BUSINESS ORGANISATION

FORMS OF BUSINESS ORGANISATION

A business enterprise is an organization which is engaged in some business or commercial activity. Every business enterprises are a separate and distinct unit of business.

Various forms of business organization from which one can choose the right one include

- Sole Proprietorship
- Partnership
- Joint Stock Companies
- Co-operative Societies

SOLE PROPRIETORSHIP

The vast majority of small businesses start out as sole proprietorships. These firms are owned by one person, usually the individual who has day-to-day responsibility for running the business. Sole proprietorships own all the assets of the business and the profits generated by it. They also assume complete responsibility for any of its liabilities or debts. In the eyes of the law and the public, you are one in the same with the business.

Advantages

- Easiest and least expensive form of ownership to organize.
- Sole proprietors are in complete control, and within the parameters of the law, may make decisions as they see fit.
- Profits from the business flow-through directly to the owner's personal tax return.
- The business is easy to dissolve, if desired.

Disadvantages

- Sole proprietors have unlimited liability and are legally responsible for all debts against the business. Their business and personal assets are at risk.
- May be at a disadvantage in raising funds and are often limited to using funds from personal savings or consumer loans.
- May have a hard time attracting high-caliber employees, or those that are motivated by the opportunity to own a part of the business.
- Some employee benefits such as owner's medical insurance premiums are not directly deductible from business income (only partially as an adjustment to income).

PARTNERSHIP

A partnership is a kind of business where a formal agreement between two or more people is made and agreed to be the co-owners, distribute responsibilities for running an organization and share the income or losses that the business generates. In India, all the aspects and functions of the partnership are administered under 'The Indian Partnership Act 1932'. This specific law explains that partnership is an association between two or more individuals or parties who have accepted to share the profits generated from the business under the supervision of all the members or behalf of other members.

Features of Partnership

1. Agreement between Partners

It is an association of two or more individuals, and a partnership arises from an agreement or a contract. The agreement (accord) becomes the basis of the association between the partners. Such an agreement is in the written form. An oral agreement is even-handedly legitimate. In order to avoid controversies, it is always good, if the partners have a copy of the written agreement.

2. Two or More Persons

In order to manifest a partnership, there should be at least two (2) persons possessing a common goal. To put it in other words, the minimal number of partners in an enterprise can be two (2). However, there is a constraint on their maximum number of people.

3. Sharing of Profit

Another significant component of the partnership is, the accord between partners has to share gains and losses of a trading concern. However, the definition held in the Partnership Act elucidates – partnership as an association between people who have consented to share the gains of a business, the sharing of loss is implicit. Hence, sharing of gains and losses is vital.

4. Business Motive

It is important for a firm to carry some kind of business and should have a profit gaining motive.

5. Mutual Business

The partners are the owners as well as the agent of their firm. Any act performed by one partner can affect other partners and the firm. It can be concluded that this point act as a test of partnership for all the partners. 6. Unlimited Liability: Every partner in a partnership has unlimited liability.

Advantages

- Partnerships are relatively easy to establish; however time should be invested in developing the partnership agreement.
- With more than one owner, the ability to raise funds may be increased.

- The profits from the business flow directly through to the partners' personal tax return.
- Prospective employees may be attracted to the business if given the incentive to become a partner.
- The business usually will benefit from partners who have complementary skills.

Disadvantages

- Partners are jointly and individually liable for the actions of the other partners. • Profits must be shared with others.
- Since decisions are shared, disagreements can occur.
- Some employee benefits are not deductible from business income on tax returns.
- The partnership may have a limited life; it may end upon the withdrawal or death of a partner.

COMPANY

Private Company

A private company means a company which by its articles of association:

(i) Restricts the right to transfer its shares

(ii) Limits the number of its members to fifty (excluding members who are or were in the employment of the company) and

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

(iv) Where two or more persons hold one or more shares in a company jointly, they are treated as a single member. There should be at least two persons to form a private company and the maximum number of members in a private company cannot exceed 50. A private limited company is required to add the words "Private Ltd" at the end of its name. Ex: ABC Private Limited/ABC PVT. Limited/ABC (P) Limited

Public company

Public company means a company which is not a private company. There must be at least seven persons to form a public company. It is of the essence of a public company that its articles do not contain provisions restricting the number of its members or excluding generally the transfer of its shares to the public or prohibiting any invitation to the public to subscribe for its shares or debentures. Only the shares of a public company are capable of being dealt in on a stock exchange.

