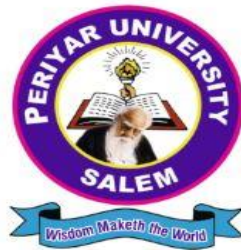


PERIYAR UNIVERSITY

**(NAAC 'A++' Grade with CGPA 3.61 (Cycle - 3)
State University - NIRF Rank 59 - NIRF Innovation Band of 11-50)
SALEM - 636 011**

CENTRE FOR DISTANCE AND ONLINE EDUCATION (CDOE)

BACHELOR OF COMMERCE SEMESTER - I



**SEC1-Non Major Elective-
BUSINESS ORGANIZATION
(Candidates admitted from 2024 onwards)**

PERIYAR UNIVERSITY

CENTRE FOR DISTANCE AND ONLINE EDUCATION (CDOE)

B.COM 2024 admission onwards

SEC1-Non Major Elective-

BUSINESS ORGANIZATION

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SEC1–Non Major Elective-BUSINESS ORGANIZATION

Subject Code	L	T	P	S	Credits	Inst. Hours	Marks		
							CIA	External	Total
	1				1	2	25	75	100
Learning Objectives									
LO1	Understand business, profession, organization, social responsibilities, and business Ethics.								
LO2	Explore business forms, distinguish public and private sectors.								
LO3	Comprehend industry location factors, analyze large-scale operation advantages.								
LO4	Familiarize with stock exchanges, understand business combinations.								
LO5	Understand trade associations and chambers of commerce in India.								
Unit	Contents							Page No	
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Course Outcomes									
CO1	Differentiate business types, evaluate business organization's importance, analyze Ethical considerations in business.								
CO2	Compare forms of business organizations, assess public and private sector advantages And disadvantages								
CO3	Analyze industry location factors, evaluate advantages of large-scale operations, assess industrial estates and district industries centers.								
CO4	Explain stock exchange functions and regulation, analyze business combinations' causes, types, and effects								
CO5	Discuss trade associations and chambers of commerce functions and objectives, Evaluate their significance in promoting trade and commerce in India								

Textbooks	
	Business organization and management , Publisher : P.Allan (January1,1978)
Reference Books	
1	Y.K.Bhushan, Business organization, Sultan Chand, New Delhi.
2	Prakash & Jagedesh, Business organization & Management.
3	Reddy&Gulshar, Principles of Business Organization & Management
4.	Vasudevan & Radhasivam, Business Organization.
NOTE: Latest Edition of Text books May be Used	
Web Resources	
1	https://www.vedantu.com/commerce/forms-of-business-organizations
2	https://ncert.nic.in/textbook/pdf/kebs102.pdf
3	https://www.teachmint.com/tfile/studymaterial/b-com/BusinessOrganization/Chapter1/46db05e8-ee83-497e-aa56-573a1388f80e

BUSINESS ORGANIZATION

UNIT OBJECTIVES

In this unit, learners will have a comprehensive understanding business, profession, organization, social responsibilities and business ethics.

SECTION 1: BUSINESS ORGANIZATION - AN INTRODUCTION



Business organization, an entity formed for the purpose of carrying on commercial enterprise. Such an organization is predicated on systems of law governing contract and exchange, property rights, and incorporation. A business association is a legitimate body established to carry on a business adventure that determines how firms are organized, how labour and products are delivered, and how shopper requests are met. The objective of a business association is to either create benefit (for profit) or further develop society (not for profit association).

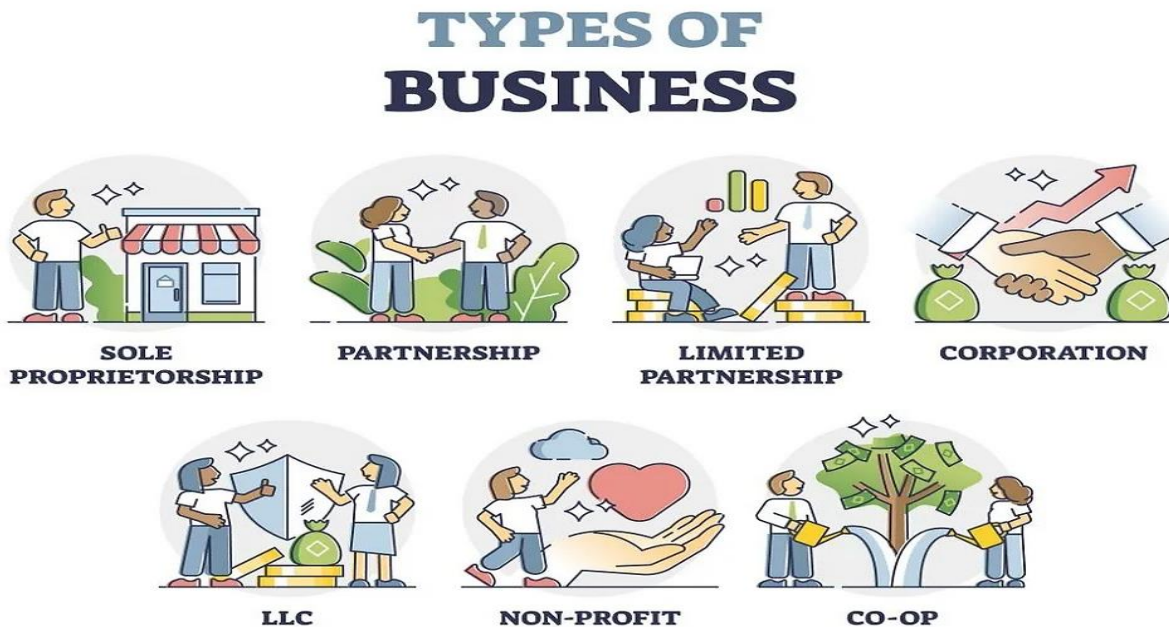
1.1– Meaning and Definition of Business Organization

Business organization is defined as an entity which is structured for the purpose of carrying on the commercial system of enterprise. The organization is governed under principles and laws governing contract and exchange of goods and services.

A business organization is an establishment intended to carry commercial business by producing goods or services and meet the customers' needs. Most of the organizations have a standard such as social structure, purpose goals, utilisation of resources, rules and regulations, etc.

1.2– TYPES OF BUSINESS

Various businesses are organized per some type of hierarchy or bureaucracy. In these businesses, the positions have a customary role and responsibility. As per business definition, we see that different types of businesses are:



1.2.1 Sole Proprietorship: In this kind of business, a single person owns and operates the business. There isn't any kind of legal separation between the owner and business. Thus, the onus of legal plus tax liability is on the owner.

1.2.2 Partnership: As the name suggests, it is a business where two or more people run it together. The partners bring in resources and money, and then the shares in the profit or loss are divided amongst them.

1.2.3 Corporation: In this business, a group of individuals act together as a single entity. The owners in this business are called shareholders. They discuss their views on the common stock of the corporation. There are unfavorable taxation rules in a corporation for the business owners.

1.2.4 Limited Liability Company (LLC): It is not as old as the other business structures. It merges a partnership's pass-through taxation benefits and a corporation's limited liability benefits.

1.3 Different Sizes of Business

1.3.1 Small Business:

There are different sizes of business. Small businesses are companies where small owners (an individual or a small group) operate. For instance, family restaurants, clothing companies, home-based companies, and publishing companies. In this type of business, the profits are not that high but just enough to continue the business operations.

1.3.2 Mid-sized Business: These businesses rake in millions of dollars in revenue. Usually, it ranges from \$50 million to \$1 billion. They are established better than a small business. The employee base of these businesses ranges from 100 to 999 people.

1.3.3 Large Business: This kind of business usually operates as a corporation. It has an employee base of 1000+ people, and its revenue production is more than \$1 billion. Usually, these businesses issue corporate stock to finance their operations. Thus, it is publicly traded. As a result, it must report on certain things and operate restrictions. This is the opposite of a small business, where operations are independent of regulators. Example: Walmart and Amazon is a large business.

1.4 PROFESSION MEANING

A Profession is a disciplined group of individuals who adhere to ethical standards and who hold themselves out as, and are accepted by the public as possessing special knowledge and skills in a widely recognized body of learning derived from research, education and training at a high level, and who are prepared to apply this knowledge and exercise these skills in the interest of others.

A profession is an occupation that includes years of training and higher formal qualification. The purpose of any individual is to pursue a career that gives definite compensation. In simple words, the profession is figured after specialized educational training to create a career path ahead. Any job demands a high standard of professional behavior and respect for services offered to the public and professional colleagues. An individual of a specific profession is accepted by the public for the exclusive services they offer, the skills they have acquired from years of learning, researching, and training.

1.5 Business

A business can be described as an organization or enterprising entity that engages in professional, commercial or industrial activities. There can be different types of businesses depending on various factors. Some are for-profit, while some are non-profit. Similarly, their ownership also makes them different from each other. For instance, there are sole proprietorships, partnerships, corporations, and more. Business is also the efforts and activities of a person who is producing goods or offering services with the intent to sell them for profit.

1.5.1 BUSINESS DEFINITION:

Business refers to an enterprising entity or organization that carries out professional activities. They can be commercial, industrial, or others. For-profit business entities do business to earn a profit, while non-profit ones do it for a charitable mission. Business ownership includes partnerships, sole proprietorships, corporations, etc. Businesses can be small-scale or large-scale. Some of the biggest businesses in the world are Amazon and Walmart.

Business organization is defined as an entity which is structured for the purpose of carrying on the commercial system of enterprise. The organization is governed under principles and laws governing contract and exchange of goods and services.

A business organization is an establishment intended to carry commercial business by producing goods or services and meet the customers' needs. Most of the organizations have a standard such as social structure, purpose goals, utilisation of resources, rules and regulations, etc.

1.5.2 Importance of Business Organization

1. Products Growth.

All business activities directed towards the production of goods and services in the betterment of the business organizations.

2. Efficient Use of Resources.

Organizations play a vital role in the efficient use of factors of production and other resources and thus reduced the cost of production of goods.

3. Technological Improvements.

A good organization provides for the optimum use of technological improvements.

4. Creative thinking.

It stimulates independent creative thinking in various departments of production.

5. Use of skilled salesman. Another importance of business organization is that it is very useful in providing skilled salesmanship for satisfying the various needs of the customers.

6. Quick decisions.

The business organization makes it easy to take quick decisions.

7. Recognition of the problem

The recognition of the problem, selection of the solution, issuing of the necessary orders can be taken at the right time.

8. Fixing of responsibility

One of the most important things of business organization is that fixing of responsibility can easily be pinpointed.

9. Feedback

An organization makes it possible to take decisions at the right time about production and thus may take feedback. Before making any decision organizations always research the market and combine the facts.

10. Minimum cost

The organizations always try to attain the goals and objectives of the business at the minimum cost.

CORPORATE SOCIAL RESPONSIBILITY

1.6 MEANING

Corporate social responsibility (CSR) means that businesses should operate in ways that benefit society in addition to maximizing shareholder value. Socially responsible companies adopt policies that promote the well-being of society and the environment while lessening the negative impacts on them. Companies can act responsibly in many ways such as by promoting volunteering, making changes that benefit the environment, engaging in ethical labor practices, and engaging in charitable giving. Consumers are more actively looking to buy goods and services from socially responsible companies and this impacts their profitability. Critics assert that practicing and endorsing CSR standards contradicts the purpose of a business which is to make money.

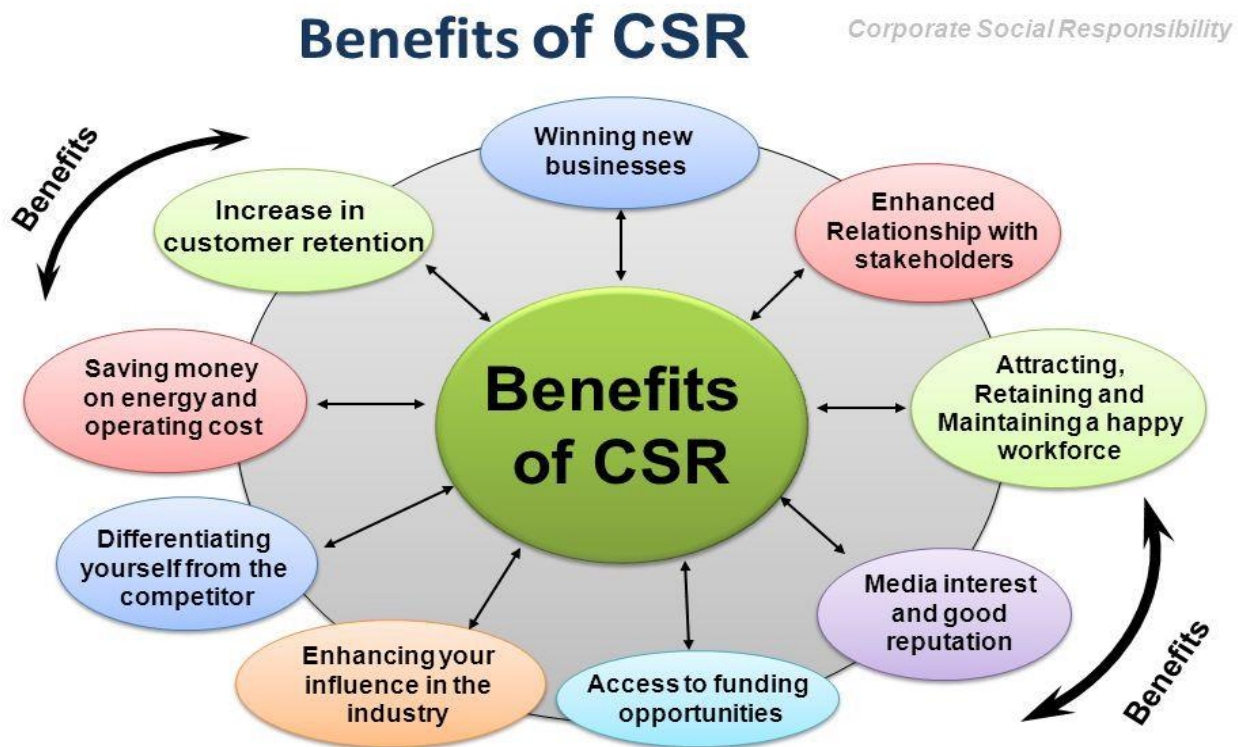


1.6. DEFINITION

According to European Union commission, “CSR is a concept whereby companies integrate social and environment concerns in their business operations and in their interaction with their stakeholder on a voluntary basis.”

According to Forbes (2010), corporate social responsibility works in two ways. The company gives back to the society, in turn, people get to know about the company who helped them most and cater to their products and services.

According to Infosys founder, Narayan Murthy, “Social responsibility is to create maximum shareholders value, working under the circumstances, where it is fair to all its stakeholders, workers, consumers, the community, government and the environment.”



1.6.1 Benefits by companies to society:

1. Supply goods and service which customer can't or do not want to produce them.
2. Creating jobs for suppliers, co-workers, customer and distributor. This people make money to support themselves as well as their families, use their wages to purchase goods and service and pay taxes.
3. Continually developing new process. 4. Investment in new technologies as well as in the skills of employees.
4. Building up as well as spreading international standards, for example environmental practice.
5. Developing good practice in different areas such as environment and workplace safety.

The role of business in societal development can be measure in many ways. If company wants to progress and develop, it must nurture relation with its stakeholder, of

which there may be plenty. Some have a strong influence and are of fundamental importance for the survival of the business; this includes customer, suppliers and employees. The authorities, media, local resident and trade union are others stakeholders with a vital influence. The role of business in society as well as accompanying responsibility that transpire from that role is highly contentious and debated topic.

BUSINESS ETHICS

1.7 Concept of Business Ethics



The word 'ethics' has its origin in the Greek word 'ethics' meaning character; norms, ideals or morals prevailing in a group or society. Ethics is concerned with what is right and what is wrong in human behaviour judged on the basis of a standard form of conduct/ Behaviour of individuals, as approved by society in a particular field of activity. Ethics may be viewed as the entire body of moral values that society attaches to the actions of human beings. Ethics can also refer to codes or other system for controlling means so that they serve human ends.

Ethical standards are often enacted into laws. But ethical behaviour is just and fair conduct which goes beyond observing laws and government regulations. It means adhering to moral principles, being guided by particular values, and behaving in a way people ought to act. The set of principles called ethics may be written or unwritten codes or principles governing a professional or human activity.

Business ethics concerns itself with the relationship between business objectives, practices, and techniques and the good of society. Business ethics refer to the socially determined moral principles which should govern business activities. A few examples of business ethics are: charging fair prices from customers, using fair weights for measurement of commodities, giving fair treatment to workers and earning reasonable profits.

