UNIT-IV

Types of Industrial Organisation

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Bussiness :-

Business is an activity aimed at earning profit. Business involves use of scarce resource and satisfaction of human needs, using such resources. Thus, business is an economic activity.

Defination :-

Business unit is a concern, company (or) enterprise which buys and sells is owned by one person (or) group of persons and is imaged under a specific set of operating policies.

characteristics of Business :-

Business activity involves

1) Dealing in goods and services :-

Business activity deals with goods and services.

Goods may be

a) Consumer goods : goods which are ready for direct consumption.

b) capital goods : goods which assist in the production of consumer goods.

Serivces refer to the facilities customers requires such as banking, insturance, transportation, etc....

2) Risk and uncertainity :-

Risk refers to uncertainity of returns. profits are not guaranteed in business. Business units may suffer losses also.

But risk can be of two types.

a) Risk that can be insured like risk against loss by theft.

b) Risk that cannot be insured, like risk arising out of business operations.

3) Continuity :-

Business activity is characterised by continuity. Goods & services should be continuously traded. An isolated (or) a single transaction does not constitute business.

4) Satisfaction of human needs :-

The main aim of any business activity is to satisfy is to satisfy human needs. A profitable business unit is one which ~~understable~~ understands the needs of the customer and tries to satisfy them.

5) Profit Motive :-

The incentive of earning profits. keeps a person in a business and is also necessary for the continuity of the business. The objective of starting a business is to earn profit though he (or) she may suffer losses.

6) Transfer of title :-

Business activity is aimed at transfer of ownership of goods and services for value. In other words, the

Seller should transfer ownership of goods and service to the buyer.

7) Co-Ordination of resources :-

Business activity requires resources, which are to be brought together. lack of co-ordination of resources may not allow business to continue.

Sole - trade (OR) Proprietorship :-

Defination :- "A sole trader is a person who carrie on business exclusively by and for himself. He is not only the owner of the capital of the under taking, but is usually to organizer and manager and takes all the profits (or) responsibility for losses." JAMES STEPHEN -SON

characteristics of sole proprietorship :-

1) Individual initiative :-

Sole - proprietorship is started by the initiative of a single person. the ideas, resources, factors of production are co-ordinated by that person. thus in the case of profits (or) losses, the responsibility lies with the sole trade

2) Easy to form :-

In majority of the cases, a sole trader need not get a licence from the government to start his business. Thus, formation of this type of business is very easy

3) Limited capital :—

Being the only investor, the capital that can be brought in by the sole-trader is limited. Thus, the business is run on a small-scale basis.

4) Unlimited Liability :—

The liability of a sole-trader is unlimited. In case of loss, the liability of sole-trader is not limited only to his investment but his property can also be attached to full-fill the business obligations.

5) Ownership and Management :—

The ownership and management of a sole-trader business is with the sole-trader himself. It is for the sole-trader to plan and execute his ideas.

6) Limited area of operation :—

With the limited availability of resources, the area of operation of a sole-trader business is also very limited.

7) Motivation :—

In sole-proprietorship rewards and efforts are directly related. A sole-trader, being the sole person to enjoy profits, get's motivated and puts in extra ~~proft~~ effort to Expand his business.

8) Secrecy :— Business Secrets of a sole-trader are very essential in order to avoid competitors from Entering into same type of business.

Advantages of sole proprietorship :-

1) Easy formation :-
Sole proprietorship is very easy to form as there are absolutely no legal formalities to be fulfilled to start it.

2) personal touch with Customers :-
The area of operation of a sole trade business is small. Thus the number of custmores are also less. so i is possible for the sole-trader to have personal contact with the customer and understand his tastes and prefera

3) Prompt decision making :-
Sole proprietor, being the only owner of the business need not consult anyone before taking any decisions rega-rding his business. Therefore, quick decision can be taken by him.

4) Secrecy :-
It is easy to maintain Secrecy in sole-trade busine because there is no other individual who takes part in his business activity.