Features of a Joint Stock Company

1) Artificial Legal Person

A company is a legal entity that has been created by the statues of law. Like a natural person, it can do certain things, like own property in its name, enter into a contract, borrow and lend money, sue or be sued, etc. It has also been granted certain rights by the law which it enjoys through its board of directors. However, not all laws/rights/duties apply to a company. It exists only in the law and not in any physical form. So we call it an artificial legal person.

2) Separate Legal Entity

Unlike a proprietorship or partnership, the legal identity of a company and its members are separate. As soon as the joint stock company is incorporated it has its own distinct legal identity. So a member of the company is not liable for the company. And similarly, the company will not depend on any of its members for any business activities.

3) Incorporation

For a company to be recognized as a separate legal entity and for it to come into existence, it has to be incorporated. Not registering a joint stock company is not an option. Without incorporation, a company simply does not exist.

4) Perpetual Succession

The joint stock company is born out of the law, so the only way for the company to end is by the functioning of law. So the life of a company is in no way related to the life of its members. Members or shareholders of a company keep changing, but this does not affect the company's life.

5) Limited Liability

This is one of the major points of difference between a company and a sole proprietorship and partnership. The liability of the shareholders of a company is limited. The personal assets of a member cannot be liquidated to repay the debts of a company. A shareholders liability is limited to the amount of unpaid share capital. If his shares are fully paid then he has no liability. The amount of debt has no bearing on this. Only the company's assets can be sold off to repay its own debt. The members cannot be made to pay up.

6) Common Seal

A company is an artificial person. So its day-to-day functions are conducted by the board of directors. So when a company enters any contract or signs an agreement, the approval is indicated via a common seal. A common seal is engraved seal with the company's name on it. So no document is legally binding on the company until and unless it has a common seal along with the signatures of the directors.

7) Transferability of Shares

In a joint stock company, the ownership is divided into transferable units known as shares. In case of a public company the shares can be transferred freely, there are almost no restrictions. And in a public company, there are some restrictions, but the transfer cannot be prohibited.

Advantages

- One of the biggest drawing factors of a joint stock company is the limited liability of its members. Their liability is only limited up to the unpaid amount on their shares. Since their personal wealth is safe, they are encouraged to invest in joint stock companies
- The shares of a company are transferable. Also, in the case of a listed public company they can also be sold in the market and be converted to cash. This ease of ownership is an added benefit.
- Perpetual succession is another advantage of a joint stock company. The death/retirement/insanity/etc does affect the life of a company. The only liquidation under the Companies Act will shut down a company.
- A company hires a board of directors to run all the activities. Very proficient, talented people are elected to the board and this result in effective and efficient management. Also, a company usually has large resources and this allows them to hire the best talent and professionals.

Disadvantages

- One disadvantage of a joint stock company is the complex and lengthy procedure for its formation. This can take up to several weeks and is a costly affair as well.
- According to the Companies Act, 2013 all public companies have to provide their financial records and other related documents to the registrar. These documents are then public documents, which any member of the public can access. This leads to a complete lack of secrecy for the company.
- And even during its day to day functioning a company has to follow a numerous number of laws, regulations, notifications, etc. It not only takes up time but also reduces the freedom of a company
- A company has many stakeholders like the shareholders, the promoters, the board of directors, the employees, the debenture holders, etc. All these stakeholders look out for their benefit and it often leads to a conflict of interest.

CO-OPERATIVES

A cooperative society is not a new concept. It prevails in all the countries; this is almost a universal concept. The cooperative society is active in all countries worldwide and is represented in all the sectors including agriculture, food, finance, healthcare, etc. To protect the interest of weaker sections, the co-operative society is formed. It is a voluntary association of persons, whose motive is the welfare of the members.

Features

- As it is a voluntary association, the membership is also voluntary. A person is free to join a cooperative society, and can also leave anytime as per his desire. Irrespective of their religion, gender & caste, membership is open to all.
- It is compulsory for the co-operative society to get registration. The co-operative society is a separate legal identity to the society.
- It does not get affected by the entry or exit of its members.
- There is limited liability of the members of co-operative society. Liability is limited to the extent of the amount contributed by members as capital.
- An elected managing committee has the powers to take decisions. Members have the right to vote, by which they elect the members who will constitute the managing committee.
- The cooperative society works on the principle of mutual help & welfare. Hence, the principal of service dominates its working. If any surplus is generated, it is distributed amongst the members as a dividend in conformity with the bye-laws of the society.

PUBLIC ENTERPRISES

Public enterprises occupy an important position in the Indian economy. Today, public enterprises provide the substance and heart of the economy. Its investment of over Rs.10,000 crore is in heavy and basic industry, and infrastructure like power, transport and communications. The concept of public enterprise in Indian dates back to the era of pre-independence.

