to keep part of their installed capacity idle. Keeping part of the installed capacity idle, results in high cost of production because of unproductive costs such as depreciation, interest on the capital invested in the idle plant capacity, overhead expenses, etc. Therefore, there is need for scrapping the idle plant capacity and this can be done only through a joint action on the part of all the firms in an industry. One of the important measures of rationalisation is the scrapping of idle plant capacity. In fact, the scrapping of idle plant capacity is essential for the speedy restoration of prosperity.
3. **Unnecessary Varieties** : The general belief is that in a large firm the cost of production per unit is less. But according to Professor Florance, it is the output of an article on a large scale that takes for efficiency and not necessarily the large size of the firm. A firm may be of large size, but it may not get any economies, if it manufactures a large number of varieties of articles in which the output of each variety is likely to be small even though the total output of the firm may be large. This raises not only the cost of production but also the cost of distribution. Manufacturing firm has to spend more on advertising and packing and similarly dealers have to incur more on overhead and selling expenses. Hence, if the firms want to reduce the cost of production and distribution they have to cut down the number of varieties to the minimum. But the tendency of the firms is to keep on changing designs and shapes of their products in order to meet the behaviour of the consumers who get tired of old things and want at a fast rate new things with new designs. This tendency on the part of the firms for increasing the varieties leading to high cost of production and distribution can be

stopped and standardisation of products or removal of redundant varieties can be achieved only if a common authority functions for the whole industry.

4. **Obsolete Machinery** : Production with worn out and obsolete machinery is uneconomical, because it involves higher cost of repair and maintenance, higher operating expenses, greater strain on the worker and lower productivity per unit per worker. Efficiency can be increased only when steps are taken to modernise the plant and replace worn out machinery by up-to-date modern machinery. Automatic machinery taking the place of antiquated, hand-operated machinery surely leads towards rationalisation.

Q.12. What are the major principles of rationalism?

Ans. Principles of Rationalism

Following are the main principles of rationalism :

1. Social and Human Principles

Rationalisation is known as both the process of mechanic and art. According to C.S. Myers, rationalisation demands the consideration of business not in its own purely selfish, technical and commercial aspects but also in its wider economic social and generally human aspects, without all these aspects it will be pseudo rationalisation of business affairs. Following are the aspects rationalisation covers under the principle of social and human :

- (i) **National Interest** : It is true that Germany undertook a rationalisation plan to help the country's economy recover its strength. As a result, rationalisation benefits a nation by guaranteeing effective and correct resource use, maintaining economic stability, ensuring industrial progress, and increasing national prosperity. Protecting, maintaining, and promoting the environment has become a crucial component of rationalisation in modern times.
- (ii) **Social Welfare** : The social welfare plan is also an important component of rationalisation. Rationalisation guarantees the delivery of higher quality products at lower prices with a wide range of options in order to enhance living standard of the society.
- (iii) **Industrial Relations** : It is important for rationalisation to build good industrial relationship as it enables the optimal uses of manpower. Industrial relations and manpower planning are concerned with labour recruitment, sufficient training, improved pay schemes, motivation and incentives, acknowledgement of efficient workers, promotion systems, and raising worker morale, among other things. The rationalisation programme also covers providing appropriate job security, improved working conditions, and measures for labour welfare.

2. Organisational Principle

Organisational re-structuring and re-vamping within an industry is also the main focus of rationalisation. It eliminates the waste that arises from competition among enterprises. Following are the principles lead to organisational changes within an industry :

- (i) **Industrial Combination** : The combination tool is adopted under rationalisation in order to make the industry vibrant and effective. Industrial combination helps in gaining the benefits of large-scale production and distribution by employing the

integration of various small non-performing units with the large and effective business units. It also ensures the optimum use of manpower and resources at plants.

- (ii) **Matching of Supply and Demand** : Rationalisation adjusts the overall production to overall demand thus regulates the market behaviour. This may help in production as per the average demand. In general, the enterprises within an industry come into a common agreement in order to exercise the control over the production.
- (iii) **Control over the Entrance of New Units** : This principle aims at putting restrictions on the entrance of new enterprises in order to adjust the average production as per average demand. This is also affected by statutory measures.
- (iv) **Nationalisation** : When ownership of private industry is taken over by government then it is called as nationalisation. This is done in order to make more effective and productive industry. The nationalisation will be considered under the principle of rationalisation only if it is based on economic reality not on political reality.