5) Beneficial to the Society :-
Sole trade provides employment to people, who can invest small amount of capital. It is a form of self employment. And moreover, in a country like india, where level of unem-ployment is high, sole trade business is very much desira-le

6) Better management and control :-

Management and control of sole trade is easy becau
the business is done on a small scale.

Disadvantages :-

1) Limited resources :-

A Sole trader invests money into his business from his family sources. He cannot collect money / funds from the public like a joint stock company. At the most he c borrow it from financial institutions.

2) Unlimited liability :-

The liability of a sole trader is unlimited. His private property can also be a attached for meeting business losses.

3) No division of labour :-

Sole trader being the only person handling the business will not enjoy the benifit of dividing the work among specialised labours. Any how, a sole trader can appoint people to help him, but the number of such people could be less taking into account his financial ability.

4) Uncertainity :-

A sole trade business will exist only till existence of the sole trader. In case of his death, insanity, the busi-ness may cease to exist.

5) Lack of large scale economics :-

Sole trade business being run on a small scale basis, canno njoy marketing, production and other economies of large scale production.

partnership :—

Meaning of partnership :—

partnership form of organisation is an improved versi of sole proprietorship in many aspects. A sole trade bu suffered from many drawbacks such as limited resources, la of specialisation, uncertainity and so on. Many of these drawbacks are not apart of partnership form of organis

Defination :—

According to indian partnership act, 1932. "partnership is relation between persons who have agreed to share the profi of the business carried on by all (or) any one of them acting for all".

characteristicks / Features of partnership :—

1) Association of two (or) more persons :—

In order to form a partnership form of organisation, there must be two (or) more persons. And these persons should be competent enough to enter into a partnership agreem

2) Utmost good faith :—

As the number of owners of the business are two (or) mor it is very essential for them to trust eath other. otherwise suspicion and lack of faith among themselves will prove very fatal for the partnership.

3) Unlimited liability :—

As in the case of sole proprietorship, liability of partner in a partnership business is not limited to their investmen their private property can also be accounted for, in case of any obligation.

4) Restriction on transfer of share :-

Without the consent of other partners, no partner can transfer his share in business to any outsider.

5) Profit Motive :-

The underlining objective of partnership is to earn pro by engaging themselves into a legal business activity.

6) Capital Contribution :-

Every partner is required to bring into business an agreed amount of capital. But if the partners agree, any persons can be admitted into partnership without contri -buting any thing towards capital.

7) Number of partners :-

According to the indian partnership act, the minimum number of persons should be two and the maximum number is 10 in case of banking business and 20 in case of non banking business.

8) Dissolution :-

The closure of partnership is termed as "dissolution". When any of the partner dies, becomes insane (or) insolver the partnership is said to be dissolved

9) Principal and agent relationship :-

In partnership form of organisation every partner acts as an agent and also the principal. Every partner may not be involved in the activities of the business. thus one partner (or) partners act on behalf of others.

Advantages :-

1) Easy to form :-
A partnership form of organisation can be started w an agreement between the partners. No legal formalities are required.

2) Availability of large resources :-
The resources of partnership are contributed by more than one person. therefore the resources available are larg when compared to sole-trade business.

3) Better decision making :-
The decisions taken by a partnership firm can be much better because the opinion of all the partners is taken in account unlike sole proprietorship where only one person takes a decision with the limited knowledge he has.

4) Shareing of risk :-
The burden of loss, if any, is borne by all the partners, which makes partnership less risky, when compared to sole proprietorship.

5) Democratic Management :-
All the partners, irrespective of their contribution to the capital of the organisation, will have equal right in the management of the business.

6) Flexibility :-
The operations of a partnership firm are flexible because there is no need for any prior permission from the governm before making any change in the business activity, capital, etc.

Disadvantages :-

1) Unlimited liability :-

As in the case of sole proprietorship, the liability of partners, in a partnership firm, is unlimited. It implies that the private property of the partner's can be assigned for obligations of business.