Genesis of Public Enterprises

In consequence to declaration of its goal as socialistic pattern of society in 1954, the Government of India realized that it is through progressive extension of public enterprises only, the following aims of our five years plans can be fulfilled.

- Higher production
- Greater employment

- Economic equality, and
- Dispersal of economic power

The government found it necessary to revise its industrial policy in 1956 to give it a socialistic bent.

Need for Public Enterprises

The Industrial Policy Resolution 1956 states the need for promoting public enterprises as follows:

- To accelerate the rate of economic growth by planned development
- To speed up industrialization, particularly development of heavy industries and to expand public sector and to build up a large and growing cooperative sector.
- To increase infrastructure facilities
- To disperse the industries over different geographical areas for balanced regional development To increase the opportunities of gainful employment
- To help in raising the standards of living
- To reducing disparities in income and wealth (By preventing private monopolies and curbing concentration of economic power and vast industries in the hands of a small number of individuals)

Achievements of Public Enterprises

The achievements of public enterprise are vast and varied. They are:

1. Setting up a number of public enterprises in basic and key industries

2. Generating considerably large employment opportunities in skilled, unskilled, supervisory and managerial cadres.

3. Creating internal resources and contributing towards national exchequer for funds for development and welfare.

4. Bringing about development activities in backward regions, through locations in different areas of the country.

5. Assisting in the field of export promotion and conservation of foreign exchange.

6. Creating viable infrastructure and bringing about rapid industrialization (ancillary industries developed around the public sector as its nucleus).

7. Restricting the growth of private monopolies

8. Stimulating diversified growth in private sector

9. Taking over sick industrial units and putting them, in most of the vases, in order,

10. Creating financial systems, through a powerful networking of financial institutions, development and promotional institutions, which has resulted in social control and social orientation of investment, credit and capital management systems.

11. Benefiting the rural areas, priority sectors, small business in the fields of industry, finance, credit, services, trade, transport, consultancy and so on.

Forms of public enterprises

Public enterprises can be classified into three forms:

(a) Departmental undertaking

(b) Public corporation

(c) Government company

Departmental Undertaking

This is the earliest from of public enterprise. Under this form, the affairs of the public enterprise are carried out under the overall control of one of the departments of the government. The government department appoints a managing director (normally a civil servant) for the departmental undertaking. He will be given the executive authority to take necessary decisions. The departmental undertaking does not have a budget of its own. As and when it wants, it draws money from the government exchequer and when it has surplus money, it deposits it in the government exchequer. However, it is subject to budget, accounting and audit controls. Examples for departmental undertakings are Railways, Department of Posts, All India Radio, Doordarshan, Defence undertakings like DRDL, DLRL, ordinance factories, and such.

Features

1. Under the control of a government department

The departmental undertaking is not an independent organization. It has no separate existence. It is designed to work under close control of a government department. It is subject to direct ministerial control.

2. More financial freedom

The departmental undertaking can draw funds from government account as per the needs and deposit back when convenient.

3. Like any other government department

The departmental undertaking is almost similar to any other government department

4. Budget, accounting and audit controls

The departmental undertaking has to follow guidelines (as applicable to the other government departments) underlying the budget preparation, maintenance of accounts, and getting the accounts audited internally and by external auditors.

5. More a government organization, less a business organization. The set up of a departmental undertaking is more rigid, less flexible, and slow in responding to market needs.

Advantages

- Effective control: Control is likely to be effective because it is directly under the Ministry.
- Responsible Executives: Normally the administration is entrusted to a senior civil servant. The administration will be organized and effective.
- Less scope for mystification of funds: Departmental undertaking does not draw any money more than is needed, that too subject to ministerial sanction and other controls. So chances for mis-utilisation are low.
- Adds to Government revenue: The revenue of the government is on the rise when the revenue of the departmental undertaking is deposited in the government account.

Disadvantages

- **Decisions delayed:** Control is centralized. This results in lower degree of flexibility. Officials in the lower levels cannot take initiative. Decisions cannot be fast and actions cannot be prompt.
- **No incentive to maximize earnings:** The departmental undertaking does not retain any surplus with it. So there is no inventive for maximizing the efficiency or earnings.
- Slow response to market conditions: Since there is no competition, there is no profit motive; there is no incentive to move swiftly to market needs.
- **Redtapism and bureaucracy:** The departmental undertakings are in the control of a civil servant and under the immediate supervision of a government department. Administration gets delayed substantially.
- **Incidence of more taxes:** At times, in case of losses, these are made up by the government funds only. To make up these, there may be a need for fresh taxes, which is undesirable. Any business organization to be more successful needs to be more dynamic, flexible, and responsive to market conditions, fast in decision making and prompt in actions. None of these qualities figure in the features of a departmental undertaking. It is true that departmental undertaking operates as a extension to the government. With the result, the government may miss certain business opportunities.