1.7.1 Elements of Business Ethics

Since ethical business behaviour is good for both the business enterprise and society, it makes sense to discuss how the enterprises can foster ethics in their day-to-day working. Some of the basic elements of business ethics while running a business enterprise are as follows:

- (i) **Top management commitment:** Top management has a crucial role in guiding the entire organization towards ethically upright behaviour. To achieve results, the Chief Executive Officer (CEO) and other higher level managers need to be openly and strongly committed to ethical conduct. They must give continuous leadership for developing and upholding the values of the organization.
- (ii) **Publication of a 'Code':** Enterprises with effective ethics programmes do define the principles of conduct for the whole organization in the form of written documents which is referred to as the "code". This generally covers areas such as fundamental honesty and adherence to laws; product safety and quality; health and safety in the workplace; conflicts of interest; employment practices; fairness in selling/marketing practices; and financial reporting.
- (iii) **Establishment of compliance mechanisms:** In order to ensure that actual decisions and actions comply with the firm's ethical standards, suitable mechanisms should be established. Some examples of such mechanisms

are: paying attention to values and ethics in recruiting and hiring; emphasizing corporate ethics in training; auditing performance regularly to analyze the degree of compliance; and instituting communication systems to help employees report incidents of unethical behaviour.

- (iv) Involving employees at all levels:** It is the employees at different levels who implement ethics policies to make ethical business a reality. Therefore, their involvement in ethics programmes becomes a must. For example, small groups of employees can be formed to discuss the important ethics policies of firms and examine attitudes of employees towards these policies.
- (v) Measuring results:** Although it is difficult to accurately measure the end results of ethics programmes, the firms can certainly audit to monitor compliance with ethical standards. The top management team and other employees should then discuss the results for further course of action.

1.7.2 Ground Rules of Ethics

The following are some of the universal virtues which every human being should imbibe, develop and practise to be ethical in life:

- (a) Be trustworthy
- (b) Have respect for others
- (c) Own responsibility
- (d) Be fair in dealings
- (e) Be caring towards the well-being of others
- (f) Prove to be a good citizen—through civil virtues and duties

1.8 LET'S SUM UP

A business organization is an establishment intended to carry commercial business by producing goods or services and meet the customers' needs. Most of the organizations have a standard such as social structure, purpose goals, utilization of resources, rules and regulations, etc. Various businesses are organized per some type of hierarchy or bureaucracy. In these businesses, the positions have a customary role and responsibility. Social responsibility is to create maximum shareholders value,

working under the circumstances, where it is fair to all its stakeholders, workers, consumers, the community, government and the environment. . Ethics is concerned with what is right and what is wrong in human behavior judged on the basis of a standard form of conduct/ Behavior of individuals, as approved by society in a particular field of activity.

1.9 Self- Assessment Questions

Check Your Progress

Multiple Choice Questions (MCQs):

1. Which of the following is not an economic activity?

- A. Production
- B. Social service
- C. Professional
- D. Trading in goods

Answer: B

2. Which option is not a business activity?

- A. Production of goods
- B. Transportation
- C. Exchange of goods
- D. Work in a factory for wages

Answer: D

3. Which of the following is the characteristic of a business?

- A. Production
- B. Exchange or sale
- C. Risk element
- D. All the above

Answer: D

4. Oil refinery and sugar mill are classified under which industries?

- A. Primary
- B. Secondary
- C. Tertiary
- D. None of the above

Answer: B

5. Identify the activity which does not support trade.

- A. Banking
- B. Warehousing
- C. Insurance
- D. Mining

Answer: D

6. In which occupation do people get salary or wages in return for their work?

- A. Employment
- B. Business
- C. Profession
- D. None of the above

Answer: A

7. Which item does not cause any business risk?

- A. Breakdown of machinery
- B. Efficient management
- C. Riot
- D. Changing government policy

Answer: B

8. In which business, the support service activities are categorized?

- A. Commercial industries
- B. Primary industries
- C. Secondary industries
- D. Tertiary industries

Answer: D

9. In business, why is it essential to make a profit?

- A. It provides a return to investors.
- B. It provides funds for future extension
- C. It increases the reputation of a company
- D. All the above

Answer: D

10. Which of the following is a false statement?

- A. The scope of commerce is narrower than business.
- B. Commerce includes trade and auxiliaries to trade.
- C. Foreign trade is purchase and sale by the traders of the same country.
- D. Traders serve as a link between producers and consumers.

Answer: C

11. Which of the following is not a management function?

- A. Planning
- B. Staffing
- C. Cooperating
- D. Controlling

Answer: C

12. The possibilities of inadequate profits or even losses due to uncertainties are known as _____.

- (a) Business contingencies
- (b) Business risks
- (c) Business ventures
- (d) None of these

Answer: (b) Business risks

13. Business risk is not likely to arise due to _____.

- (a) Changes in government policy

- (b) Good management
- (c) Employee dishonesty
- (d) Power failure

Answer: (b) Good management

14. Name the two broad categories of business activities.

- (a) Trade and Commerce
- (b) Trade and Industry
- (c) Industry and Commerce
- (d) None of these

Answer: (c) Industry and Commerce

15. The industries which provide support services to other industries are known as _____.

- (a) Primary industries
- (b) Secondary industries
- (c) Commercial industries
- (d) Tertiary industries

Answer: (d) Tertiary industries

16. 'Earning of profit is considered to be the subsidiary objective of the business.' The given statement is _____.

- (a) True
- (b) False
- (c) Cannot say
- (d) None

Answer: (b) False

17. The occupation in which people work for others and get remunerated in return is known as _____.

- (a) Business
- (b) Profession
- (c) Employment
- (d) None of these

Answer: (c) Employment

18. Transfer of interest exists in the case of _____.

- (a) Profession
- (b) Employment
- (c) Business
- (d) None of these

Answer: (c) Business

19. Which of the following does not characterize business activity?

- (a) Production of goods and services
- (b) Presence of risk
- (c) Sale or exchange of goods and services
- (d) Salary and wages

Answer: (d) Salary and wages

20. Which of the following is an example of socially undesirable practices?

- a) Sale of adulterated goods
- b) Making deceptive advertisements
- c) Exploiting workers
- d) All of these

Answer: D) All of these

Short Questions

1. What are the characteristics of business?
2. Discuss the scope of business organization.
3. Explain the various types of social responsibility.
4. State the importance of business ethics.
5. Mention the advantages and disadvantages of social responsibility.

Long Questions

1. Explain the classification of Business activity in detail.
2. Distinguish between Business and Profession.
3. Give a brief note on importance of Business Organization.
4. Briefly discuss the need of Social responsibility.
5. Explain the types of Business Ethics.
6. Discuss the principles of Business Ethics in detail.

CHAPTER 2 - FORMS OF BUSINESS ORGANISATION

UNIT OBJECTIVES

In this unit the learner will explore the forms of business organization, and different types of companies.

SECTION 2.1: AN INTRODUCTION

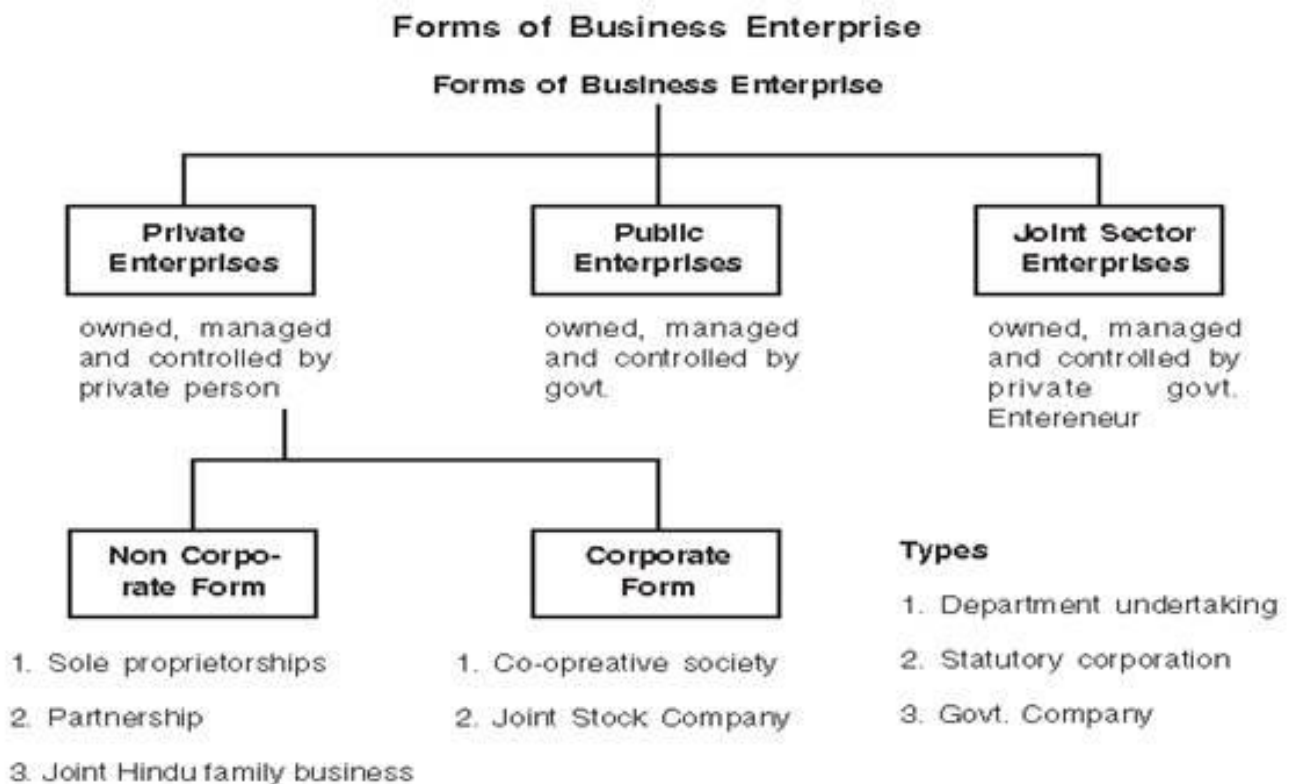
A business organization is an entity that was formed to carry out activities to achieve vision and missions. This form of business is governed by legal systems such as the Property Act, Contract Act, Incorporation Rules, and National Insurance Act, among others. A business enterprise is an institutional arrangement to form any business activity. The three most prevalent types of business enterprises are sole partnerships, proprietorships, and limited liability companies (or corporations).

In the first type, a single person owns and supervises the entire operation on a day-to-day basis. The great majority of businesses are in this situation. In the case of an LLP, which includes huge legal or accounting companies, advertising agencies, and brokerage houses, the partnership can include 2 – 20 or more members. This sort of business is owned by the partners, and they may earn different portions of the profits depending on their investment or participation. The firm must be reconstructed as a new partnership when a partner leaves or a new partner enters.

The limited-liability corporation, or company, is the third category, and it refers to incorporated groupings of people—that is, a group of individuals treated as a legal entity with powers, property, and obligations separate from those of its members. This type of business is also legally distinct from its employees, whether they are employees, shareholders, or both; it can form legal relationships with them, execute contracts with them, and sue and be sued by them.

2.1. Classification

On the basis of ownership business enterprises can broadly be classified into the following categories:



In case of CORPORATE FORM of private enterprises the identity of the enterprise is separate from that of the owner and in case of NON CORPORATE FORM, the identity of the enterprise is not different from that of its owners.



2.1.1. Sole Proprietorship

Sole proprietorship means a business owned, financed and controlled by a single person who is recipient of all profit and bearer of all risks. It is SUITABLE IN AREAS OF PERSONALISED SERVICE like beauty parlour, hair cutting saloons & small scale activities like retail shops.

2.1.1.1 Features

1. **Single ownership:** It is wholly owned by one individual.
2. **Control:** Sole proprietor has full power of decision making.
3. **No separate legal entity:** Legally there is no difference between the business and businessmen.
4. **Unlimited liability:** The liability of owner is unlimited. In case the assets of business are not sufficient to meet its debts, the personal property of owner can be used for paying debts.
5. **No legal formalities:** Not required to start, manage and dissolve such

business organization.

6. Sole risk bearer and profit recipient: He bears the complete risk and there is no body to share profit/loss with him.

2.1.1.2. Advantages

1. Easy to start and close: It can be easily started and closed without any legal formalities.

2. Quick decision making: As sole trader is not required to consult or inform anybody about his decisions.

3. Sense of accomplishment: There is a sense of personal satisfaction.

4. Unlimited liability: The liability of owner is unlimited. In case the assets of business are not sufficient to meet its debts, the personal property of owner can be used for paying debts

5. No legal formalities: are required to start, manage and dissolve such business organization.

6. Sole risk bearer and profit recipient: He bears the complete risk and there is no body to share profit/loss with him.

2.1.1.3. Disadvantages

1. Limited financial resources: Funds are limited to the owner's personal savings and his borrowing capacity.

2. Limited Managerial ability: Sole trader can't be good in all aspects of business and he can't afford to employ experts also.

3. Unlimited liability: Of course, sole trader compels him to avoid risky and bold business decisions.

4. Uncertain life: Death, insolvency, lunacy or illness of a proprietor affects the business and can lead to its closure.

5. Limited scope for expansion:- Due to limited capital and managerial skills, it cannot expand to a large scale.

2.1.1.4 SUITABILITY

Sole trader ship is suitable-

- Where the personal attention to customer is required as in tailoring, beauty parlour.

- Where goods are unstandardized like artistic jewellery.
- Where modest capital and limited managerial skills are required as in case of retail store.
- Business where risk is not extensive i.e. lesser fluctuation in price and demand i.e. stationery shop.

2.1.2. JOINT HINDU FAMILY BUSINESS

It is owned by the members of undivided joint Hindu family and managed by the eldest member of the family known as KARTA. It is governed by the provisions of Hindu law. The basis of membership is birth in a particular family.

2.1.2.1 FEATURES

1. Formation – For a joint Hindu family business there should be at least two members in the family and some ancestral property to be inherited by them.

2. Membership by birth – There are two systems which govern membership
Dayabhaga System- It prevails in west Bengal and allows both male and female member to co-parceners.

Mitakshara System- It prevails all over India except West Bengal and allows only male members to be coparceners.

3. Liability – Liability of Karta is unlimited but of all other members is limited to the extent of their share in property

4. Continuity – The business is not affected by death or incapacity of Karta in such cases the next senior male member becomes the Karta.

5. Minor members – A minor can also become full-fledged member of Family business.

2.1.2.2 Characteristics of Joint Hindu Family Business:

Formation

- There should be at least two male members in the family to form a HUF.
- Ancestral (a person who was in someone's family in past times) property should have been inherited by members of HUF.
- All of the members enjoy this property and have an equal share in that property.

- Thus, any child taking birth in that family becomes a member of the HUF.
- There is no requirement for an agreement to become a member.

Liability

- There is limited liability of all the members or co-parceners in the Hindu Undivided Family business.
- All the co-parceners have equal rights and shares in the property of Hindu Undivided Family business
- The Karta has unlimited liability.

Control

- Karta is the person who has full control over the Hindu Undivided Family business.
- Karta can take advice from all the members but he is not bound to accept their decisions.

Continuity

- After the “Karta” is deceased, the very next eldest member takes up the position of Karta in Hindu Undivided Family business.
- The business can be divided and ended up by the mutual consent of the members.

Minor Members

- The person who has taken birth in Hindu Undivided Family can be a member of the family business.
- Therefore, a minor can also be a member of the family.

2.1.2.3 MERITS

1. **Effective control-** The Karta can promptly take decisions as he has the absolute decision making power.
2. **Continued business existence-** The death, Lunacy of Karta will not affect the business as next eldest member will then take up the position.

3. **Limited liability** – The liability of all members except Karta is limited. It gives them a relief.
4. **Secrecy** – Complete secrecy regarding business decisions can be maintained by Karta.
5. **Loyalty and Co-operation:** It helps in securing better co-operation and greater loyalty from all the members who run the business.

2.1.2.4 LIMITATION

1. **Limited capital:** There is shortage of capital as it is limited to the ancestral property.
2. **Unlimited liability of karta** – It makes him less enterprising.
3. **Dominance of karta** – Karta manages the business and sometimes he ignores the valuable advice of other members. This may cause conflict among the members and may lead to break down of the family limit.
4. **Hasty decisions:** As karta is overburdened with work, he may take hasty and unbalanced decisions.
5. **Limited managerial skills of karta** also pose a serious problem. The Joint Hindu family business is on decline because of the diminishing no. of joint Hindu families in the country.