2) Limited resources :-

The resources of a partnership business are more when compared to sole proprietorship but they are vely less as compared to a joint stock company.

3) Instability :-

A partnership firm, can be dissolved at the death, insolvency (or) insanity of a partner. This makes it very instable.

4) Mutual distrust :-

The difference's between partners may become fatal for a partnership firm. lack of confidence in each other may be the cause of these differences.

5) Lack of public confidence :-

The accounts of partnership firm are not audited annually and published. This may lead to distrust among the public on the organisation.

6) Limitation on transfer of share :-

No partner has the right to transfer his share to any other party, without the consent of the other partners

Joint stock Company :-

~~A~~ Joint stock company is avoluntary association of persons for profit whose capital is divided into transferable shares and ownership is required for its membership.

Characteristics :-

1) ~~Artificial~~ Artificial person :-

~~A~~ A company is an artificial person created by law. It h its own name and seal. It can perform all the activiti of businessmom like purchase and sale of goods etc.

2) Limited Liability :-

The liability of share holders is limited only to the face value of shares held by them. For Example, if a person purchased 10 shares @ Rs.100 Each, his liability would be Rs100 (10 shares x Rs.100) only.

3) Management and ownership in Separate hands :-

Shareholders are the owners of the business. But they do not manage the business. the board of directions appointed by them manage the company.

4) Transferability of shares :-

When in need of money, a shareholder can transfer his share in the company to any persons by following the procedure laid down for such a transfer.

5) Common Seal :-

Company being an artificial person created by law, cannot sign. Therefore, the people who manage the company should affix the company's seal as an alternative to its signature.

6) Perpetual Succession :-

shareholders may change, but the existence of the company will continue without any interruption.

Advantages :-

1) Availability of large resources :-

As the capital is collected from the public, by selling the shares in the primary market, a company enjoys the benefit of large resources. When compared to sole proprietor-ship (or) partnership the resources available with a company are large huge

2) Permanent Existence :-

A company being an artificial person, will continue to exist. Death of a shearholder (or) change in management will not wind-up the company.

3) Transferability of shares :-

The shares bought by a shareholder can be sold in the stock market. Whenever he needs money. It simply means the liquidity with shares is high.

4) Economics of large scale production :-

With the availability of huge capital and management Expertise, a joint stock company enjoys economics of marketing, production, specialisation, etc.

7. Diffused risk :—

Capital of a ~~major~~ company is contributed by a large number of share holders, holding small number of shares This spreads the risk among these large number people.

Disadvantages :—

1) Difficulty information :—

In order to form / promote a company many legal formalities are to be fulfilled, these formalities can be very expensive.

2) Delay in decision making :—

Decision making process in a company form of organisation will be very lengthy. No single individual can take any decision. Only the board of directors can take decisions, which can be ratified by the shareholders in the annual genaral meeting.

3) Separate ownership and management :—

The management and the owners of the company are not directly related. Management unlike sole proprietorship and partnership, may not take personal interest in the growth of the company.

4) lack of Secrecy :—

When compared to other forms of business, a company from of Organisation may not be able to maintain secrecy. Every matter has to be informed to be shareholders, which may not remain Secret thereafter.

5) Encourages Speculation :-

Speculation is the process of buying a share at a lower price Expecting a higher price on its sale. This can be dan-gerous as shares can be mainpulated and common investors trapped in such manipulation.

6) Evils of factory system :-

Evils of factory system like insanitation, air pollution, etc may become a problem for the society and also the Employees working in the organisation.

Public Enterprises :-

Defination :-

public enterprises is an undertaking owned and operated by the central (or) state (or) local government. The basic aim of these enterprises is to provide goods and services to the cititzen's at a reasonable price.

According to Mallya :-

"public enterprises are autonomous (or) Semi-autonomous corpor-ations and companies established, owned and controlled by the state and engaged in industrial and commercial activities"

characteristics :-

i. Managed by the government :-

All public enterprises are owned and managed by the government, Management is either through some depart-ment (or) by appointment of officials.