So as not to miss business opportunities, the government has thought of another form of public enterprise, that is, Public corporation.

PUBLIC CORPORATION

Having released that the routing government administration would not be able to cope up with the demand of its business enterprises, the Government of India, in 1948, decided to organize some of its enterprises as statutory corporations. In pursuance of this, Industrial Finance Corporation, Employees' State Insurance Corporation was set up in 1948.

Public corporation is a 'right mix of public ownership, public accountability and business management for public ends'. The public corporation provides machinery, which is flexible, while at the same time retaining public control.

Definition

A public corporation is defined as a 'body corporate create by an Act of Parliament or Legislature and notified by the name in the official gazette of the central or state government. It is a corporate entity having perpetual succession, and common seal with power to acquire, hold, dispose of property, sue and be sued by its name". Examples of a public corporation are Life Insurance Corporation of India, Unit Trust of India, Industrial Finance Corporation of India, Damodar Valley Corporation and others.

Features

- **A body corporate:** It has a separate legal existence. It is a separate company by itself. If can raise resources, buy and sell properties, by name sue and be sued.
- **More freedom and day-to-day affairs:** It is relatively free from any type of political interference. It enjoys administrative autonomy.
- **Freedom regarding personne**l: The employees of public corporation are not government civil servants. The corporation has absolute freedom to formulate its own personnel policies and procedures, and these are applicable to all the employees including directors.
- **Perpetual succession:** A statute in parliament or state legislature creates it. It continues forever and till a statue is passed to wind it up.
- **Financial autonomy:** Through the public corporation is fully owned government organization and the initial finance are provided by the Government, it enjoys total financial autonomy, Its income and expenditure are not shown in the annual budget of the government, it enjoys total financial autonomy. Its income and expenditure are not shown in the annual budget of the government. However, for its freedom it is

restricted regarding capital expenditure beyond the laid down limits, and raising the capital through capital market.

- **Commercial audit:** Except in the case of banks and other financial institutions where chartered accountants are auditors, in all corporations, the audit is entrusted to the comptroller and auditor general of India.
- **Run on commercial principles:** As far as the discharge of functions, the corporation shall act as far as possible on sound business principles.

Advantages

- Independence, initiative and flexibility: The corporation has an autonomous set up. So it is independent, take necessary initiative to realize its goals, and it can be flexible in its decisions as required.
- Scope for Redtapism and bureaucracy minimized: The Corporation has its own policies and procedures. If necessary they can be simplified to eliminate redtapism and bureaucracy, if any.
- Public interest protected: The corporation can protect the public interest by making its policies more public friendly, Public interests are protected because every policy of the corporation is subject to ministerial directives and board parliamentary control.
- Employee friendly work environment: Corporation can design its own work culture and train its employees accordingly. It can provide better amenities and better terms of service to the employees and thereby secure greater productivity.
- Competitive prices: the corporation is a government organization and hence can afford with minimum margins of profit, It can offer its products and services at competitive prices.
- Economics of scale: By increasing the size of its operations, it can achieve economics of large-scale production.
- Public accountability: It is accountable to the Parliament or legislature; it has to submit its annual report on its working results.

Disadvantages

❖ Continued political interference: the autonomy is on paper only and in reality, the continued.

❖ Misuse of Power: In some cases, the greater autonomy leads to misuse of power. It takes time to unearth the impact of such misuse on the resources of the corporation. Cases of misuse of power defeat the very purpose of the public corporation.

❖ Burden for the government: Where the public corporation ignores the commercial principles and suffers losses, it is burdensome for the government to provide subsidies to make up the losses.

BUSINESS

Business denotes busi-ness, that is the state of being busy – any activity in which one keeps himself busy.

But the economic term of business refers to work, efforts, and acts of people or human busy in connection with the production of wealth.

Business is the sum of total activities which are connected with the production or purchase and sale of goods and services with the main objective to earn profit.

CHARACTERISTICS OF BUSINESS

1. **Production or Acquisition of Goods**

   Every business whether small or large scale deals with goods and services. The goods may produce, manufacture or procure. Business is either to produce, manufacture or procure and then to supply for a price to those who are in need of the goods so produced, manufactured or procured.

2. Profit

The basic motive of business Profit is an essential part of business; in fact profit is the motivation factor behind a business one carries on. Profit is stimulus and a guarantee to continue the business.