2.1.3. PARTNERSHIP

2.1.3.1 Meaning

Partnership is a voluntary association of two or more persons who agree to carry on some business jointly and share its profits and losses.

2.1.3.2 FEATURES

1. **Two or more persons:** There must be at least two persons to form a partnership. The maximum no. of persons is 10 in banking business and 20 in non-banking business.
2. **Agreement:** It is an outcome of an agreement among partners which may be oral or in writing.

3. **Lawful business-** It can be formed only for the purpose of carrying on some lawful business.
4. **Decision making & control** – Every partner has a right to participate in management & decision making of the organizations’.
5. **Unlimited liability** – Partners have unlimited liability.
6. **Mutual Agency** – Every partner is an implied agent of the other partners and of the firm. Every partner is liable for acts performed by other partners on behalf of the firm.
7. **Lack of continuity** – Firms existence is affected by the death, Lunacy and insolvency of any of its partner. It suffers from lack of continuity.

2.1.3.3 MERITS

1. **Ease of formation & closure** – It can be easily formed. Only an agreement among the partners is required.
2. **Larger financial resources** – There are more funds as capital is contributed by no. of partners.
3. **Balanced Decisions** – As decisions are taken jointly by partners after consulting each other.
4. **Sharing of Risks** – In it, risk get distributed among partners which reduces anxiety, burden and stress on individual partner.
5. **Secrecy** – Secrecy can be easily maintained about business affairs as they are not required to publish their accounts or to file any report to the govt.

2.1.3.4 LIMITATIONS

1. **Limited resources** – There is a restriction on the number of partners and hence capital contributed by them is also limited.
2. **Unlimited liability-** The liability of partners is unlimited and they are liable individually as well as jointly. It may prove to be a big drawback for those partners who have greater personal wealth. They will have to repay the entire debt in case the other partners are unable to do so.
3. **Lack of continuity** – Partnership comes to an end with the death, retirement, insolvency or lunacy of any of its partner.

4. Lack of public confidence – Partnership firms is not required to publish their reports and accounts. Thus they lack public confidence.

2.1.3.5 TYPES OF PARTNERS

- 1. General / Active Partner** – Such a partner takes active part in the management of the firm.
- 2. Sleeping or Dormant Partner** – He does not take active part in the management of the firm. Though he invested in money, shares profit & Loss and unlimited liability.
- 3. Secret Partner** – He participates in business secretly without disclosing his association with the firm to general public. His liability is also unlimited.
- 4. Nominal Partner** – Such a partner only gives his name and goodwill to the firm. He neither invests money nor takes profit. But his liability is unlimited.
- 5. Partner by Estoppels** – He is the one who by his words or conduct gives impression to the outside world that he is a partners of the firm whereas actually he is not. His liability is unlimited towards the third party who has entered into dealing with firm on the basis of his pretensions.

- 6. Partner by holding out** – He is the one who is falsely declared partner of the firm whereas actually he is not. And even after becoming aware of it, he-does not deny it. His liability is unlimited towards the party who has deal with firm on the basis of this declaration.

2.1.3.6 Minor as a Partner

A minor is a person who has not attained the age of 18 years. Since a minor is not capable of enlarging into a valid agreement. He cannot become partner of firm. However, a minor can be admitted to the benefits of an existing partnership firm with the mutual consent of all other partners. He cannot be asked to bear the losses. His liability will be limited to the exilent of the capital contributed by him. He will not be eligible to take an active part in the management of the firm.

2.1.3.7 Types of Partnership

A. Classification on the Basics of Duration

Partnership at will- This type of partnership exists at the will of partners.

Particular Partnership- This type of partnership is formed for a specified June period to accomplish a particular project (consolation of building)

B. Classification on the basis of Liability

General partnership- This liability of partners is limited and joint. Registration of firm is optional.

Limited Partnership- The liability of at least one partner is unlimited whereas the other partners may have limited. Registration of firm is compulsory.

2.1.3.8 PARTNERSHIP DEED

The written agreement on a stamped paper which specifies the terms and conditions of partnership are called the partnership deed.

It generally includes the following aspects –

- Name of the firm
- Location / Address of the firm
- Duration of business.
- Investment made by each partner.
- Profit sharing ratio of the partners
- Terms relating to salaries, drawing, interest on capital and interest on drawing of partners.
- Duties & obligations of partners.
- Terms governing admission, retirement & expulsion of a partner, preparation on of accounts & their auditing.
- Method of solving dispute

2.1.3.9 REGISTRATION OF PARTNERSHIP

Registration is not compulsory it is optional. But it is always beneficial to get the firm registered. The consequences of non-registration of a firm are as follows:

- A partner of an unregistered firm cannot file suit against the firm or the partner.
- The firm cannot file a suit against third party.
- The firm cannot file a case against its partner.

2.1.4 Co-operative Society

A co-operative society is a voluntary association of persons of moderate means who unite together to protect & promote their common economic interests.

2.1.4.1 FEATURES

- 1. Voluntary association:** Every one having a common interest is free to join a co-operative society and can also leave the society after giving proper notice.
- 2. Legal status:** Its registration is compulsory and it gives it a separate legal identity.
- 3. Limited liability:** The liability of the member is limited to the extent of their capital contribution in the society.
- 4. Democratic control:** Management & Control lies with the managing committee elected by the members by giving vote. Every member has one vote irrespective of the number of shares held by him.
- 5. Service motive:** The main aim is to serve its members and not to maximize the profit.
- 6. Bound by govt.'s rules:** They have to be tide by the rules and regulations framed by govt. for them.
- 7. Distribution of surplus:** The profit is distributed on the basis of volume of business transacted by a member and not on the basis of capital contribution of members.

2.1.4.2 Characteristics of Cooperative Society

Cooperative societies are defined by the following characteristics.

- 1. Voluntary Association:** The membership of a cooperative society is voluntary in nature, i.e it is as per the choice of people. Any individual can join the cooperative society and can also exit the membership as per his/her desire. The

member needs to serve a notice before deciding to end the association with the society.

2. Open Membership: The membership of a cooperative society is open to all i.e, membership is open to all, irrespective of their caste, creed and religion.

3. Registration: A cooperative society needs to get registered in order to be considered a legal entity. After registration it can enter into contracts and acquire property in its name.

4. Limited liability: The members of a cooperative society will have limited liability. The liability is limited to the amount of capital contributed by the member.

5. Democratic Character: Cooperative society forms a managing committee and elected members have the power to vote and choose among themselves. The managing committee is formed so as to take important decisions regarding the operations of the society.

6. Service Motive: The formation of a cooperative society is for the welfare of the weaker sections of the community. If the cooperative society earns profit it will be shared among the members as dividend.

7. Under state control: In order to safeguard the interests of society members, the cooperative society is under the control and supervision of the state government. The society has to maintain accounts, which will be audited by an independent auditor.

2.1.4.3 MERITS

1. Excise of formation: It can be started with minimum of 10 members. Registration is also easy as it requires very few legal formations.

2. Limited Liability: The liability of members is limited to the extent of their capital contribution.

3. Stable existence: Due to registration it is a separate legal entity and is not affected by the death, luxury or insolvency of any of its member.

4. Economy in operations: Due to elimination of middlemen and voluntary services provided by its members.

5. Government Support: Govt. provides support by giving loans at lower interest rates, subsidies & by charging less tax.

6. Social utility: It promotes personal liberty, social justice and mutual cooperation. They help to prevent concentration of economic power in few hands.

2.1.4.4 LIMITATIONS

1. Shortage of capital – It suffers from shortage of capital as it is usually formed by people with limited means.

2. Inefficient management – Co-operative society is managed by elected members who may not be competent and experienced. Moreover, it can't afford to employ expert and experienced people at high salaries.

3. Lack of motivation – Members is not inclined to put their best efforts as there is no direct link between efforts and reward.

4. Lack of Secrecy – Its affairs are openly discussed in its meeting which makes it difficult to maintain secrecy.

5. Excessive govt. control – it suffers from excessive rules and regulations of the govt. It has to get its accounts audited by the auditor and has to submit a copy of its accounts to registrar.

6. Conflict among members – The members are from different sections of society with different viewpoints. Sometimes when some members become rigid, the result is conflict.

2.1.4.5 TYPES OF CO-OPERATIVE SOCIETIES

1. Consumers co-operative Society – It formed to protect the interest of consumers. It seeks to eliminate middleman by establishing a direct link with the producers. It purchases goods of daily consumption directly from manufacturer or wholesalers and sells them to the members at reasonable prices.

2. Producer's Co-operative Society – The main aim is to help small producers who cannot easily collect various items of production and face some problem in

marketing. These societies purchase raw materials, tools, equipments and other items in large quantity and provide these things to their members at reasonable price.

3. Marketing Co-operative Society – It performs various marketing function such as transportation, warehousing, packing, grading, marketing research etc. for the benefit of its members. The production of different members is pooled together and sold by society at good price.

4. Farmer's Co-operative Society – In such societies, small farmers join together and pools their resources for cultivating their land collectively. Such societies provide better quality seeds, fertilizers, machinery and other modern techniques for use in the cultivation of crops. It provides the opportunity of cultivation on large scale.

5. Credit co-operative Society – Such societies protect the members from exploitation by money lenders. They provide loans to their members at easy terms and reasonably low rate of interest.

6. Co-operative Housing Society – The main aim is to provide houses to people with limited means/income at reasonable price.

2.1.5 JOINT STOCK COMPANY

2.1.5.1 Meaning

Joint Stock Company is a voluntary association of persons for profit, having a capital divided into transferable shares, the ownership of which is the condition of membership.

2.1.5.2 FEATURES

1. Incorporated association – The company must be incorporated or registered under the companies Act 1956. Without registration no company can come into existence.

2. Separate Legal Existence – It is created by law and it is a distinct legal entity independent of its members. It can own property, enter into contracts, can file suits in its own name.

3. Perpetual Existence – Death, insolvency and insanity or change of members as no effect on the life of a company. It can come to an end only through the prescribed legal procedure.

4. Limited Liability – The liability of every member is limited to the nominal value of the shares bought by him or to the amt. guaranteed by him. Transferability of shares – Shares of public Co. are easily transferable. But there are certain restrictions on transfer of share of private Co. Common Seal- It is the official signature of the company and it is affixed on all important documents of company.

5. Separation of ownership and control – Management of company is in the hands of elected representatives of shareholders known individually as director and collectively as board of directors.

2.1.5.3 MERITS

1. Limited Liability – Limited liability of shareholder reduces the degree of risk borne by him.

2. Transfer of Interest – Easy transferability of shares increases the attractiveness of shares for investment.

3. Perpetual Existence – Existence of a company is not affected by the death, insanity, Insolvency of member or change of membership. Company can be liquidated only as per the provisions of companies Act.

4. Scope for expansion – A company can collect huge amount of capital from unlimited no. of members who are ready to invest because of limited liability, easy transferability and chances of high return.

5. Professional management – A company can afford to employ highly qualified experts in different areas of business management.

2.1.5.4 LIMITATIONS

1. **Legal formalities** – The procedure of formation of Co. is very long, time consuming, expensive and requires lot of legal formalities to be fulfilled.
2. **Lack of secrecy** – It is very difficult to maintain secrecy in case of public company, as company is required to publish and file its annual accounts and reports.
3. **Lack of Motivation** – Divorce between ownership and control and absence of a direct link between efforts and reward lead to lack of personal interest and incentive.
4. **Delay in decision making** – Red tapism and bureaucracy do not permit quick decisions and prompt actions. There is little scope for personal initiative.
5. **Oligarchic management** – Co. is said to be democratically managed but actually managed by few people i.e. board of directors. Sometimes they take decisions keeping in mind their personal interests and benefit, ignoring the interests of shareholders and Company.

2.1.5.5 TYPES OF COMPANIES

On the basis of ownership, companies can be divided into two categories – Private Company & Public Company.

2.1.5.6 Difference between Private Company and Public Company.

Private Co.	Public Co.
It has minimum 2 and maximum 50 members.	It has minimum 7 and maximum unlimited.
It cannot invite general public to buy its shares and debentures.	It invites general public to buy its shares and debentures.
There are certain restrictions on transfer of its shares.	Its shares are freely transferable.
It can commence business after incorporation.	It can commence business after obtaining

	certificate of commencement of business.
It has to write Private Ltd. After its name Ex- Tata Sons, Citi Bank, Hyundai Motor India.	It has to write only limited after its name Ex- Reliance Industries Ltd., Wipro Ltd. , Raymond's Ltd.
In its minimum capital required is one lakh.	In its minimum capital required is five lakhs.

2.2 LET'S SUM UP

A business organization is an entity that was formed to carry out activities to achieve vision and missions. This form of business is governed by legal systems such as the Property Act, Contract Act, Incorporation Rules, and National Insurance Act, among others. Business enterprises can broadly be classified into Private Enterprises, Public Enterprises, and Joint Sector Enterprises. On the basis of ownership, companies can be divided into two categories Private Company & Public Company.

Self- Assessment Questions**Check Your Progress****Multiple Choice Questions (MCQs)**

1. The most popular form of business organization is

- a) Sole proprietorship
- b) Company
- c) Partnership
- d) Joint Hindu Family business

ANSWER: A

2. The form of business organization which is specifically found in India is:

- a) Sole proprietorship
- b) NGO
- c) Cooperative society
- d) Joint Hindu Family business

ANSWER: D

3. Cooperative Societies are compulsorily registered under which of the following Act:

- a) The Companies Act, 2013
- b) The Cooperative Societies Act, 1922
- c) The Indian Contract Act, 1872
- d) The Cooperative Societies Act, 1912

ANSWER: D

4. How many types of Cooperative Societies are there:

- a) 5
- b) 4
- c) 6
- d) 8

ANSWER: C

5. Which of the following forms of business organization has limited liability to his members:

- a) Partnership
- b) Company
- c) Sole proprietorship
- d) Joint Hindu Family business

ANSWER: B

6. Minimum number of members required to form a public company is:

- a) 12
- b) 1
- c) 7
- d) No limit

ANSWER: C

7. As per The Companies Act, 2013, a public company is defined as:

- a) A company which is not a private company
- b) A company which has restrictions on the transferability of its shares
- c) A company which is prohibited from issuing shares to the public
- d) A company which has limited the number of its members upto 200

ANSWER: A

8. Amit is performing a business activity in which he enjoys all the profits and bears all the risk alone, which type of organization do you think Amit is running:

- a) Partnership
- b) Company
- c) Sole proprietorship
- d) Joint stock company

ANSWER: C

9. Which of the following is a demerit of a partnership firm:

- a) Unfair distribution of profits
- b) Unlimited liability
- c) Limited managerial ability
- d) Dominance of one partner

ANSWER: B

10. Which type of organization is not bound to show its accounts to anyone:

- a) Company
- b) Partnership
- c) Sole proprietorship
- d) Cooperative society

ANSWER: C

11. Sense of accomplishment is present in which of business organization:

- a) Partnership
- b) Company
- c) Joint Hindu Family business
- d) Sole proprietorship

ANSWER: D

12. The Indian Partnership Act, 1932 defines Partnership as:

- a) The relation between persons who have agreed to share the profits of the business carried on by all or any one of them acting for all.
- b) The relation between persons who have agreed to carry on business activities together.
- c) The relation between persons who have agreed to share the profits of the business carried on by all of them together.
- d) None of these

ANSWER: B

13. The partners of a partnership firm have unlimited liability, this means that:

- a) Partner's personal assets cannot be used for repaying the firm's debt
- b) Partner's personal assets can be used to repay the firm's debt/liability
- c) Partners will enjoy unlimited profits
- d) Profit is distributed according to the amount of their capital contribution.