3. Financial Principle

The rationalisation movement becomes successful with proper financial management. Financial rationalisation helps in improving the other areas such as technology and organisation. Thus, it includes :

- (i) **Financial Planning** : Financial planning aims to ensure the rise of adequate amount of funds with minimum cost and also ensure the effective use of these funds within the industry. Both the danger of over and under capitalisation can be avoided with the help of effective planning.
- (ii) **Capital Structure** : As per Gerstenberg, capital structure means securities and their proportionate amount that makes capitalisation. The capital structure of an enterprise, as well as an industry, should be built on fundamental principles of safety and economics in order to achieve successful rationalisation. Hence for optimum capital structure an appropriate ratio has to be decided between two or more types of securities. Therefore, for optimum capital structure an appropriate ratio has to be decided between two or more types of securities.
- (iii) **Financial Control** : Rationalisation seeks to proper financial control in order to use the available funds effectively. This can be done with the help of financial audit, budgetary control, management accounting, and cost accounting.

4. Technological Principles

The objective of technological principle of rationalisation is to maximise the technological efficiency of industry, Therefore, the industrial engineering is the basis of technological principle of rationalisation. The various principles related to the technological aspect of rationalisation are as follows :

- (i) **Specialisation** : The principle of specialisation put emphasis on optimum division resources, manpower, allotment of products, and market segmentation within the industry in order to reduce the production cost and optimum use of industry resources.
- (ii) **Mechanisation** : The aim of this principle is to incorporate more machines in place of workers in order to reduce the labour cost.

- (iii) **Intensification** : This principle emphasises on optimal use of all the resources range from raw materials to machines to labours.
- (iv) **Standardisation** : Principle of standardisation is related to the varieties of the products. The aim is to reduce the wastage of manpower and resources and to reduce the production cost.
- (v) **Simplification** : The standardisation in any specialisation results in the principle of simplification. This principle aims at removing all production related complexities and maximise production and lower production cost.
- (vi) **Modernisation** : The principle of modernisation aims at removal or replacement of old technologies with the new ones in order to optimise the production.
- (vii) **Scientific Management** : This principle, also known as fictionalisation, aims at using scientific methods in order to optimum use of man, money and material to optimise the production.
- (viii) **Industrial Research** : This principle aims at identifying the most economical process of production.
- (ix) **Automation** : Principle of automation is basic principle of rationalisation and is more improved form of mechanisation. Automation builds proper and effective coordination among methods of production management, material management and organisation structure.



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MODEL PAPER

Business Organisation

B.Com.-I (SEM-I)

[M.M. : 75

Note : Attempt all the sections as per instructions.

Section-A : Very Short Answer Type Questions

Instruction : Attempt all **FIVE** questions. Each question carries **3 Marks**. Very Short Answer is required, not exceeding 75 words.

1. What are the types of economic activities?
2. What is meant by capitalism?
3. What do you mean by promotion of a new business?
4. What do you know about 'Theory of maximum profit location'?
5. What is circular combination?

Section-B : Short Answer Type Questions

Instruction : Attempt all **TWO** questions out of the following 3 questions. Each question carries **7.5 Marks**. Short Answer is required not exceeding 200 words.

6. Discuss about the criticism of profit maximisation as a goal of business.
Or Differentiate between modern business and traditional business.
7. Explain the concept of promotion of a new business.
Or Do you agree that one man's control is the best way to run a business? Explain.
8. What is meant by plant location? Explain the need for enterprise location.
Or Differentiate between horizontal and vertical combination.

Section-C : Long Answer Type Questions

Instruction : Attempt all **THREE** questions out of the following 5 questions. Each question carries **15 Marks**. Answer is required in detail, between 500-800 words.

9. Differentiate between traditional and modern concept of business.
Or What are the various characteristics of Business? Explain in detail.
10. Explain the various significances of business.
Or Discuss about commerce as a type of a business activity.
11. What are the major qualities required for a successful businessman?
Or Explain the major factors which influence the choice of suitable form of organisation.
12. Elaborate the various needs for selection of location.
Or Differentiate among mass production, job production and batch production.
13. Elaborate the various causes of business combination.
Or What are the major principles of rationalism?

□