Profit is the factor which ensures the survival of the business. Profit is the reward of all those individuals engaged in a particular business. The efficiency of a businessman depends on the profit which he is able to make during the business operation. He renders singular service to the continuity by satisfying the needs of the people. He expected a reward for such a service rendered and if he gets the double and redoubles his efforts and plans his future in such manner so as to render best possible service to the community.

3. Risk

Uncertainty of future Every business involves risk and uncertainty while carrying on its operations. Future is uncertain and business activity focuses on future. This focus on future and uncertainty of future naturally entails risk. It is risk which every businessman takes when he embarks upon a business activity.

4. Dealing in Goods and Services

Business refers to goods and services dealt with a view to supply to those who need them and are ready to make payment for the same. Dealing in goods and services is business. The goods may either be consumers' goods (Cloth, books, electronics appliances, medicine etc) or Producer goods (machinery, tools etc) or services (courier or transport services etc).

5.Regular Dealings

One of important characteristics of business is regularity and recurrences. Business is not a single operation. A single operation would never constitute a business. It should a regular and continuous entity. Recurrence of dealing is a must to constitute a business. On selling furniture of his household with a view to replace it with new one is not business. But if the same person procures a variety of furniture, keeps the stock and sells them to the consumers, he carries on a business dealing in furniture.

FEATURES OF BUSINESS ORGANISATION

1. **Economic activity:** Business is an economic activity of production and distribution of goods and services. It provides employment opportunities in different sectors like banking, insurance, transport, industries, trade etc. it is an economic activity corned with creation of utilities for the satisfaction of human wants. It provides a source of income to the society.
2. **Buying and Selling:** The basic activity of any business is trading. The business involves buying of raw material, plants and machinery, stationary, property etc. On the other hand, it sells the finished products to the consumers, wholesaler, retailer etc. Business makes available various goods and services to the different sections of the society.

3. **Continuous process:** Business is not a single time activity. It is a continuous process of production and distribution of goods and services. A single transaction of trade cannot be termed as a business. A business should be conducted regularly in order to grow and gain regular returns. Business should continuously involve in research and developmental activities to gain competitive advantage. A continuous improvement strategy helps to increase profitability of the business firm.

4. **Profit Motive:** Profit is an indicator of success and failure of business. It is the difference between income and expenses of the business. The primary goal of a business is usually to obtain the highest possible level of profit through the production and sale of goods and services. It is a return on investment. Profit acts as a driving force behind all business activities.

5. **Creative and Dynamic:** Modern business is creative and dynamic in nature. Business firm has to come out with creative ideas, approaches and concepts for production and distribution of goods and services. It means to bring things in fresh, new and inventive way. One has to be innovative because the business operates under constantly changing economic, social and technological environment. Business should also come out with new products to satisfy the growing needs of the consumers.

6. **Customer satisfaction:** The phase of business has changed from traditional concept to modern concept. Now a day, business adopts a consumer-oriented approach. Customer satisfaction is the ultimate aim of all economic activities. Modern business believes in satisfying the customers by providing quality product at a reasonable price. It emphasize not only on profit but also on customer satisfaction.

8. **Social Activity: Business is a socio-economic activity. Both business and society are interdependent. Modern business runs in the area of social responsibility. Business has some responsibility towards the society and in turn it needs the support of various social groups like investors, employees, customers, creditors etc. by making goods available to various sections of the society, business performs an important social function and meets social needs. Business needs support of different section of the society for its proper functioning.**

9. **Government control: Business organisations are subject to government control. They have to follow certain rules and regulations enacted by the government. Government ensures that the business is conducted for social good by keeping effective supervision and control by enacting and amending laws and rules from time to time.**

10. **Optimum utilisation of resources: Business facilitates optimum utilisation of countries material and non-material resources and achieves economic progress. The scarce resources are brought to its fullest use for concentrating economic wealth and satisfying the needs and wants of the consumers.**

SIZE OF A BUSINESS UNIT

It means the scale or volume of operation turned out by a single firm. The study of the size of a business is important because it significantly affects the efficiency and profitability of the firm.

One of the most important entrepreneurial decisions in organizing a business is realizing its 'size' as it affects in company and profitability of business enterprises.

The term' size of business' refers to the scale of organization and operations of a business enterprise. It is essential here to have a clear understanding of the terms' size' of the 'plant' size of 'firm' and the size of the industry.'

A 'plant' means an establishment of the manufacturing of goods. It represents a production unit where the due provision of all the activities facilitating the production process as made.

A 'firm' means as an organization that owns manages and controls a plant or number of plants and also arranges for the marketing of products, provision of finance, and other facilities to run the organization.

The term industry' implies the aggregate of all firm which manufacture similar types of products.