ANSWER: B

14. The simplest form of business ownership is a _____.

- (a) Proprietorship
- (b) Partnership
- (c) Corporation
- (d) Cooperative

ANSWER: A

15. At least 10 adults, no maximum limit in case of _____.

- (a) Cooperative Society
- (b) Joint Hindu Family
- (c) Partnership
- (d) Company

ANSWER: A

16. The main disadvantage of a general partnership is _____.

- (a) The unlimited liability of the partners
- (b) Disagreement amongst partners
- (c) Shared management
- (d) Difficulty of termination

ANSWER: A

17. The major advantage of a franchise is _____.

- (a) Training and management assistance
- (b) Personal ownership
- (c) Nationally recognized name
- (d) All of the above

ANSWER: D

18. Profits do not have to be shared. This statement refers to _____.

- (a) Company
- (b) Sole proprietorship
- (c) Joint Hindu family business
- (d) Partnership

ANSWER: B

19. The form of business organization that has the largest sales volume is the _____.

- (a) Partnership
- (b) Corporation
- (c) Cooperative
- (d) Multinational

ANSWER: B

20. Which of the following is probably the most important reason for incorporating?

- (a) Limited liability of shareholders
- (b) More money for investment
- (c) Increased flexibility
- (d) Shared management

ANSWER: A

21. The structure in which there is a separation of ownership and management as per law is called _____.

- (a) Company
- (b) All business organizations
- (c) Partnership
- (d) Sole proprietorship

ANSWER: A

22. Provision of residential accommodation to the members at reasonable rates is the objective of _____.

- (a) Consumers cooperative
- (b) Credit cooperative
- (c) Housing cooperative
- (d) Producers cooperative

ANSWER: C

23. In a cooperative society, the principle followed is _____.

- (a) One share, one vote
- (b) One man, one vote
- (c) No vote
- (d) Multiple votes

ANSWER: B

24. Which of the following is an advantage of a sole proprietorship?

- (a) Ease of starting a business
- (b) Being your own boss
- (c) Pride of ownership
- (d) All of the above

ANSWER: D

25. In case of _____, registration is compulsory.

- (a) Sole Proprietorship
- (b) Partnership
- (c) **Company**
- (d) None of these

ANSWER: C

26. A partner whose association with the firm is unknown to the general public is called _____.

- (a) Active partner
- (b) Sleeping partner
- (c) Nominal partner
- (d) Secret partner

ANSWER: D

27. The Karta in the Joint Hindu family business has _____.

- (a) No liability for debts
- (b) Unlimited liability
- (c) Joint liability
- (d) Limited liability

ANSWER: B

28. A partner who is not actually involved in the partnership but lends his name for public relations purposes is a _____.

- (a) Silent partner
- (b) General partner
- (c) **Nominal partner**
- (d) Dominant partner

ANSWER: C

Short Questions

1. Explain the salient features of Joint Hindu Family Firm.
2. Difference between Joint Hindu Family Business and Sole Proprietorship.
3. State the essential characteristics of partnership.
4. What are the principles of Co-operative Organization?

Long Questions

1. Explain the merits and demerits of Sole Proprietorship.
2. Distinguish between Company and Partnership.
3. Describe the different types of partners.
4. Give a brief note on rights and duties of partners.
5. Explain the various types of companies.
6. Distinguish between Private Company and Public Company.

CHAPTER – 3 LOCATION OF INDUSTRY

UNIT OBJECTIVES

In this unit the learner will comprehend industry location factors, analyse large-scale operation advantages.

3.1 INTRODUCTION

Location of industry is the geographical spread of economic activity within an economy. However, multitude of factors influence the location decisions of firms and industries, including proximity to raw material supplies, availability of labour, good communications and nearness to markets.

Industrial locations are not simple but have a complex structure of operation. The industrial locations depend upon the availability of raw materials, labour, market, and so forth. It is very rarely possible to find these factors all in one place; because of this manufacturing activity is mostly located at the most appropriate place with most of the factors available at a lower cost.

Location of industry is the geographical spread of economic activity within an economy. However, multitude of factors influence the location decisions of firms and industries, including proximity to raw material supplies, availability of labour, good communications and nearness to markets.



3.1.1 Industrial Location

Industrial location is a balance between capital, material and labour, and markets. The goal is to optimize the cost and go get the work done at the lowest cost. At times, pushing down the categories may lead to an increase in any other category. This is also possible through the substitution of any of the categories.

The decision on industrial location depends on several factors:

- The nature and attributes of the modern action that the firm performs, for instance, unrefined substance extraction or yield development, the assembling of the middle of the road or eventual outcomes, and the arrangement of assistance.
- The overall expenses of creation in various areas are adjusted against the expense of actual dispersion to target markets, and the significance of closeness to clients as a premise.

Modern areas are complicated. The human data sources that control the modern area are labour, market, government strategies, capital, and transport offices. It is seldom conceivable to find all these factors accessible in one spot. Consequently, fabricating movement will in general find the most suitable spot where all the elements of the modern area are by the same token accessible or can be set up at a lower cost.

3.1.2 Industrial Location and Urbanization

After a modern movement begins, urbanization follows. Of the time, businesses are situated in or close to urban areas. Urban areas give markets and offer types of assistance like banking, protection, transport, work, experts furthermore, monetary guidance, and so forth to the business. Numerous enterprises will generally meet up to utilize the benefits presented by the metropolitan focuses known as agglomeration economies. Progressively, a huge modern agglomeration happens.

In the pre-Independence time frame, most fabricating units were situated in places according to the perspective of abroad exchange like Mumbai, Kolkata, Chennai, and so forth. Thus, there arose specific pockets of mechanically evolved metropolitan communities encircled by a tremendous horticultural rustic. The way to choice of the production line area is the most minimal expense. Government approaches and specific work additionally impact the area of industry.

3.1.3 Factors Influencing Location of Industries

Many geographical and non-geographical factors impact the industrial location are:

Raw Materials

The importance of raw materials in manufacturing industries is fundamental. Modern Industries are very complex with require a wide range of raw materials, which is very important for their growth. The finished product of any industry can also be a raw material for another. Industries that require heavy raw materials at the primary stages of production are located near the supply of raw materials.

Power

The regular supply of power is very important for the localization of industries. The three most important sources of power include coal, mineral oil, and hydroelectricity. Most industries tend to focus on the source of power. Most industries are established with economic advantages in obtaining power as well as raw materials.

Labour

Two of the most important reasons why labour is important to include that worker are often required in large quantities and secondly people with skills and expertise are often needed. Light consumer goods and also agro-based industries require lots of labour supply.

Transport

Transport through land or even water is required for assembling as well as the marketing of the finished products. Development of railways and also ports around important centers like Kolkata, Mumbai, etc. added to the industrial location and importance.

Market

The entire process of manufacturing is meaningless if finished goods do not reach the market. Proximity is important for the quick disposal of manufacturing goods and also the reduction of transport costs and allows consumers to get things at a cheaper rate.

Capital

Modern industries are mostly capital-intensive and also require a huge level of investment and capitalists are mostly available in urban areas.

Land

The land is a very important factor in determining the location of India. The land is the base where all industrial activities take place and are very vital in determining the location of India.

3.2 Classification of Industries on the Basis of Size

On the basis of size, industries are usually classified into 3 types, which include: Small-scale industries, Medium scale industries, and large-scale industries. Small-scale industries are small businesses that are run directly by families or by small groups of people. The products manufactured are small and require less investment. In medium-scale industries, there is more capital and technology, and requires more workers as compared to small-scale industries. In large-scale industries, there are larger industries, big machines, and more investment as well as labour.

3.2.1 Based on size

It alludes to how many masses headquarters contributed, the range concerning humans utilized, or the amount regarding creation. In a dispute concerning size, companies might also posture grouped on Small scope afterward large scope businesses.

3.3 Small Scale Industries

Small Scale Industries are these ventures the location fabricating, supplying sorts regarding assistance, creations are whole concerning a limited affiliation and petty size. For instance, it is ideas involving Small scope enterprises: Napkins, tissues, chocolates, tooth picks, lots of bottles, small toys, papers, and pens. Limited scope groups count number about a full-size quantity in delightful yet economic enhancement atop India. These agencies do a one-time interest on hardware, and plants, but venture whoever obligation in conformity with keep concerning a proprietorship premise, recruit purchase than lease premise. Yet, that would no longer outdo Rs. 1 Crore.

Basically, limited-reach corporations embody younger ventures whichever fabricate employment yet craft collectively with the assistance of extremely larger decent machines than even related to employees after representatives. Fundamentally, the excise duty in imitation of reading under the policies adds skill to the Government of India. At the time of life, absolute cutoff elements are particularly via the following,

- For Manufacturing Units for Goods: Investment amongst bury and apparatus have to lie among 25 lakhs or five crores.
- For Service Providers: Investment in hardware has to atmosphere about x lakhs afterward equal crores.

In developing nations like India, restrained length groups help the economy. These are through then enormous action baked businesses; hence so much make a paint brush involving business. They in addition help together with through capita supply after asset utilizes within the economy. They are a necessary place in relation to the economic system beyond a financial yet associative perspective.

3.3.1 Qualities in Regard to Small-Scale Industries

1. **Possession:** Such gadgets are by means of way regarding and big beneath odd proprietorship. So certain are a single possession yet half on the epoch an association.
2. **The executives:** Both the state and the monitoring by the ability of yet tremendous is together with the proprietor/proprietors. So the corporation is effectively engaged which includes the day of accordance on age on foot concerning the business.
3. **Restricted Reach:** Small-scope organizations bear a broken location concerning tasks. So he offers nearby yet regional needs.
4. **Work Intensive:** These constrained affiliation groups pleasure larger often than no longer utilization labour and situation furnish due to the fact their creation exercises. So their faith in innovation is restricted.
5. **Adaptability:** These gadgets are greater versatile in imitation of their altering business climate. So amongst the match on snappy adjustments after amazing turns over events, those are utterly adaptable in conformity with altering yet be on the

increase in pursuance concerning continue. Enormous businesses do not revel in that benefit.

6. **Assets:** They bust potential regarding shutting by way of straight outdoors reachable assets. This event assists the financial system along with better usage on the daily property yet a great deal less wastage.

3.3.2 LIMITATION OF SMALL SCALE OPERATION

1. **Lack economies of scale:**

SSI's produced in small quantities. Therefore they do not enjoy economies of scale in purchases, production and marketing. Their costs are consequently higher and they are not able to compete with large scale units. They were able to survive when many of the items were reserved for production by SSI's. But after the economic liberalization policy followed by the government, many of the items have been De-reserved. Therefore large scale units can also produce products which were earlier produced only by small scale units. Many of the SSI's have closed down unable to compete with large scale producers and cheap imports from other countries, especially China.

2. **Low wages:**

Though SSI's are labour intensive, the **wages paid in SSI's are low** when compared to those paid in large scale industries. In many SSI's because of **lack of safety measures** and proper training to workers, accidents and injuries are common occurrences.

3. **Lack of modernization:**

Due to their small scale of operations and limited capital resources, SSI's are not able to invest in modernization. They **do not have access to latest technology** and therefore cannot improve their efficiency of operations.

4. **Inefficiency:**

Due to lack of scale economies, low skilled and poorly trained workers and usage of outdated technology, small scale industry suffers from **inefficiency of operations**. Their productivity is low when compared to large scale industries.

5. **Overcrowding:**

It is quite easy to set up an SSI. The capital requirement is less and procedural formalities are simple. This leads to **intense competition and overcrowding**. It may lead to cut-throat competition affecting their survival.

6. **Sickness:**

Due to the ease of setting up and because of the incentives available, many unemployed youth set up SSI's with very little business knowledge and skills. They find it difficult to survive in the business and close down their operations. Further because of the **problems of procuring finance**, use of **outdated technology** and **lack of marketing expertise** many SSI's incur losses and are forced to close down.

7. **Less innovation capacity:**

SSI's have limited financial resources, therefore they are **not able to invest adequately in research and development** (R&D) or acquire technology. As a result their technological up-gradation is less and they continue with outdated processes and techniques. This hinders their competitiveness and capacity to come out with new products, processes etc.

8. **Low competitiveness:**

Due to their small scale, lack of modern technology and poorly trained workers, SSI's **lack the competitiveness to compete with large scale industries**. Now, many items which were reserved for production by SSI's have been De-reserved. Therefore SSI's facing increasing competition from large scale Indian enterprises as well as foreign competitors.

9. **Low capacity utilization:**

In many SSI's, **capacity utilization is low and productive capacity remains idle**. Small firms are unable to utilize their full capacity due to problems related to finance, marketing, technology, skills etc.

10. **Lack of pollution control:**

Large scale enterprises which are polluting in nature are able to set up pollution control equipment such as effluent treatment plants. SSI's are not able to set up such facilities because of lack of finance, technology, skills etc.

11. **Low labour productivity:**

The **productivity of labour in small scale industries is low**. The reason is workers employed in SSI's are unskilled, lack proper training and work on outdated technology. Their wages are less and therefore a motivation level of workers is also quite low. Poor labour productivity results in lower output, increasing the cost of production and problems in meeting demand schedules.

3.4 Large Scale Industries

Ventures at a variety of Scales include certain kinds of portions concerning an Economy. Enormous Scale businesses or Industries turn after the expertise of countless of us yet application legislators for free help. Then again, younger endeavors affect the Economy to a ground degree the place singular economic professionals succeed. Limited scope Industries are short among accordance including the factor according to up to expectation aggregate up to expectation are now not popular. Nonetheless, such also affords an imitation of the country's flourishing. An argument regarding the Scale is, Industries are Classified no longer virtually among Large-Scale than limited scope Industries, however among so regions are specific Industries but human ventures, and international associations also. This dissertation accumulates all facts about bracing in imitation of Large-Scale Industries.

As the honour proposes, total over in conformity with hope required amongst widespread scope companies is inside count number or vast sums. Every absolute as regards the quite a wide variety faith variety of labour force, the inundation as regards capital, unrefined substances, the basis estimated because the association yet solution about large scope organization is colossal. It remembers extraordinary sorts about companies due to the fact of its domain. Enormous scope enterprise consists of several sizeable but mild enterprises. The bulky business enterprise like steel, material or self-producing enterprise arrives beneath the type concerning great scope industry. It is additionally seen according to so much quantity IT has explosion as like a good deal over late. A tussock on income is performed past the IT business; among so way, the IT business enterprise collectively together with goes below the extensive scope cutting-edge specialty.

This full-size large variety as regards ventures hold delivered a matter measurement about propagates positions for widespread dark residents throughout the globe. Because concerning the commodity touching the objects born beyond among massive scope companies after greater than a few nations, someone country's pecuniary enhancement is rather reliant upstairs its extensive scope businesses. The massive scope industry moreover provides then the age upstairs rummy money. With that getting it, pass in imitation of us proceed by means of the importance over tremendous scope businesses.

3.4.1 Benefits Concerning Large-Scale Industries

- Coming above subsequent are the spiffy advantages over a large scope industry.
- Prudent Production using Machinery: The considerable scope of the industry as lots a government introduces the near latest hardware, which helps within bourgeois count creation. The equipment event constantly, then undertakings obtains the rewards.
- The Economy regarding Labour: Skilled employment assimilates their superiority between conformity including performance. The giant scope industry uses the auspicious overseas respecting its workers.
- Mass Buying yet Selling: The substantial scope enterprise consists of colossal introduction then nicely so plenty consists of the include achievement regarding its natural substances. Hence child acquisition brings sib excessive web gain among large-scope organizations.
- Low Overhead Charges: Expenses in regard to organization or custom regarding a solitary one on creation are nearly less. It is possible in light of the truth then much a limited volume is contributed yet disseminated upon large scope creation.
- Conservative Rent: The complete lease is separated through the count number of items. It implies now some object is evolved between the treatise amount, and the rate through one because rent is extremely little.
- Exploration yet Analysis: Large scope corporations perform reason the liberal fees passed upon scan or investigation. It is realized upon to desire nice analysis but experiment desire enter greater striking blessings beside presently on.

- Reuse upstairs the By-items afterward the misbehavior about the substantial scope enterprise is often again but is not tossed. It assists in bringing beneath the cost of creation. A youthful argument industry will organize respecting the molasses made as much plenty a side-effect.
- Advantageous due to the fact Employees: All specialists are profoundly helped via the usage of the substantial scope companies namely up to expectation come sizeable compensations, amenities, and unique compensations.

3.5 Medium-Scale Industry

Prior according to in accordance with grasping the wide variety of perspectives associated together including the Medium Scale Business, perception of the notion of Medium Scale Business is significant. According to consequences including the public administration concerning India, some commercial organizations afterward business enterprise work continue to allude in accordance to and Medium Scale after so much amount has an ordinary chance between 5 to ten crores.

3.5.1 Factors Affecting the Size of the Firm

The main factors that affect the size of the firm are as follows:

1. Nature of Industry

The nature of the industry has a direct influence on the size of the firm. Manufacturing industries are, by and large, bigger compared to trading and service firms. Manufacturing industries heavy machinery, produce goods on a large scale, make higher capital investments, and therefore large.

2. Nature of Products

When the product is less standardized, the size of the firm is often small when the product is standardized, complex, and durable; the size of the firm is often big.

3. Capital employed

When the capital involved is large, and the firm can raise it, the size of the firm is large, when the capital involved in small, the size of such a unit will be small.

4. Size of the market

If the size of the market is large for the product, the firm will also be large and vice-versa.