2) Provisions of public utilities:-
The basis aim of these enterprice is to provide m
-mum necessities to the citizens at a responable price.
3) Implementation of government plans:-
Economic plans of the government, intended, for the wel
of the people, can be implemented using these enterprises.
4) Large scale industries:-
Industries, which are of great importance to the public at large and require huge capital investment, are set up in public sector.

Forms of public enterprises:-
Following are the forms of public enterprises.
→ Departmental under taking
→ Statutory corporations
→ Government Company

Departmental under taking:-
Departmental undertaking function as a part of government departments. Each department of the government has a minister who controls the operation's of these enterprises. Normally, a managing director is appointed to control these enterprises. IAS offers are posted as the managing directors.
Eg:- Railway department, strategic industries, etc.

characteristics:-
1. These department undertaking are controlled & managed by the government through IAS officers.
2. The capital (or) finance is provided from the government.

3 The budgets of these undertaking are approved and passed by the legislature.

Advantages :-

1. Efficiency :- These undertakings can work efficiently bec they are controlled by the minister of the department.

2. Accountability :- Accountability becomes possible because the budget of the undertaking is passed by the legislature. An passage of the bill is done only after discussion's in the legislature.

3. Source of revenu :-
It is a direct source of revenue for the government.

Disadvantages :-

1. Reactive decisions :-
The decisions taken by these undertaking, with regard to market changes are reactive. they do not normally, taken a pro-active approach.

2. Excessive government control :-
Government does not allow adequate freedom to these undertaking, which hinder's their growth.

3. Incompetent staff :-
These undertakings lack competent staff, which may be because of the recuriment policy, monetary benifits offered to the employees etc..

II Statutory Corporation :-

Statutory corporation (or) public corporation is a body, which is formed by the government, by passing an act in the legislature. The main aim of creating these corporations is to simplify the process of governance. These bodies are autonomous. It means they have their own source of income and the liberty to spend it, according to their requirements.

Characteristics :-

1) Own Sources of revenue :-

Unlike departmental undertaking public corporations have their own sources of reveno. It means they enjoy financial autonomy.

2) Minimum government interference :-

Governments do not interfere in the day to day activi-ties of the corporations. They are free to function without any undue pressure.

3) Separate entity :-

Corporations have their own identity. They have a seal & are competent to ideal with third parties in its own name

4) Management :-

The heads of the corporations are appointed by the government for example APSRTC managing director, is appointed by the government

Advantages :-

1. Autonomous body :-
Being an autonomous body, a corporation is free to operate in the best possible manner.

2. Service Motive :-
Corporations do not work for profits. they are forme to Serve the Society.

3. No political pressure :-
they is very less scope of political interference in these corporations. Being an independent body it can ignore political pressure, if any.

Disadvantages :-

1. Misuse of financial autonomy :-
Corporations, which are financially autonomous, may misuse the money on unnecessary projects.

2. Government intervention :-
Techinically government cannot interfere in the function -ing of these corporations. But the reality is that the decisions are taken by the corporations only after getting the approval of the government.

iii Government Company :-
According to the indian companies act 1956, "government company means any company in which not less than 51% of the paid-up share capital is held by the central gover -nment (or) by any state government (or) governments (or) partly by the central government and partly by one (or) more state governments and includes a company which is a

Subsidiary of government company.

Charateristics :—

→ Majority of the shares in a government company are held by the government. Normally it is 51% atleast

→ Government company, like any other company, is registe under the companies act. It has a common seal and can sue and get sued by others.

→ The directions of a government company are nominated by the government.

Advantages :—

1. Commercial Management :—
Government company tries to earn surplus which can be utilised to start new projects (or) Expand the existing one.

2. Flexibility :—
Like any other company, a government company can function as per the market requirements.

3. private partnership :—
the minority share holding is in the ~~helds~~ hands of the private persons. This brings greater efficiency in these organisation.

4. Capacity to compete :—
With private persons being a part of the management these company's can compete with other private companies.