MEASURES OF SIZE

Business firms vary in size-small, medium, and large. To measure the size of a business unit, the standards of measurement can be grouped into the following two categories.

1. Measures About Input

This includes capital employed, net worth, total assets, labor employed, and raw material and power consumed.

Capital employed

The capital includes owned capital and borrowed capital. The larger the amount of capital employed, the larger the size of the firm.

Net worth

Net worth is the excess of assets over liabilities, as shown in the balance sheet of a firm.

However, for all practical purposes, it refers to the amount of paid-up capital plays reserves and surpluses built up during business.

This measure is appropriate for comparing the size of different firms in an industry or to measure the rate of growth for a particular firm.

Total assets

Another measure of size if the size of the total assets of a firm.

The value of total assets is calculated by taking into account the amount invested in fixed (land, building, plant, and machinery), current (cash, short-term securities, stock, debtors, etc.) and intangible assets (goodwill, planet, rights, etc.).

Labor employed

The number of laborers employed in a firm is another measure commonly employed to measure the size of the business, which is producing similar types of goods and which are in the same stage of development.

Amount of raw materials and power consumed.

The quantity or value of raw materials and power used is yet another measure that can be used to adjudge a firm.

2. Measures about output

The volume of output

The number of goods produced or services rendered may also serve as a good basis for comparison between firms. The greater the number of goods and services produced, the larger the size.

Value of Output

The monetary value of goods and services produced by a firm also serves as a basis for measuring the size of a firm.

Value Added

A useful variation or combination of the two output criteria is the measure of net value-added, calculated by deducting the costs of production from the value of production

FACTORS AFFECTING THE SIZE OF THE FIRM

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.

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.

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.

Size of the market

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

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.

FACTORS DETERMINING THE 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.

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.

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.

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.

Raw Materials Used

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

The volume of the output

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

The capacity of Plant

It is used by firms that produce similar products.

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.

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.

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GLOBALISATION

By the term globalization, we mean opening up of the economy of the world market by attaining international competitiveness. This the globalization of the economy simply indicates interaction of the country relating to production, trading and financial transactions with the developed industrialized countries of the world.

Accordingly, the term globalization has four parameters

Permitting free flow of goods by removing or reducing trade barriers between the countries,

(b) Creating an environment for the flow of capital between the countries,

(c) Allowing the free flow in technology transfer and

(d) Creating an environment for free movement of labor between the countries of the world. Thus, taking the entire world as a global village, all the four components are equally important for attaining a smooth path for globalization

ADVANTAGES OF GLOBALISATION

Globalisation helps to boost the long run average growth rate of the economy of the country through:

(a) Improvement in the allocative efficiency of resources;

(b) Increase in labour productivity; and

Reduction in capital-output ratio.

(ii) Globalization paves the way for removing inefficiency in production systems. The prolonged protective scenario in the absence of globalization makes the production system careless cost effectiveness, which can be attained by following the policy of globalisation.

(iii) Globalization attracts an entry of foreign capital along with foreign updated technology, which improves the quality of production.

(iv) Globalization usually restructure production and trade pattern favoring labor-intensive goods and labor-intensive techniques as well as expansion of trade in services.

(v) In a globalized scenario, domestic industries of developing country become conscious about price reduction and quality improvement to their products so as to face foreign competition.

(vi) Globalisation discourages uneconomic import substitution and favour cheaper imports of capital goods which reduces capital-output ratio in manufacturing industries. Cost effectiveness and price reduction of manufactured commodities will improve the terms of trade in favour of agriculture.

(vii) Globalisation facilitates consumer goods industries to expand faster to meet growing demand for these consumer goods which would result faster expansion of employment opportunities over a period of time. This would result trickle down effect to reduce the proportion of the population living below the poverty line

(viii) Globalization enhances the efficiency of the banking, insurance and financial sectors with the opening up to those areas to foreign capital, foreign banks and insurance companies.

DISADVANTAGES OF GLOBALISATION

Globalisation paves the way for redistribution of economic power at the world level leading to domination by economically powerful nations over the poor nations.

(ii) Globalisation usually results greater increase in imports than an increase in exports leading to a growing trade deficit and balance of payments problem.

(iii) Although globalization promotes the idea that technological change and increase in productivity would lead to more jobs and higher wages, but during the last few years, such technological changes occurring in some developing countries have resulted more loss of jobs than they have created leading to fall in employment growth rates.

(iv) Globalization has alerted the village and small scale industries and sounded the death-knell for it as they cannot withstand the competition arising from well organized MNCs.

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(v) Globalisation has been showing down the process of poverty reduction in some developing and underdeveloped countries of the world and thereby enhances the problem of inequality.