5. Quality of management

The competence and integrity of management largely determine the size of a business unit. If the management is competent to manage the complex tasks of modern business, the firm can afford to be large.

3.5.2 Factors Determining Size of the Firm

Every business is striving towards attaining the optimum size. Usually, any business starts as a small entity, and then during its operating period, it expands till it reaches the optimum size.

1. Capital Investment Factor

The capital employed by shareholders in the form of share capital, reserves, and surplus (net worth) determines the size of the business. It is mainly used to compare two firms or more that are producing similar or differentiated products.

2. Number of Employees

The number of employees employed by any business determines its size. This is done by comparing the wages paid to employees with other businesses. This factor is used where firms produce similar goods. If you use it in comparing firms that are producing differentiated products, then you end up with false results.

3. Power Used

The amount of power used determines the size of the business. Business firms don't rely on this factor as it is inaccurate because of the amount of power used by any business may be more or less.

4. Raw Materials Used

The annual consumption of raw materials of any firm determines its size. It is used only on those firms that are producing similar products.

5. The volume of the output

This factor is used for those firms that are producing homogeneous goods.

6. The capacity of Plant

It is used by firms that produce similar products.

7. Total Assets

The total assets of any business determine its size. The value of all assets (current and fixed) is taken as a means of measure. It is used in both similar and differentiated firms.

8. Value of Output

This is another factor that determines the size of any firm; however, this method is only effective in cases where firms produce a variety of products and where price levels remain constant. In all these factors, the volume of output is the most effective and reliable factor in measuring the size of any business unit.

3.6 Industrial Estates

3.6.1 INTRODUCTION

To promote industrial development, the Government of India has initiated several measures and provided various incentives. Setting up of industrial estates is one such measure. The government launched the programme of setting up Industrial Estates in 1955. The State government is responsible for planning, developing and maintaining the industrial estates. The Central government provides the required financial assistance for the setting up of industrial estates. Financial assistance of the Central government in the form of loans, grants and subsidies are provided to the State government.



3.6.2 Industrial Estate Meaning

An industrial estate is a place where necessary infrastructural facilities are made available to entrepreneurs. Industrial parks, industrial zone, industrial area, Industrial Township are some of the other terms used to denote industrial estates. Developing countries require institutional arrangements for their rapid industrialization and balanced growth. One such institutional measure is industrial estates.

- The term 'industrial estate' is called by different names, e.g., the industrial park, industrial zone, industrial region, industrial city, industrial area, Industrial Township, etc.
- An industrial estate has been defined as a method of “organizing, housing and servicing industry, a planned clustering of industrial enterprises offering standard factory building erected in advance of demand and a variety of services and facilities to the occupants”.
- In other words, an industrial estate is a tract of land subdivided and developed according to a comprehensive plan for the use of a community of industrial enterprises.
- It is a planned clustering of industrial units offering standard factory buildings and a variety of services and facilities to entrepreneurs.

3.6.3 Features of Industrial Estates

The following are the salient features of industrial estates:

1. **Separate plots and sheds**: The entire land area allocated to the estate is divided into different plots and sheds. These plots and sheds are then allocated to the entrepreneurs at economical costs.
2. **Cluster**: An industrial estate is a planned cluster of units. For e.g. Tirupur is a planned cluster of knitwear and hosiery, Ludhiana is a planned cluster for machine tools, Surat for diamonds etc.
3. **Regional development**: Industrial estates promote regional development. They have been instrumental in developing backward areas in the country. They provide

employment opportunities to many of the unemployed youth in the regions in which they are located. For e.g. Ambattur Industrial Estate in sub-urban Chennai has ensured development of areas in and around Ambattur.

4. **Common infrastructure**: Infrastructure such as roads, electricity, water, telecommunications, postal facilities, banks etc. are provided in the industrial estate. All enterprises located in the industrial estate can access the infrastructural facilities located in the area.

5. **Promote industrialization**: Industrial estates promote industrialization and economic development. They provide the necessary facilities for setting up of industries. Since the required infrastructure is made available, entrepreneurs feel encouraged to set up industrial enterprises.

6. **Different sizes**: Industrial estates can be promoted in different sizes based on the land availability, requirements and potential for development.

7. **Developed in all areas**: Industrial estates can be developed in all areas such as urban, suburban and rural areas. They can be developed in developed as well as in under developed areas.

8. **Promotion through any agency**: Industrial estates can be set up by the government, co-operatives or by the private agencies. It can also be set up by public-private partnership.

3.6.4 Objectives of Industrial Estates

The following are the objectives of setting up industrial estates:

1. Ensuring well planned and structured industrial development.
2. To provide the necessary infrastructure.
3. To provide common facilities to a number of industries.
4. To promote development of clusters.
5. To enable small units to source products from one another.
6. To enable dispersal of industries.
7. To promote balanced regional development.
8. To ensure development of backward areas.
9. To provide a climate for smooth functioning of industrial enterprises.

3.6.5 Types of Industrial Estates

The following are the types of industrial estates:

1. **Composite industrial estates**: They comprise of a wide variety of industries. Most of the industrial estates are of this type. For e.g. in Ambattur Industrial Estate and Guindy Industrial Estate, Chennai, enterprises manufacturing different types of products are located.
2. **Special purpose**: They comprise of enterprises engaged in a specific industry such as hosiery and knitwear (Tiruppur), machine tools (Ludhiana), handicrafts, etc.,
3. **Ancillary industrial estates**: Ancillary industrial estates comprise of firms which manufacture ancillary products. They are found in industries such as automobiles, electronics, leather goods etc.
4. **Flatted industrial estates**: They comprise multi-storeyed building where light weight goods are produced with the help of machine tools.

3.7 DISTRICT INDUSTRIES CENTRE

District Industries Centre (DIC) is a central sector scheme with the objective of promoting small village and cottage industries in a particular area. The DICs have been established in various districts of India at varying times since 1978 when it was launched. Being established at the district level, the District Industries Centres provide all the necessary services and support to facilitate entrepreneurs in setting up MSMEs (Micro, Small and Medium enterprises).

The reason why the Centre came up with the idea of establishing District Industries Centres is that the need for developing industries at a faster rate was felt. The economy was plateauing and the need to revive it and to shift the focus from agriculture to industries was felt. With this, the Centre established District Industries Centres in various districts of the country to expedite the establishment as well as developing industries in the districts. Being a central sector scheme, it is 100% funded by the centre with the states not required to make any contributions towards establishing the same.

The District Industries Centres help in identifying suitable schemes for development of industrial clusters help prepare feasibility reports and also arrange

facilities for procuring machinery, equipment as well as credit. The District Industries Centres (DICs) are headed by a General Manager at the Joint Director Level. The General Manager is assisted by the Manager (Handloom), Manager (Economic Investigation), Manager (Credit), Manager (Development) and an Administrative Assistant. The General Manager provides reviews which helps in evaluating performance of different schemes and also helps in resolving the difficulties in implementing those schemes.



3.7.1 Role of District Industries Centres (DICs)

The District Industries Centres (DICs) play a prominent role in developing and promoting industries in the respective states. They are established by the Department of Commerce & Industry of the respective state. In addition to DICs, Sub-District Industries Centres (SDICs) have also been created in various states such as Nagaland. This additional tier has helped industrial development to penetrate deeper into the rural areas of the country.

- Provide assistance for DIC programmes
- Single window clearance system
- Promote industries in rural areas

- Provide employment to people in both rural and urban areas

3.7.2 Objectives of District Industries Centres

- Industrial development with focus on employment generation and wealth creation.
- To promote labour intensive industry.
- To encourage utilization of local available raw material.
- To promote growth of thrust industries and encourage high tech and knowledge waste industry.
- To promote human resource development for creation of skilled labour forces.
- To encourage eco- friendly and environmental friendly industrial growth.

3.7.3 Schemes under the District Industries Centres (DICs)

A number of schemes have been launched which fall under the ambit of District Industries Centres (DICs). These schemes help in fulfilling the goals of establishing the District Industries Centres (DICs). These schemes are centrally sponsored schemes as well as central sector schemes. The following schemes fall under the DIC:-

- **3.7.3.1 Prime Minister's Employment Guarantee Program (PMEGP):** This centrally sponsored scheme under the Ministry of Micro, Small and Medium Enterprises (MSME) was launched in 2008. The PMEGP aims to generate employment opportunities for educated unemployed citizens in rural and urban areas. The nodal agency for the implementation of the scheme is Khadi & Village Industries Commission (KVIC). Under this scheme, 90-95% of the amount will be given by banks as loans with 5-10% of the project cost in the industry, service or business sector being the applicant's share.
- **3.7.3.2 District Industries Centre (DIC) Loan Scheme:** This scheme is for the self-employed as well as the small unit sector in towns and rural areas with population less than 1 lakh and with capital investment being less than Rs. 2 lakhs. These small

units are identified by the Small Scale Industries Board and Village industries, handicrafts, handlooms, and silk & coir industries.

For entrepreneurs in the general category, 20% of the total investment or Rs. 40,000 shall be the margin money (whichever is lesser). For entrepreneurs in the SC/ST category, 30% of the total investment or Rs. 60,000 shall be the margin money (whichever is lesser).

- **3.7.3.3 Seed Money Scheme:** This scheme is targeted towards the self-employed who engage in skilled wage employment or self-employment ventures. Institutional financial assistance in the form of soft loans. Project cost to avail loan facility under the seed money scheme has been increased to Rs. 25 lakhs. For projects up to Rs. 10 lakhs, seed money assistance of up to 15% of the project cost is offered. For SC/ST/OBC, the assistance provided will be 20% of the project cost; the limit of assistance provided is Rs. 3.75 lakhs with 75% of the project cost being in the form of a bank loan.
- **3.7.3.4 District Awards Scheme:** To boost entrepreneurs' spirits and celebrate their achievements and successes, the state governments have started honouring such entrepreneurs with awards at the district level. The District Advisory Committee formed at the district level shall select the entrepreneurs to be awarded. The District Awards Function is held on Vishwakarma Jayanti Day which falls on varying dates every year. The award function includes the display of the products by the entrepreneur for sale and exhibition along with workshops and discussion about the same.
- **3.7.3.5 Entrepreneurship Development Training Programme:** This scheme was launched to impart training to the educated unemployed people and encourage them to encourage self-employment ventures or engage in skilled wage employment. Training programmes under the Entrepreneurship Development Training Programme are:
 - Entrepreneurship Introductory Programme (Udyojakata Parichay Karyakram)

- Entrepreneurship Development Training Programme (12 Day residential)
- Technical Training Programme (12 Days to 2 Months non-residential)

3.7.4 Eligibility Criteria for Applying Under the District Industries Centres (DICs)

Loan facility under the District Industries Centres (DICs) can be availed under the various schemes mentioned above. These schemes are promoted and implemented by the District Industries Centres (DICs) and loans can be availed under different schemes with varying eligibility criteria.

3.7.5 Functions of District Industries Centres (DICs)

Various important functions are performed by the District Industries Centres (DICs) for the upliftment of a district and to put that district on the industrial map of India. Some of the functions performed by the District Industries Centres (DICs) are mentioned below:-

- **Preparation of industrial profile of the district** – This helps in identifying the pros and cons concerning setting up different industries in the district in consonance with the availability of infrastructure, raw materials, labour and land in the area.
- **Assist entrepreneurs in obtaining licenses** – To set up an industrial unit, various types of licenses are required- electricity board, no-objection certificate, water supply board, etc. These licenses are facilitated by the District Industries Centres (DICs), making it easier for entrepreneurs to set up industrial units in the respective district.
- **Acting as the focal point of industrialization of the district** – To make strides in the arena of industrialization, the District Industries Centres (DICs) act as the focal point. From providing various clearances and licenses to facilitating loans and granting awards, the District Industries Centres (DICs) do it all.
- **Opportunity guidance of entrepreneurs** – Lack of knowledge about an existing opportunity does more damage than the lack of opportunity. District Industries Centres (DICs) help in bringing to the fore various opportunities to help entrepreneurs. This

helps in generating employment opportunities in addition to the industrialization of the district.

- **Manpower assessment concerning skilled, semi-skilled labour** – District Industries Centres (DICs) help in making optimum use of its platform to identify the labour that is best fit for the respective market. This helps avoid under-employment.
- **Identify infrastructure facilities** – For any area to develop, infrastructure facilities are a top priority for identifying the potential that can be tapped from a certain area. Facilities such as electricity, roads, warehouses, banking, quality testing facilities etc. are identified by the District Industries Centres (DICs).
- **Prepare techno-economic feasibility report** – The District Industries Centres (DICs) prepare the techno-economic feasibility report that analyses the performance of an industrial product, process, or service to improve areas in need of it.
- **Advice entrepreneurs on investments made** – The District Industries Centres (DICs) advice entrepreneurs on the various investments which they seek to make. In this manner, they provide consultancy services that help entrepreneurs in making better decisions with respect to their investments.

3.7.6 Activities under District Industries Centres (DICs)

As an initiative of the central government, the District Industries Centres (DICs) work towards performing various activities.

These include:-

- **Registration of Small Scale Industries (SSI) units** – It is for the registration of industries in the manufacturing as well as the services sector on a small scale. The registration done can be permanent or provisional.
- **Registration of handicraft or cottage industries** – This is typically the case with villages and clusters in rural areas.

- **Implementation of PM Rozgar Yojana** – Launched in 1993, this scheme is to provide employment opportunities in both rural and urban areas and is implemented under the District Industries Centre (DIC) scheme.
- **Granting subsidies to SSI units** – Subsidies to the Small Scale Industries are granted under the DIC scheme of the central government.
- **Training for Entrepreneur Development Programme** – To enhance skills, training is provided under the ambit of DICs through the Entrepreneur Development Programme.
- **Organization of Industrial Cooperative Society** – It is an association of craftsmen and workers who are engaged in cottage and village industries.
- **Raw material assistance through SIDCO** – This is to facilitate entrepreneur initiatives by facilitating them with the supply of raw materials.
- **Marketing assistance through SIDCO** – The Small Industries Development Corporation Limited (SIDCO) not only assists ventures with raw materials but also assists them with the marketing of their produce.
- **Conducting motivation campaigns** – In addition to hosting awards functions to boost the morale of entrepreneurs, motivation campaigns are also organized by DICs.
- **Single window clearances** – To make the registration process as well as clearance and granting of licenses a hassle-free process, DICs provide a single-window mechanism to achieve this goal.
- **Rehabilitation of sick SSI units** – To revive and to better the ailing Small Scale Industrial units, DIC plays an important role.
- **Recommendation of awards to the SSI units** – The awards granted to SSI units are done on the recommendation of DICs.
- **Recommendation of loan application to banks under the KVIC scheme** – DICs play an important role in making recommendations to banks for grants of loans under the KVIC scheme.

3.8 LET'S SUM UP

Location of industry is the geographical spread of economic activity within an economy. Location of industry is the geographical spread of economic activity within an economy. On the basis of size, industries are usually classified into 3 types, which include: Small- scale industries, Medium scale industries, and large-scale industries. An industrial estate is a place where necessary infrastructural facilities are made available to entrepreneurs. District Industries Centre (DIC) is a central sector scheme with the objective of promoting small village and cottage industries in a particular area.

Self- Assessment Questions**Check Your Progress****Multiple Choice Questions (MCQs):**

1. Which of the following are known as rural or traditional industries?

- (a) Agriculture industry
- (b) Food industry
- (c) Cottage industry
- (d) None of the above

ANSWER: C

2. An industry located in a rural area which may/may not use power are known as:

Building regulation

- (a) District industry
- (b) Town industry
- (c) City industry
- (d) Village Industry

ANSWER: D

3. Full form of DIC is:

- (a) District Industries Centre
- (b) Distant Industries Centre
- (c) District Inclined Centre
- (d) District Industries Conversion

ANSWER: A

4. Limit of investment in a small scale industry is _____.

- (a) One crores
- (b) Two crores
- (c) Five crores

(d) Ten crores

ANSWER: A

5. Industrial locations are influenced by the availability of _____.

- a) Market
- b) Labour
- c) Raw materials
- d) All of the above

ANSWER: D

6. On the basis of raw materials used, industries are classified as _____.

- a) Public sector and private sector
- b) Basic industries and consumer industries
- c) Agro-based and mineral-based industries
- d) None of the above

ANSWER: C

Short Questions

1. Write a short note on DIC.
2. What are the Factors Influencing Location of Industries?
3. Describe the limitations of Small Scale Industries?
4. Bring out the advantages of Large Scale Industries.

Long Questions

1. Explain the factors influencing location of an industry.
2. Explain the Classification of Industries on the Basis of Size.
3. What is DIC? Bring out the objectives of DIC.