Disadvantages :—

political interference :— This happens when the directions of these companies are appointed when the party in power changes so will the directions.

→ Government control :—

As 51% of shares are held by the government these companies are controlled by the government private persons, being the minority share holders, have very little say in the functioning of the company.

→ In efficiency :—

Due to government control and political interference it becomes very difficult for these companies to function efficiently.

Business Cycles :—

Introduction :— The business cycles is associated with sweeping fluctuations in economic activity such as production prices employment etc -- the term business cycle has been defined in various ways by ~~difficult~~ different ecumenists.

Meaning :—

Business cycles are a part of the capital economic system. An economy never runs smooth. There are upwards swings and then downward swings in business. The period of business prosper. Its alternates with periods of adversity.

Defination :-

In the words of Fredric Benham. "A trade cycle may be defined rather badly as a period of prosperity followed by a period of depression. It is not surprising that economic process should be irregular trade being good at some time and bad at other"

phases of business cycles :-

→ Depression :-

Depression is characterized a sharp reduction of productio mass unemployed, low employed, falling prices, falling profits, low wages, contraction of credit, a high rate of business failures & as atmosphere of all around pessimism. The genaral decline is economic activity leads to a fall in bank deposits. Credit Expansion stops because the business community is not willing to borrow bank rate falls considerably. A decline in output is accompained by a reduction in the volume of unemployment.

Recovery :-

But the things are not going to continue to be in a depressed state forever. Recovery implies in urge in business activity after a lowest point of the depletion has been reached. During recovery phase, there is a slight improvement in economic activity to with the entreneurs begin to feel the economic situation was not so bad and it was in the proceeding stage. pessimism given place to optimism. This leads to further Expan-sion of business activity the industrial production picks up slowly and gradually. The volume of employment also steadily increases. There is a slow, but sure rise in prices accompanied by a small rise in profits. The wages also rise, through they do not rise in the same proportion in which the prices rise. Attracted by rising profits, new investments takes place in capital goods industries. The banks expand credit. The business inve-stments start ~~r~~rising slowly. Ultimately revival enters the prosperity business investments start rising slowly. Ultimately revival enters the prosperity phase.

Prosperity :—

In the prosperity phase, demand output employment and income are at a high level. They tend to raise prices. But wages salaries, interest rates, rental & taxes do not rise in proportion to the rise in prices. The gap between prices and costs increases in the margin of profit. The increase of profit and the prospect of its continuance commonly cause a rapid rise in stock market values. The outstanding changes in its stocks that reflection the capitalized values of prospection earnings, register in an exaggerated from the rising profits of enterprise large profit expectation further increases investment which is helped by legend bank credit. They lead to considerable expansion in economic activity by increasing the demand for consumer goods and further raising the price level.

Boom :—

It is the stage of rapid expansion in business activity to new high marks resulting in high stocks & commodity prices, high profits & overall employment. The continuance on investment even after the stage of full employment results is a sharp inflation may raise of prices. This causes undue optimism among businessmen. Who make additional investments in the various branches of the economy. This puts additional pressure on the factors of the production which are already fully employed causing a sharp rise in their prices. Boom is a situation develops in which the number of jobs exceeds the number of workers available in the market. profit touches the new heights. Attracted by the rising profits the businessmen further increases their capital investment this leads to the rise in the price level. price rise sky a high. There is an atmosphere of over optimism all around.

Recession :—

The feeling of over optimism in the boom priod is replaced now by over pessimism characterized by fear on the part of the businessmen. The failure of some business creates panic among businessmen. The banks also get panickly and design begin to withdrawn loans from business enterprises. More business enterprises fall, prices collapse and confidence is rudely shaken. Build-ing contruction slows down and unemployment appears in basic, capital goods industries. The initial unemployment then spreads to other industries. Unemployment leads to fall in income, expenditure, prices & profits. The recession, it should be resembeld has commultion effect. Once a reasons starts, it goes on gathering momentum nad fami finally assumes the shape of depression.