(vi) Globalisation is also posing as a threat to agriculture in developing and underdeveloped countries of the world. As with the WTO trading provisions, agricultural commodities market of poor and developing countries will be flooded farm goods from countries at a rate much lower than that indigenous farm product leading to a death-blow to many farmers.

(vii) Implementation of globalisation principle becoming harder in many industrially developed democratic countries to ask its people to bear the pains and uncertainties of structural adjustment with the hope of getting benefits in future.

SALIENT FEATURES OF GLOBALISATION

1. **Liberalisation:**

It stands for the freedom of the entrepreneurs to establish any industry or trade or business venture, within their own countries or abroad.

2. **Free trade:**

It stands for free flow of trade relations among all the nations. Each state grants MFN (most favored nation) status in other states and keeps its business and trade away from excessive and hard regulatory and protective regimes.

3. **Globalisation of Economic Activity:**

Economic activities are governed both by the domestic market and also the world market. It stands for the process of integrating the domestic economy with world economies.

4. **Liberalisation of Import-Export System:**

It stands for liberating the import- export activity and securing a free flow of goods and services across borders.

5. **Privatisation:**

Keeping the state away from ownership of the means of production and distribution and letting the free flow of industrial, trade and economic activity across borders.

6. **Increased Collaborations:**

Encouraging the process of collaborations among the entrepreneurs with a view to secure rapid modernisation, development and technological advancement.

7. **Economic Reforms:**

Encouraging fiscal and financial reforms with a view to give strength to free world trade, free enterprise, and market forces.

Globalisation accepts and advocates the value of free world trade, freedom of access to world markets and a free flow of investments across borders. It stands for the integration and democratization of the world's culture, economy and infrastructure through global investments.

QUESTION BANK

UNIT-I

1. The human activities are classified into **economic and non economic** activities.

2. The primary object of business is to earn **profit.**

3. Risk means the possibility of a **loss.**

4. The primary industries are classified into **extractive and genetic** industries.

5. The secondary industries are classified into **manufacturing and construction** industries.

6. Foreign trade is also known as **International trade.**

7. Commerce includes **selling and buying** of goods.

8. The origin of business can be traced back to the origin of **world.**

9. Exchange of goods for goods is known as **Barter** system.

10. The term business organization is a composite of two terms **business and organization**.

11. The word business means **state of being busy.**

12**. Finance** is the life blood of business.

13. Advertising promotes **sales**.

14. Traders were classified into **wholesale and retail** merchants.

15. The industrial revolution replaced the **domestic** system.

16. Business activities are classified into **industry and commerce.**

17. **Construction** industries involve construction of buildings, roads, dams and bridges.

18. **Trade** refers to the sale, transfer or exchange of goods.

19. Supply of home goods for foreign use is known as **export trade.**

20. Procuring foreign goods for home use is known as **import trade.**

UNIT-II

1. Sole proprietorship business is also known as **one man business**.

2. The liability of sole traders is **unlimited.**

3. A business carried on by the individual for himself is called **one man business**.

4. Partnership firm is governed by the provisions of Indian Partnership Act **1932.**

5. The liability of each partner in partnership is **unlimited**.

6. The maximum number of partners allowed in a general business is **20.**

7. A partnership arises out of an **agreement.**

8. The document containing the written agreement among the partners for creating a partnership firm is known as **partnership deed.**

9. The registration of partnership firm is **not compulsory.**

10. **Joint Hindu family firm** is a business inherited from the ancestors.

11. The head of the joint Hindu family firm is called **Karta.**

12. A joint stock company is an **artificial** person created by law.

13. The registration of Joint Stock Company is **compulsory**.

14. The management of Joint Stock Company is in the hands of **board of directors**.

15. The shareholders are **owners** of the company.

16. The companies established under special Act of parliament is known as **statutory** companies.

17. The minimum number of persons required to form a private company is **two**.

18. When atleast 51% shares are in the hands of Government it is called **Government** Company.

19. According to companies Act, a private company must have at least **two** directors.

20. **Articles of association** is a document containing the rules and regulations for the management of a company.

21. Memorandum of association is called the **charter** of the company.

22. **Prospectus** is a document prepared and issued by a public company, inviting the public to subscribe for its shares.

23. The liability of the members of Joint Stock Company is **limited.**

24. A co-operative society is a **voluntary** association of persons.

25. The co-operative societies are covered by the co-operative societies Act **1912**.

26. The minimum number of members to form a co-operative society is **ten**.

27. A co-operative society is a **non-profit** organization.

28. The shares of co-operative society are not **transferable.**

29. The co-operative societies are managed on the principle of **one man one vote.**

UNIT-III

1. The size of a business unit refers to the scale of its organization and operation.

2. **Plant** means an establishment for the production of the goods or provision of services.