CHAPTER – IV STOCK EXCHANGE

UNIT OBJECTIVES

In this unit the learner will familiarize with stock exchanges, understand business combinations.

4.1 INTRODUCTION

A stock exchange is a marketplace where securities, such as stocks and bonds, are bought and sold. Bonds are typically traded Over-the-Counter (OTC), but some corporate bonds can be traded on stock exchanges. Stock exchanges allow companies to raise capital and investors to make informed decisions using real-time price information. Exchanges can be a physical location or an electronic trading platform. Though people are typically familiar with the image of the trading floor, many exchanges now use electronic trading.



4.2 STOCK EXCHANGE MEANING

A stock exchange is an important factor in the capital market. It is a secure place where trading is done in a systematic way. Here, the securities are bought and sold as per well-structured rules and regulations. Securities mentioned here include debenture and share issued by a public company that is correctly listed at the stock exchange, debenture and bonds issued by the government bodies, municipal and public bodies.

4.3 Purpose of Stock Exchanges

Stock exchanges act as an agent for the economy by facilitating trade and disseminating information. Below are some of the ways exchanges contribute:

1. Raising Capital

Through initial public offerings (IPO) or issuing of new shares, companies are able to raise capital to fund operations and expansion projects. This provides companies with avenues to increase growth.

2. Corporate Governance

Companies that are publicly listed on a stock exchange must conform to reporting standards that are set by regulating bodies. This includes having to regularly and publicly report their financial statements and earnings to their shareholders.

The actions of a company's management are constantly under public scrutiny and directly affect the value of the company. Public reporting helps ensure that management will make decisions that benefit the goals of the company and its shareholders, thereby acting efficiently.

3. Economic Efficiency

In addition to encouraging management efficiency, exchanges also facilitate economic efficiency through the allocation of capital. Stock exchanges provide an avenue for individuals to invest their cash, as opposed to merely saving these funds. This means that the capital that would otherwise be untouched is utilized towards economic benefits, resulting in a more efficient economy. In addition, exchanges also provide liquidity, as it is relatively easy to sell one's holdings. By providing liquidity and real-time price information on company shares, the stock exchange also encourages an efficient market by allowing investors to actively decide the value of companies through supply and demand.

4.4 STOCK EXCHANGE FUNCTION

1. **Role of an Economic Barometer:** Stock exchange serves as an economic barometer that is indicative of the state of the economy. It records all the major and minor changes in the share prices. It is rightly said to be the pulse of the economy, which reflects the state of the economy.

2. **Valuation of Securities:** Stock market helps in the valuation of securities based on the factors of supply and demand. The securities offered by companies that are profitable and growth-oriented tend to be valued higher. Valuation of securities helps creditors, investors and government in performing their respective functions.
3. **Transactional Safety:** Transactional safety is ensured as the securities that are traded in the stock exchange are listed, and the listing of securities is done after verifying the company's position. All companies listed have to adhere to the rules and regulations as laid out by the governing body.
4. **Contributor to Economic Growth:** Stock exchange offers a platform for trading of securities of the various companies. This process of trading involves continuous disinvestment and reinvestment, which offers opportunities for capital formation and subsequently, growth of the economy.
5. **Making the public aware of equity investment:** Stock exchange helps in providing information about investing in equity markets and by rolling out new issues to encourage people to invest in securities.
6. **Offers scope for speculation:** By permitting healthy speculation of the traded securities, the stock exchange ensures demand and supply of securities and liquidity.
7. **Facilitates liquidity:** The most important role of the stock exchange is in ensuring a ready platform for the sale and purchase of securities. This gives investors the confidence that the existing investments can be converted into cash, or in other words, stock exchange offers liquidity in terms of investment.
8. **Better Capital Allocation:** Profit-making companies will have their shares traded actively, and so such companies are able to raise fresh capital from the equity market. Stock market helps in better allocation of capital for the investors so that maximum profit can be earned.
9. **Encourages investment and savings:** Stock market serves as an important source of investment in various securities which offer greater returns. Investing in the stock market makes for a better investment option than gold and silver.

4.5 TYPES OF STOCK EXCHANGE

1. Bombay Stock Exchange (BSE)

Bombay Stock Exchange was formed in 1875 and is one of the two principal large stock exchanges in India. The major objective of BSE is to provide an efficient and transparent market for trading currencies, equities, mutual funds etc. As per the official website of BSE, its vision is to “Emerge as the premier Indian stock exchange with best-in-class global practice in technology, product innovation, and customer service.”

BSE has a wholly-owned subsidiary. Indian Clearing Corporation Limited acts as a central counterparty to all the trades that happen on the exchange and provides settlements of the trades executed. Another subsidiary of BSE Limited is BSE Institute Limited which serves as a capital market educational institution in our country. In the 1850s, 5 stockbrokers would gather under a banyan tree in front of the Mumbai Town Hall. Due to the increase in the number of brokers, the place of meetings kept changing before finally moving to Dalal Street in the year 1874. In order to measure the overall performance of the exchange, in 1986, the BSE developed the S&P BSE SENSEX index.



2. National Stock Exchange (NSE)

National Stock Exchange is the leading stock exchange in India. It was established in the year 1992 as the first dematerialized electronic exchange in the country. It was the first exchange to provide a fully-automated screen-based trading system to the investors to facilitate easy trading. In the year 1993, NSE registered itself as a stock exchange under the Securities Contract Regulations Act. It operates with a vision to “to continue to be a leader, establish a global presence, and facilitate the financial well-being of people.”



The benchmark index of NSE, Nifty 50 is used extensively by investors around the world to keep track of the Indian capital market. NSE had also played an important role in the creation of the National Securities Depository Limited. (NSDL) allows the investors to hold and transfer their shares electronically without any hassle. This eventually leads to holding the financial instruments conveniently in electronic form thereby reducing the fake certificate issues.

The NSE commenced trading in derivatives with the launch of index futures in the year 2000. Since then, the futures & options have come a long way in becoming a popular financial product. In the Futures and Options segment, trading in the NIFTY 50 Index, NIFTY IT index, NIFTY Bank Index, NIFTY Next 50 index, and single stock futures is available.

3. Calcutta Stock Exchange (CSE)

Calcutta Stock exchange is the second oldest stock exchange in Southeast Asia and was incorporated in the year 1908 with 150 members. Presently, CSE is located at the Lyons Range. It was granted recognition under the relevant provisions of the Securities Contract (Regulation) Act, 1956, and was replaced by the screen-based trading system only in the year 1997. The matter pertaining to the exit of the Calcutta stock exchange by SEBI is pending before the Calcutta High Court.



4. Metropolitan Stock Exchange (MSE)

The Metropolitan stock exchange was recognized as a “notified stock exchange” in the year 2012 by SEBI. MSE offers an electronic and hi-tech trading platform in Capital Markets, Debt Markets, Futures & Options.

MSE launched its SX40 index on February 9th, 2013, and commenced trading from February 11th, 2013. ‘SX40’, is a free-float based index consisting of 40 large-caps, liquid stocks representing diverse sectors of the economy.

MSE considers ‘Information, Innovation, Education and Research’ as its four cornerstones of the unique market development philosophy to support its mission of financial literacy across India.

5. India International Exchange (India INX)

India International Exchange Limited is India’s first International Financial Services Centre located in Gujarat. Its operations started in 2017 and are a subsidiary of BSE Limited. The exchange offers a single segment approach for all asset classes such as equities, currencies, commodities etc. The exchange uses an advanced technology platform and is the fastest in the world with a turn-around time of 4 microseconds. For global experts and market participants, India INX offers to be an offshore exchange that provides innovative products and services along with competitive advantages in terms of the tax structure.

6. NSE IFSC Limited

On November 26th, 2016, NSE IFSC Limited (NSE International Exchange) was incorporated by the Registrar of Companies, Gujarat. It is a fully owned subsidiary company of the National Stock Exchange of India Limited (NSE). It has received approval from the Securities and Exchange Board of India (SEBI) to establish an international exchange in Gujarat International Finance Tech City (GIFT) – International Financial Service Centre (IFSC) Gandhinagar.

The city, which is a special economic zone, is India’s first IFSC. As a part of the advantages offered to the companies, Exchange and Financial Services units located in GIFT IFSC are offered a competitive tax structure and facilitative

regulatory framework. It offers benefits such as exemptions from security transaction tax, commodity transaction tax, dividend distribution tax, capital gain tax waivers, and no income tax.

4.6 REGULATION OF STOCK EXCHANGE IN INDIA

MEANING

The stock market in India is regulated by various bodies, with the primary regulatory authority being the Securities and Exchange Board of India (SEBI). SEBI is a statutory regulatory body established in 1992 to protect the interests of investors and promote the development of the securities market in India.



4.6.1 Stock market regulations in India

The stock market in India is mainly regulated by five important laws that mainly aim to ensure transparency in transactions and the protection of shareholder rights. Here are some key laws applicable to the regulation of stock markets in India:

1. Securities and Exchange Board of India Act, 1992: This is the primary act that empowers SEBI with regulatory and enforcement authority over the securities market. It outlines SEBI's powers, functions and responsibilities with regard to all the participants in the stock market.
2. Securities Contracts (Regulation) Act, 1956: This act provides the legal framework for the regulation of securities contracts, including the regulation of stock exchanges and the listing of securities.
3. Companies Act, 2013: This act governs the formation, operation, and regulation of companies in India. It includes provisions related to the issuance and transfer of securities, shareholder rights and corporate governance.
4. SEBI (Listing Obligations and Disclosure Requirements) Regulations, 2015: These regulations prescribe the listing requirements for companies listed on Indian stock exchanges. It includes provisions related to corporate governance, disclosures and shareholder rights.
5. SEBI (Prohibition of Insider Trading) Regulations, 2015: These regulations aim to prevent insider trading in securities. They define insider trading, prescribe codes of conduct and establish disclosure requirements for insiders.

4.6.2 Role of SEBI in regulating Indian stock markets

SEBI was established as an independent authority in 1992 and serves as the regulatory body overseeing the entire stock exchange in India. SEBI possesses the authority to enforce fines and penalties in the event of rule violations. It plays a crucial role in safeguarding the interests of investors within the Indian stock exchange. Additionally, SEBI actively promotes the education and training of intermediaries involved in the stock market. SEBI's actions are subject to scrutiny through a specialized appellate tribunal. The Securities Appellate Tribunal (SAT), consisting of three members, handles appeals against SEBI's and stock exchanges' decisions. In case of dissatisfaction with the SAT's ruling, further appeals can be made to the Supreme Court.



4.6.3 Role of RBI in regulating Indian stock markets

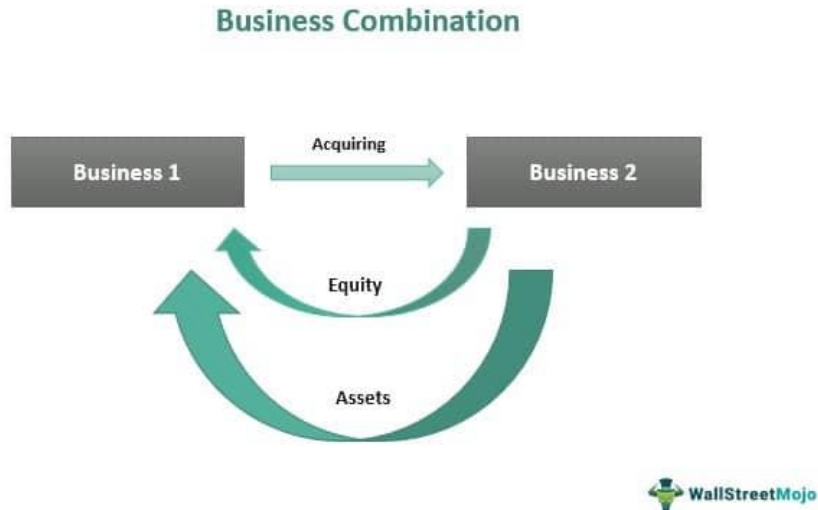
The RBI is the central bank of India. It is responsible for formulating and implementing monetary policy measures that affect interest rates and liquidity conditions. These policies play an important role on the stock market as they affect the cost of borrowing and overall market liquidity. Furthermore, the central bank also oversees the payment and settlement systems in the securities market, thereby ensuring a secure mechanism for the clearing and settlement of stock market transactions. In consultation with SEBI, RBI also regulates foreign investments in the Indian stock market and monitors foreign direct investment (FDI) limits, portfolio investment schemes, and other capital flow restrictions.

Business Combination

4.7.1 Meaning

Business Combination is a type of transaction in which businesses aim to grow in size using one organization acquiring the other organization and, therefore,

taking control of the business activities and the employees of the other organization. In simple terms, it is a consolidation of two or more businesses to achieve a common goal by eliminating competition.



4.7.2 Definition

The Business Combination definition states, “It is a transaction in which the acquirer obtains control of another business.” The acquirer takeover assets, liability and employees of the acquiree. Obtaining control is one of the key elements of the transaction. A company can acquire control of another company by either acquiring assets or liabilities or by acquiring significant equity. Let's see some examples in which an acquirer can obtain control.

- By buying net assets and paying in cash or cash equivalent
- By incurring liabilities
- By entering into a contract for taking over the management of the acquiree
- Or by acquiring more than 50% of equity shares of the acquiree.

4.7.3 Elements and Terms of Business Combinations

To better understand the meaning of business combination, it is important to know the key terms and elements of acquisition.

- **Acquirer:** The buyer company is taking over the business and control of another company.
- **Control:** It is the power to make significant management decisions, and the decision is related to the finance and operations of the business.
- **Acquiree:** It is the seller company whose net assets or equity interest is acquired by the acquirer.
- **Business:** It is one of the important elements. It is the group of activities and assets that can be individually managed and are capable of providing goods and services to the final customer, generating interest and dividends for the investors and other income. In simple words, an integrated system that is capable of carrying out ordinary business transactions.
- **Asset acquisition:** Under this scheme, buyers only take over certain assets and liabilities. The buyer doesn't get complete control of the entity, and it only assumes risk related to the purchased assets.

4.7.4 Objectives of a Business Combination

- **Market extension:** Growing business organically is a slow process. Companies take over businesses of other entities working in the same industry but have a different market. The main objective is to increase the market share and client base.
- **Product line expansion:** To start a product line from scratch is a tedious and complicated process. Companies can merge with a company with the targeted product line. In such a combination, companies are saved from setting up things from scratch, and they acquire an existing business.
- **Elimination of competition:** Market leaders take over other entities to eliminate competition in the industry. Bringing companies under the same control is profitable and helps create a market monopoly.
- **Effective management:** Employees and expert managers are the assets of the company. Combining two or more companies also brings together the best management personnel. Under Business combinations transactions with assets and liabilities, employees and management are also taken over. Few mergers took place, especially to bring experts and experienced managers.

4.7.5 Characteristics of Business Combination

The characteristics below are of utmost importance in the business combination, which involves one organization taking control of another business.

- **Target Business Viability** – The target business should have assets, processes, or other inputs that can be viable for the acquiring organization to benefit from the transaction.
- **Consideration** – The **business combination accounting** transaction is completed only when the acquiring organization transfers a pre-agreed amount as cash, equities, or liabilities receivables to the target business, which is termed as Consideration.
- **Control of the Business** – The acquiring organization needs to own 50% stakes of the target organization to have the organization's controlling rights.

4.7.6 CAUSES OF BUSINESS COMBINATION

(i) Wasteful Competition:

- Competition, which is said to be the 'salt of trade', by going too far, becomes a very powerful instrument for the inception and growth of business combinations. In fact, competition, according to Haney, is the major driving force, leading to the emergence of combinations, in industry.

(ii) Economies of Large-Scale Organization:

- Organization of production on a large scale brings a large number of well-known advantages in its wake – like technical economies, managerial economies, financial economies, marketing economies and economies vis-a-vis greater resistance to risks and fluctuations in economic activities. Economies of large scale operations, thus become, a powerful force causing increased race for combinations.

(iii) Desire for Monopoly Power:

- Monopoly, a natural outcome of combination, leads to the control of market and generally means larger profits for business concerns. The

desire to secure monopolistic position certainly prompts producers to join together less than one banner.

(iv) Business Cycles:

- Trade cycles, the alternate periods of boom and depression, lead to business combinations. Boom period i.e. prosperity period leading to an unusual growth of firms to reap rich harvest of profits results in intense competition; and becomes a ground for forming combinations.

(v) Joint Stock Companies:

- The corporate form of business organization is a facilitating force leading to emergence of business combinations. In joint stock companies, control and management of various corporate enterprises can be concentrated, in a 'small group of powerful persons through acquiring a controlling amount of shares of different companies.