3. A concern which owns and manages the plant and in addition arranges for marketing of the products is known as **firm.**

4. The term **industry** refers to the collection of firms which either use the same raw material or manufacture the same product using different raw materials.

5. **Size of total assets** is often used for ranking firms.

6. Networth is one of the **input measures** used to measure the size of a firm.

7. Value and volume of output are **output measure** applied to measure the size of a firm.

8. The size of which maximum efficiency is obtained is known as **optimum size**.

9. A firm which enjoys normal success over a long period of time is known as **representative** firm.

10. A firm which has reached a stage where there is no incentive to expand is known as an **equilibrium firm**.

11. The **technical** forces are those which have a bearing on the process of production.

12. For calculating the average cost of production **all costs** must be included.

13. The **optimum size** is a moving point and depends upon technical developments and the ability to manage.

14. An optimum firm in existing conditions of technique and organizing ability has the **lowest average cost of production**.

15. The concept of optimum size is not **fixed**.

16. Splitting of work into small functions is known as **division of lab our.**

17. The **permanent** changes in demand relate to the tastes of consumers or improvements in the technique of product.

18. The **irregular** changes in demand occur mostly in those firms which do not produce standardized products.

19. Changes in demand caused by the alternating booms and depressions are known as **cyclical** changes.

20. **Deciding the size** of the business unit is one of the first decisions to be made by an entrepreneur.

UNIT-IV

1. In India **mixed** economy is adopted.

2. The second five year plan gave high priority to the development of basic **and heavy** industries.

3. Third five year plan (1961-1966) was intended to lay the foundation for rapid **industrialization** over the next 15years.

4. The sixth five year plan envisaged an average annual rate of growth of **8 percent** of industrial production during the period.

5. A package of new economic policies was introduced in the Indian economy in **July 1991.**

6. The seventh five year plan period in **1985-1990**.

7. After industrial revolution, **mixed** economy is firmly established in India.

8. The transfer of ownership and control of the existing enterprises from the hands of the private entrepreneurs to the state is called **nationalization.**

9. Public undertakings are subject to audit by the **Controller and Auditor General** of India.

10. The main focus of 5th five year plan was the rapid development of core sector, export oriented industries and industries producing **consumer** goods.

11. The main aim of the new industrial policy (1991) was to release the Indian industry from the unnecessary bureaucratic control and introduce **liberalization** measures.

12. The industrial policy resolution of 1991 allowed foreign direct investment up to **51 percent** of the share capital in high priority industries.

13. The industries which were to be the exclusive responsibility of the state were included in **Schedule-A** industries category.

14. In case of Schedule**-B** industries, both the Government and Private Enterprises might set up new units.

15. The industries such as coal, iron and steel, aircraft manufacture, ship building, manufacture of telephone and wireless apparatus are called the **basic and key** industries.

16. The industrial policy resolution 1948 divided the industries into **four** categories.

17. The main reason for the significant growth in industrial production during the seventh five year plan was the improvement in infrastructure.

18. The MRTP Act was amended to free the dominant undertakings from getting prior approval of the **Central government** for establishing new undertakings, their expansion, mergers and amalgamation.

19. Regulating the **wages and bonus** for employees in the private sector is one of the forms of Government regulation.

UNIT-V

1. **Nationalisation** means transfer of ownership from the hands of the private entrepreneurs to the state.

2. The oldest form of public enterprises is **Government departments**.

3. Public corporation is a **body corporate.**

4. The **state** Government is the sole owner of a public corporation.

5. The public corporations is managed by **board of directors.**

6. Public corporation enjoy **monopoly** in operation.

7. **Public** enterprises do not have autonomy to fix prices.

8. **Departmental** organization is suitable for defense and public utility undertakings.

9. Public utilities enjoy **monopoly** power in the supply of goods and services.

10. The primary objectives of public enterprises are to render **service** to the people.

11. Public utilities share capital is wholly contributed by the **Government.**

12.A public corporation is set up by an act of **Parliament.**

13. The demand for the goods and services of public utilities is **inelastic**.

14. The form of organization established for the regulated and uninterrupted supply of goods and services to the public is known as **public utilities.**

15. The public utility undertakings are subject to strict control and regulation by the **Government.**

16. Globalization involves **expansion** of business operations throughout the world.

17. In globalization products are planned and developed for the **world** market.

18. **Exporting** is the simplest and traditional mode of entering a foreign market.

19. Globalization offers larger market to **domestic producers**.

20. **Globalization** is the process of internatiolisation of products, markets technology, capital, human resources, information and culture.