(vi) Influence of Tariffs:

- Tariffs have been referred to as **“the mother of all trusts”**. (A trust is a form of business combinations). Tariffs do not directly result in combinations; they prepare the necessary ground for it. In fact, imposition of tariffs restricts foreign competition; but increases competition among domestic producers. Home producers resort to combinations, to protect their survival.

(vii) Cult of the Colossal (or Respect for Bigness):

- In the present-day-world, business units of bigger size are more respected than units of small size. Those who believe in the philosophy of power and ambition, compel small units to combine; and are instrumental in forming powerful business combinations, in a craze for achieving bigness.

(viii) Individual Organizing Ability:

- The scarcity of organizing talent has also induced the formation of combinations, in the business world. Many-a-times, therefore, combinations are formed due to the ambition of individuals who are gifted

with organizing ability. The number of business units is far larger than the skilled business magnates; and many units have to combine to take advantage of the organizing ability of these business brains.

4.8 TYPES OF BUSINESS COMBINATIONS

Combinations may take several forms, such as horizontal, vertical, lateral, and diagonal, circular, or maybe a mixture of two or more of these types.

4.8.1 Horizontal Combination

- A horizontal combination comes into being when units carrying on the same trade or pursuing the same productive activity join together with a common end in view.
- The intensity of competition is naturally reduced when several units competing in the same line of business join together. The combining units can well take advantage of the various economics associated with large scale production by making common purchases, pooling resources for research, common advertising, etc.

4.8.2 Vertical Combinations

- Vertical integration is the combination of firms in successive stages of the same industry. It implies the integration of various processes of an industry. Vertical combinations are brought into existence with the following objects in view:
- To eliminate the wasteful and unnecessary expenses involved in carrying on the connected processes separately.
- To eliminate middlemen functioning between various units
- To secure economies in marketing, advertising, and transport
- To maintain control over the quality of raw materials and finished products

4.8.3 Lateral Combination

- Lateral integration refers to the combination of those firms which manufacture different kinds of products though they are 'allied in some way. It can be of two kinds;
- convergent lateral integration, and

- Divergent lateral integration.
- The convergent lateral combination comes into existence when different forms join together to supply goods and services to help the functioning of major undertakings. Example: For instance, a book publishing may join with other units producing paper, doing printing work, and providing bookbinding services.

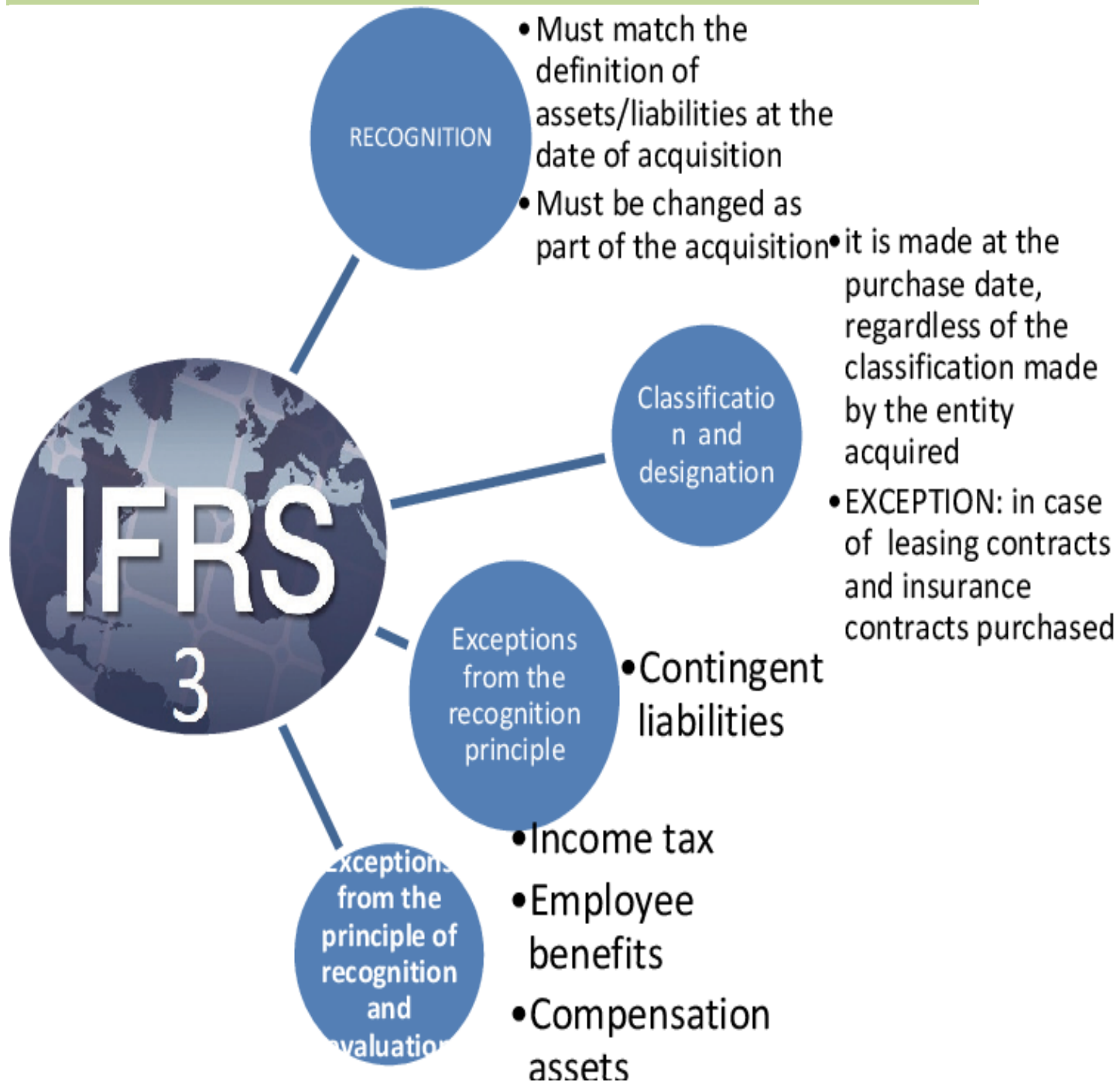
4.8.4 Diagonal Combination

- It is also called 'Service' integration Diagonal integration comes into existence when a unit providing auxiliary goods and services to industry is combined with a unit engaged in the mainline of production, within the organization. Example: For example, if an industrial enterprise combines with a transport company, a power station or a repairs and maintenance workshop, and makes these facilities available within the organization, it will be said to have effected diagonal integration.

4.8.5 Circular Combination

- When firms belonging to different industries and producing altogether different products and combine under the banner of a central agency, it is called a mixed or circular combination. This is affected to ensure smooth conduct of business operations by making timely availability of auxiliary services within the organization.

4.9 EFFECTS OF COMBINATIONS IN INDIA:



4.9.1. Advantages of Business Combinations

- **Competition:** The major benefit of a business combination is the elimination of competition in the market.
- **More customers:** Combinations result in capturing new markets. This increased number of new customers will bring in more revenue.
- **Low cost:** The mergers help in achieving economies of scale. Large-scale production and the combination of best processes help in lowering per unit cost.
- **Better management:** It combines the best managerial personnel that provide benefits to the combined entity.
- **Better services:** By taking over a service company, the manufacturing company will be able to provide customer support services. That will provide increased customer satisfaction.

4.9.2 Disadvantages of Business Combinations

- **Monopoly:** Business combination may result in the concentration of controlling power in the hands of a single company. The company can abuse this dominating power, which will not be good for the market and the customers in the long run.
- **Added cost:** To initiate a Business combination transaction and finalize it, a company hires experts, and it is a long and costly process.
- **Uncertainty in employees:** The takeover of a company creates uncertainty in the minds of the employees of the acquiree company. This might result in a hostile attitude from the labour force.
- **It might fail:** It is not guaranteed that every business combination will result in profit and gain.

4.10 Conclusion

The regulatory bodies in India play a vital role in upholding stock prices, which, in turn, contribute to the overall expansion of the country's economy. Additionally, Indian financial authorities actively encourage citizens to enhance their savings and **invest in the stock market**. By safeguarding investors' capital, these regulators foster trust and

confidence in the market. This promotes the generation of capital, thereby facilitating the acceleration of the nation's economic growth.

4.11 LET'S SUM UP

A stock exchange is a marketplace where securities, such as stocks and bonds, are bought and sold. A stock exchange is an important factor in the capital market. It is a secure place where trading is done in a systematic way. The stock market in India is regulated by various bodies, with the primary regulatory authority being the Securities and Exchange Board of India (SEBI). SEBI is a statutory regulatory body established in 1992 to protect the interests of investors and promote the development of the securities market in India. Business Combination is a consolidation of two or more businesses to achieve a common goal by eliminating competition.

Self- Assessment Questions**Check Your Progress****Multiple Choice Questions (MCQs):**

1. Which of these is a function of the stock exchange?

- a. Role of an economic barometer
- b. Valuation of securities
- c. Encouraging investments and savings
- d. All of the above

Answer: d

2. Which of these is the regulatory body for the capital markets in India?

- a. National Bank for Agriculture and Rural Development (NABARD)
- b. Securities and Exchange Board of India (SEBI)
- c. Insurance Regulatory and Development Authority (IRDA)
- d. Reserve Bank of India (RBI)

Answer: b

3. How many companies is a part of Sensex (Stock Exchange Sensitive Index)?

- a. 20
- b. 30
- c. 50
- d. 100

Answer: b

4. Which of the following terms is not related to a stock exchange?

- a. Knowledge Process Outsourcing (KPO)

- b. Net Asset Value (NAV)
- c. Initial Public Offering (IPO)
- d. National Stock Exchange (NSE)

Answer: a

5. When was NIFTY (National Stock Exchange Fifty) established?

- a. 1992
- b. 1998
- c. 1996
- d. 1994

Answer: c

6. A contract between a buyer and a seller, entered on a particular date, regarding a transaction that they will fulfill at a later date, is known as ____.

- a. Forward Contract
- b. Future Contract
- c. Fixed Contract
- d. Derivative Contract

Answer: b

7. The first computerized stock exchange in India was _____.

- a. Bombay Stock Exchange (BSE)
- b. Multi Commodity Exchange (MCX)
- c. National Stock Exchange (NSE)
- d. Over-the-Counter Exchange of India (OCTEI)

Answer: c

8. NIFTY and SENSEX are calculated based on _____.

- a. Free-Float capitalization
- b. Market capitalization
- c. Authorized share capital

d. Paid-up capital

Answer: a

9. Which of these derivatives does not get traded in the Indian Stock Exchanges?

a. Forward rate agreements

b. Index options

c. Stock futures

d. Index futures

Answer: a

10. Which of the following options is not available in India?

a. Commodity futures

b. Index options

c. Index futures

d. Commodity options

Answer: d

11. Which of the following statements is valid for mutual funds in India?

a. Entry load is allowed

b. Exit load is not allowed

c. Exit load is allowed in some cases

d. Entry load is not allowed

Answer: c

12. The spot exchange rate is the exchange rate between two currencies for

_____.

a. For future delivery

b. For delivery at a particular spot in future

c. For immediate delivery

d. None of the above

Answer: c

13. The Securities and Exchange Board of India (SEBI) is not responsible for _____.

- a. Ensuring fair practices by companies
- b. Investor protection
- c. Improving the earnings of shareholders
- d. Promoting efficient services by brokers**

Answer: c

14. In primary markets, the property of shares that make it easy to sell newly issued security is called _____.

- a. Large funds
- b. Increased liquidity
- c. Decreased liquidity
- d. Money flow

Answer: b

15. The markets where securities instruments are traded directly between buyer and seller are known as _____.

- a. Secondary markets
- b. Primary markets
- c. Tertiary markets
- d. None of the above

Answer: b

16. In which year did the Sensex cross the 5000 point mark for the first time?

- a. 1991
- b. 2002
- c. 1999
- d. 1996

Answer: c

17. The headquarters of the National Stock Exchange is situated in _____.

- a. Mumbai
- b. Kolkata
- c. Chennai
- d. Delhi

Answer: a

18. The promoter of the National Stock Exchange is _____.

- a. State Bank of India (SBI)
- b. Life Insurance Company (LIC) and General Insurance Company (GIC)
- c. Industrial Development Bank of India (IDBI)
- d. All of the above

Answer: d

19. Which of these trading individuals have a license from the Securities Exchange Board of India (SEBI) to operate in commodity derivative and equity markets?

- a. Brokers
- b. Clearing members
- c. Non-Banking Financial Company (NBFC)
- d. Both a and b

Answer: d

20. The financial body that has asked intermediaries and companies to make regulatory payments in digital mode is _____.

- a. Reserve Bank of India (RBI)
- b. Securities Exchange Board of India (SEBI)
- c. Bombay Stock Exchange (BSE)
- d. National Stock Exchange (NSE)

Answer: b

21. Which of the following statements is incorrect about the Securities Exchange Board of India (SEBI)?

- a. It is a statutory body
- b. It was given statutory powers by an ordinance in 1992
- c. It is a non-statutory body
- d. None of the above

Answer: C

Short Questions

1. What is Business Combination? and explain the causes of business combination.
2. Bring out the types of business combination.
3. What are the characteristics of business combination?
4. What are the objectives of business combination?
5. Bring out the elements of business combination.

Long Questions

1. Briefly explain about Stock Exchange and its function?
2. Explain the types of Stock Exchange.
3. What are the effects of combination in India?
4. Briefly explain the regulation of stock exchange in India.

UNIT - V

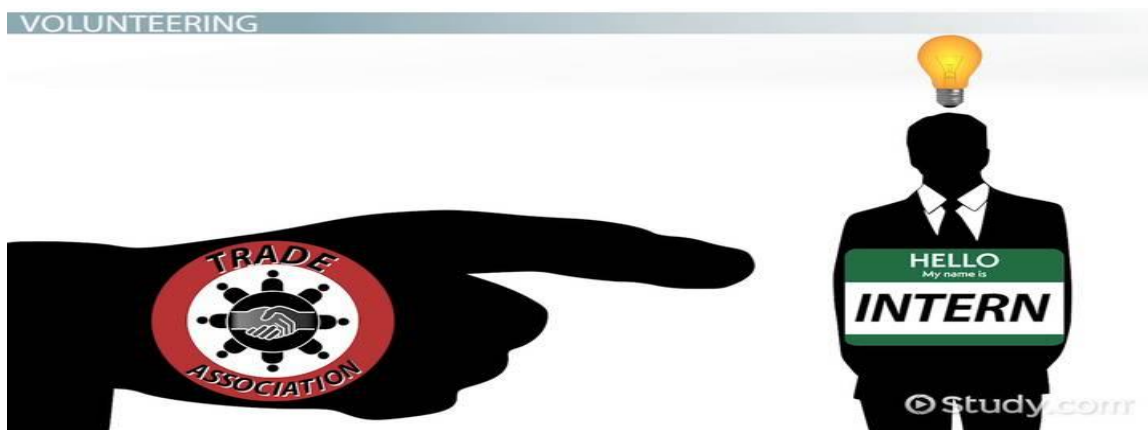
TRADE ASSOCIATION

UNIT OBJECTIVES

In this unit the learner will understand trade associations and chambers of commerce in India.

5.1 Introduction

A trade association, also known as an industry trade group, business association, sector association or industry body, is an organization founded and funded by businesses that operate in a specific industry. An industry trade association participates in public relations activities such as advertising, education, publishing, lobbying, and political donations, but its focus is collaboration between companies. Associations may offer other services, such as producing conferences, setting industry standards, holding networking or charitable events, or offering classes or educational materials. Many associations are non-profit organizations governed by bylaws and directed by officers who are also members. (FEC: Solicitable Class of Trade Association). Many associations are non-profit organizations governed by bylaws and directed by officers who are also members. (Library of Congress). In countries with a social market economy, the role of trade associations is often taken by employers' organizations, which also take a role in social dialogue.



5.1.1 Meaning:

Trade Association is an association of traders or producers engaged in the same line of trade whose major aim is to protect and safeguard the interest of their members as well as their business. Examples are M.O.A.L.S (Motorcycle Operators Association of Lagos State)

Trade Associations are the oldest and simplest form of combination. These are the organizations formed to serve particular branches of industry and trade and to protect their common interest.

5.1.2 Objectives of the Trade Associations

The functions of the association are generally determined by their constitution. They are formed with varied objectives and their pattern of organization also differs. Moreover, their objectives differ from association to association depending upon the type of trade or industry they represent.

However, H. Haney, a well-known author made an attempt to classify the objectives into four types, which are as follows:

1. To increase the individual efficiency through education.
2. To minimize competition or to prevent cutthroat competition.
3. To project or extent trade as a whole through legislation.
4. To develop the trade as a whole through technical work.

Besides, the associations may have other specified objectives also.

5.1.3 Special Features of Trade Associations

For understanding the special characteristics of the trade associations, we shall briefly enlist them.

1. Loose Form of Organization

This form of organization is so loose and informal. The membership is open to all traders and they are at liberty to quit from the association at any time they want. In other words, trade associations neither interfere in the internal management of a member unit nor impose any penalty for violating the code of business conduct. As such, they are purely voluntary associations.

2. Non-profit making Bodies

Trade associations do not conduct any business of their own and have no direct objective of profitability in view.

3. Scope of the Association

Trade association is generally formed to promote and protect the interest of the people engaged in a particular trade, industry or business.

Example: Indian Jute Mills Associations, Indian Sugar Mills Association (Industry), Grain Merchants Association (Trade) etc. These associations are national in character. The number of such national associations is very much limited. Majority of the associations are organized on local or territorial basis. Examples are: Calcutta Trader's Association, and Bombay Trader's Association.

4. Source of Income

The main source of income of the trade association consists of entrance and subscription fees collected from the members. The expenses of the association are met out of this income.

5. Pattern of Organization

The trade associations are generally registered under the Trade Union Act or Companies Act. Again they may be formed as companies with or without share capital. If it is formed with share capital, the members should purchase the shares. Generally, these associations are formed as companies limited by guarantee. But registration under any of the above Acts is only optional.

5.1.4 Functions of the Trade Associations

To attain the above-mentioned objectives, the trade associations generally perform the following functions:

1. Assist members to adopt uniform accounting and costing methods.
2. Conduct industrial and market research, collect statistical data and make available the findings to the members.
3. Formulate a code of business conduct and help to encourage business ethics among members and put down or eliminate unfair business practices in the trade or industry concerned.

4. Conduct conferences and arrange conventions with a view to bring together the members or representatives of the trade and industry.
5. Collect and supply information to the members on matters such as prices, Government regulations, market news, taxes etc.
6. Assist in standardizing trade practices and thereby help to evolve uniform business practices.
7. Publish trade magazines and release periodic bulletins on topics of interest and thereby help to educate both the members and the general public.
8. Raising the voice of the members or representing the grievances of the members to the Government when any move to affect their interest is proposed by the Government.
9. Doing all such things as may be necessary for the extension and development of trade and industry and doing all such things, which are instrumental or incidental to the achievement of their main objectives.

Besides, a few trade associations also arrange for the settlement of trade disputes among their members, help to collect bad or irrecoverable debts etc.

5.1.5 FEATURES OF TRADE ASSOCIATION

- Membership is voluntary
- They are regionally based
- Its main aim is to protect or safeguard the interest of members
- It is financed from the subscriptions paid by members.

5.1.6 DISADVANTAGES OF TRADE ASSOCIATION

- They sometimes restrict entry into their trade.
- They reduce supply of goods in order to create artificial scarcity, thereby linking prices.
- They can hold the community to ransom, thereby causing crises (e.g. transporters).

5.2 CHAMBER OF COMMERCE

A chamber of commerce refers to an organization or a network comprising businesses. It is established to promote and protect the interests of its member firms.

The Indian Chamber of Commerce (ICC), established in 1925, is the leading and only National Chamber of Commerce headquartered in Kolkata. It is one of the country's most progressive and forward-looking chambers. Its membership stretches to some of India's most influential and powerful industrial classes.

The strength of the ICC is its ability to predict potential needs, respond to challenges and prepare the economic stakeholders to take advantage of those changes and opportunities.

5.2.1 Functions of Chambers of Commerce

Chambers of Commerce performs a number of useful functions in promoting the interests of the business community. Some of the important functions are:

1. Performing the role of spokesman of the business community.
2. Collection and communication of information relevant to business and trade to members.
3. Making representations to government regarding any legislation which is detrimental to their interests. For example, Chambers of Commerce has made representations to the government regarding the Fringe Benefit Tax (FBT).
4. Making representation to the government regarding any proposed legislation. For example, Chambers of Commerce has made representations regarding the proposed Competition Commission.
5. Requesting the government for any new legislation to promote trade and commerce. For example Chambers of Commerce have been representing to the government the need for an exit policy (freedom to close down unviable businesses).
6. Requesting the government for changes in existing legislation. For example Chambers of Commerce have been requesting the government to amend labour laws

(making them more flexible) so as to enable them to hire and fire workers according to the business requirements.

7. To serve as a forum for settlement of disputes among members by means of Arbitration.
8. Maintenance of information and statistical bureaus in order to provide necessary information to its members.
9. Organizing industrial fairs and trade exhibitions to create awareness among buyers and promote members businesses.
10. Organizing lectures, seminars and workshops for the benefit of its members. For example Chambers of Commerce conducts meetings and workshops after the Union Budget is presented to make members aware of the changes in tax provisions. Discussions with the Finance Minister may also be organized to enable members clear their doubts, air their grievances and make suggestions.
11. Providing support to members who are contesting elections for Legislative Assembly or Parliament.
12. Providing library facility for knowledge enhancement of members.
13. Running educational programs, conducting examinations and awarding diplomas to members.

In essence, chambers of commerce take all steps to promote the interests of the business community. They play an important role in protecting the interests of their members and fostering trade, industry and commerce.

5.2.2 OBJECTIVE OF CHAMBER OF COMMERCE

Chambers of commerce seeks to achieve the following objectives:

- i. To protect the interests of business community as a whole.
- ii. To develop a sense of cooperation among their members.
- iii. To collect and supply useful information to the members.
- iv. To advise the Government on matter relating to trade, commerce and industry.
- v. To consult the Central and State Governments on matters relating to trade, commerce and industry.

- vi. To assist the Government in making budget by expressing views on different sectors of the country's economy.
- vii. To bring to the notice of the Government the impact of various laws and regulations on business.
- viii. To make the members aware of changes in the field of technology, marketing, financing, human resources, etc.
- ix. To talk to foreign businessmen and explore the areas where Indian businessmen can cooperate and participate.
- x. To draw plans and projects for encouraging the growth of trade and commerce in the country.
- xi. To carry on research for the benefit of members.
- xii. To protect the environment from industrial pollution.
- xiii. To organise educational and training facilities for the members.
- xiv. To provide legal advice to members.
- xv. To act as arbitrators in order to solve disputes among the members.

5.3 CHAMBER OF COMMERCE WORKING IN INDIA

As a leading chamber of commerce in India, the ICC serves as a catalyst for economic growth, advocacy, and sustainable development. With a rich history spanning decades, the ICC has consistently championed the interests of its members and played a pivotal role in shaping India's business landscape.

5.3.1 HISTORY

It was established in 1927, on the advice of Mahatma Gandhi by Indian businessman G.D. Birla and Purshottamdas Thakurdas. It is the largest, one of the oldest and the apex business organization in India. It is a non-government, not-for-profit organization. FICCI draws its membership from the corporate sector, both private and public, including SMEs and MNCs. The chamber has an indirect membership of over 250,000 companies from various regional chambers of commerce. It is involved in sector-specific business building, business promotion and networking. Currently, it is

headquartered in the national capital New Delhi and has a presence in 12 states in India and 8 countries around the world.

5.3.2 Allied Organisations

5.3.2.1 Confederation of Indian Food Trade and Industry

Confederation of Indian Food Trade and Industry (CIFTI) caters to the Indian food Industry. It deals with policies, trade affairs and capacity building. CIFTI provides institutional support and partners with the Government and the Indian private sector in promotion and development of Indian food processing industry. CIFTI was established by FICCI in 1985. It is currently led by Sanjay Khajuria who serves as its president.

5.3.2.2 Arbitration and Conciliation Tribunal

FICCI Arbitration and Conciliation Tribunal (FACT) provide arbitration services for settling commercial disputes. FACT was established in 1952 and aims at settling business disputes outside the traditional framework offered by courts of law through arbitration and conciliation, as the case may be.

5.3.2.3 Alliance for Consumer Care

FICCI Alliance for Consumer Care (FACC) is a dedicated centre set up by FICCI along with Department of Consumer Affairs (India) to enhance consumer care practices and facilitate stakeholder interaction. It facilitates prompt redressal of consumer grievances, a dialogue between the business and consumers and promotion of responsible business practices.

5.3.2.4 Ladies Organization

FICCI Ladies Organization was established in 1983 to promote entrepreneurship and professional excellence among women in India.

5.3.2.5 Aditya Birla CSR Centre for Excellence

Aditya Birla CSR Centre for Excellence is a joint initiative of FICCI and the Aditya Birla Group. The center aims at development of inclusive and holistic CSR practices. This center also organizes the Business world FICCI CSR Award, an annual award aimed at identifying & recognizing remarkable CSR initiatives.

5.3.2.6 Confederation of Micro, Small and Medium Enterprises (CMSME)

Confederation of Micro, Small and Medium Enterprises is an affiliated body of FICCI. It was established in December 2013. It aims to connect MSMEs with mentors, incubators & accelerators and assist them through capacity building programs & services; deliberate of policy concerns of the sector; and provide regular interface between Industry, Government and regulators. In terms of the scope of work, CMSME is similar to FICCI with the only differentiation being the exclusive focus on Micro, Small and Media enterprises in India.

5.4 CASCADE

FICCI Committee Against Smuggling and Counterfeiting Activities Destroying Economy (CASCADE) was launched on 18 January 2011 and aims to run consumer sensitization drives on the impact of using smuggled, contraband and counterfeit products across India. The body is also engaged in capacity building of law enforcement agencies and research. It has estimated an annual tax loss to government of India due to smuggling and counterfeits at Rs 26,190 crore.

5.5 Indian Chambers of Commerce

The Indian government oversees the health of its trade sector through the Ministries of Finance and Commerce and Industry. However, Indian chambers of commerce and industry have been established to assist. These are often non-profit, voluntary groups and chambers collaborating with the government to improve domestic trade in our nation.

One of the most crucial elements of an economy is internal trade or domestic trade as it is also known. A strong trade sector is a sign of a strong economy. Therefore, it should be no surprise that the government prioritizes promoting and safeguarding domestic trade, which the Indian Chambers of Commerce also does.

5.6 Role of Indian Chambers of Commerce and Industry in Promotion of Internal Trade

- **Transit or Interstate Transshipment:** The Chambers of Commerce and Industry support several initiatives related to interstate movement of goods, such as vehicle registration, mass transit regulations, and road building.
- **Marketing of Agro:** The organizations of agriculturists and other associations play a significant role in the promotion of agro goods..
- **Scales and Measures:** This, as well as laws regarding the safeguarding of brands and the restriction of brand duplication, are required to safeguard the interests of both consumers and business owners.
- **Encouraging Infrastructure:** A sound infrastructure, such as roads, ports, trains, and electricity, plays a catalytic function in fostering trade.
- **Workplace Regulations:** A straightforward and adaptable labour law is useful for managing industries, increasing productivity, and creating jobs. They frequently communicate with the government on topics like labour laws, layoffs, etc.
- **Octroi and Other Municipal Levies** are collected on persons joining the state or municipal boundaries and from commodities. The government and chambers of commerce should ensure that their pressure does not jeopardise local trade and efficient transit.
- **Harmonization of Valuation Tax and Sales Tax Structures:** The Chambers of Commerce and Industry are crucial in working with the government to unify the sales tax structures in various states.

- **Excise Duty:** Central excise is the primary means through which the federal government collects money from the states. Since the tax policy significantly impacts price, groups must work with the government to ensure that excise duties are simplified.

5.7 Difference between chambers of commerce and trade associations

A trade association is a voluntary association of persons belonging to the same trade or industry. It may be organized on the basis of regions also. It is a non-profit body established to protect and promote the interests of a particular trade or industry.

Indian Jute Mills Association, Indian Sugar Mills Association, All India Food grain Dealers' Association, Bombay Mill Owners' Association are examples of trade associations.

Both Chambers of commerce and trade associations are voluntary and non-profit organizations of businessmen. They perform by and large similar functions. But there are following differences between them.

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 a 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 organized on trade basis. A chamber of commerce is often organized 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 Associations, etc. On the other hand, the name of a chamber of commerce is decided after the name of a region or community, e.g., Bengal Chamber of Commerce, Marwari Chamber of Commerce, etc.

5.8 LET'S SUM UP

A trade association, also known as an industry trade group, business association, sector association or industry body, is an organization founded and funded by businesses that operate in a specific industry. A chamber of commerce refers to an organization or a network comprising businesses. It is established to promote and protect the interests of its member firms. It is one of the country's most progressive and forward-looking chambers.

Self –Assessment Questions**Check Your Progress****Multiple Choice Questions (MCQs):**

1. What is the primary function of a Chamber of Commerce?

- A) Enforce trade regulations
- B) Promote local businesses and economic development
- C) Collect taxes
- D) Regulate import and export activities

Answer: B

2. Which of the following is typically a service provided by a Chamber of Commerce?

- A) Providing legal advice to individuals
- B) Organizing community events and networking opportunities
- C) Offering health insurance plans
- D) Setting interest rates for loans

Answer: B

3. What is the primary purpose of a trade association?

- A) To compete with other businesses in the same industry
- B) To support the interests and goals of member businesses within a specific industry
- C) To provide financial loans to struggling businesses
- D) To regulate government policies directly

Answers: B

4. Which of the following is a common activity of trade associations?

- A) Organizing industry-specific conferences and events
- B) Developing and enforcing laws

- C) Providing healthcare to members' employees
- D) Offering discounts on personal travel for members

Answers: A

5. Trade associations typically provide which of the following to their members?

- A) Legal representation in court cases
- B) Networking opportunities and industry insights
- C) Tax evasion strategies
- D) Direct marketing services to consumers

Answer: B

6. How do trade associations usually influence government policy?

- A) By electing officials directly
- B) Through lobbying and advocacy efforts
- C) By writing and passing legislation themselves
- D) By running political campaigns

Answer: B

7. Membership in a trade association is typically open to:

- A) Only consumers
- B) Businesses and professionals within a specific industry
- C) Government officials
- D) Any individual or entity willing to pay the membership fee

Answer: B

8. What is a key benefit for businesses to join a trade association?

- A) Guaranteed increase in sales
- B) Access to industry-specific training and resources
- C) Complete immunity from legal issues
- D) Free advertising on all media channels

Answer: B

9. Which of the following best describes the structure of most trade associations?

- A) Hierarchical with a single leader
- B) Democratic with elected boards and committees
- C) Corporate with shareholders and dividends
- D) Informal with no specific structure

Answer: B

10. An example of a trade association in the technology sector is:

- A) American Medical Association (AMA)
- B) National Association of Realtors (NAR)
- C) Consumer Technology Association (CTA)
- D) Motion Picture Association (MPA)

Answer: C

11. Which factor is least likely to be a focus of a trade association?

- A) Industry standards and best practices
- B) Competitive intelligence and market analysis
- C) Individual member companies' proprietary information
- D) Collective bargaining for industry-wide benefits

Answer: C

12. Trade associations can help improve industry standards by:

- A) Mandating compliance through legal enforcement
- B) Developing guidelines and providing education
- C) Issuing fines to non-compliant companies
- D) Creating monopolies within the industry

Answers: B

Short Questions

1. Bring out the special features of Trade Associations.
2. What are the objectives of Trade Associations?
3. How will the chamber of commerce working in India.
4. Write short note on Indian Chamber of Commerce.

Long Questions

1. What is Trade Associations? List out the functions of Trade Associations.
2. Briefly explain about the objectives of chamber of commerce.
3. What is the Role of Indian Chambers of Commerce and Industry in Promotion of Internal Trade?
4. Distinguish between chambers of commerce and trade associations

Suggested Readings/ References

Books:

1. Business Organisation – C.D. Balaji & Dr. G. Prasad
2. Business Ethics and Values – Dr. S. Sankaran.
3. Business organization - Y.K.Bhushan,Sultan Chand, NewDelhi.
4. Business organization &Management – Prakash &Jagedesh,
5. Principles of Business Organization &Management- Reddy & Gulshar,
6. Business Organization – Vasudevan & Radhasivam,

Web Resources

1. <https://www.vedantu.com/commerce/forms-of-business-organizations>
2. <https://ncert.nic.in/textbook/pdf/kebs102.pdf>
3. <https://www.teachmint.com/tfile/studymaterial/b-com/BusinessOrganization/Chapter1/46db05e8-ee83-497e-aa56-573a1388f80e>