BUSINESS ORGANIZATION AND MANAGEMENT

B.Com (Gen & CA) I Semester Paper -IB

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FOREWORD

Since its establishment in 1976, Acharya Nagarjuna University has been forging ahead in the path of progress and dynamism, offering a variety of courses and research contributions. I am extremely happy that by gaining 'A' grade from the NAAC in the year 2016, Acharya Nagarjuna University is offering educational opportunities at the UG, PG levels apart from research degrees to students from over 443 affiliated colleges spread over the two districts of Guntur and Prakasam.

The University has also started the Centre for Distance Education in 2003-04 with the aim of taking higher education to the door step of all the sectors of the society. The centre will be a great help to those who cannot join in colleges, those who cannot afford the exorbitant fees as regular students, and even to housewives desirous of pursuing higher studies. Acharya Nagarjuna University has started offering B.A., and B.Com courses at the Degree level and M.A., M.Com., M.Sc., M.B.A., and L.L.M., courses at the PG level from the academic year 2003-2004 onwards.

To facilitate easier understanding by students studying through the distance mode, these self-instruction materials have been prepared by eminent and experienced teachers. The lessons have been drafted with great care and expertise in the stipulated time by these teachers. Constructive ideas and scholarly suggestions are welcome from students and teachers involved respectively. Such ideas will be incorporated for the greater efficacy of this distance mode of education. For clarification of doubts and feedback, weekly classes and contact classes will be arranged at the UG and PG levels respectively.

It is my aim that students getting higher education through the Centre for Distance Education should improve their qualification, have better employment opportunities and in turn be part of country's progress. It is my fond desire that in the years to come, the Centre for Distance Education will go from strength to strength in the form of new courses and by catering to larger number of people. My congratulations to all the Directors, Academic Coordinators, Editors and Lesson- writers of the Centre who have helped in these endeavours.

Prof. P. Raja Sekhar
Vice-Chancellor (FAC)
Acharya Nagarjuna University

Business Organization and Management (Gen &CA)

CONTENTS

SEMESTER-II

Paper title: Business Organization and Management

Paper number **Maximum marks** 70

Learning Outcomes:

- At the end of the course, the student will be able to
- Understand different forms of business organizations.
- Comprehend the nature of Joint Stock Company and formalities to promote a Company.
- Describe the Social Responsibility of Business towards the society.
- Critically examine the various organizations of the business firms and judge the best among them.
- Design and plan to register a business firm. Prepare different documents to register a company at his own.
- Articulate new models of business organizations.

Syllabus:

Unit-I –Introduction Concepts of Business, Trade, Industry and Commerce: Business – Meaning, Definition, Features and Functions of Business - Trade Classification – Aids to Trade – Industry Classification and Commerce - Factors Influencing the Choice of Suitable form of Organization

Unit –II– Forms of Business Organizations: Features, Merits and Demerits of Sole Proprietor Ship and Partnership Business - Features Merits and Demits of Joint Stock Companies - Public Sector Enterprises (PSEs) - Multinational Corporations (MNCs)- Differences between Private Limited Public Limited Company

Unit-III -Company Incorporation: Preparation of Important Documents for Incorporation of Company - Certificate of Incorporation and Certificate of Commencement of Business - Contents of Memorandum and Articles of Association - Contents of Prospectus

Unit-IV- Management: Meaning Characteristics - Fayol’s 14 Principles of Management - Administration Vs Management - Levels of Management

Unit-V-Functions of Management: Different Functions of Management - Meaning – Definition – Characteristics Merits and Demits of Planning

Lesson - 1

BUSINESS CONCEPTS

1.0 OBJECTIVES

After going through this lesson student can know

→ What is Business

→ Types of Business

→ Qualities of Businessman

→ Commerce, Industry, Trade etc.

→ Objectives of Business

Structure

1.1 INTRODUCTION

Every human being is busy in one activity or another.

All human activities are directed towards satisfying human wants. Depending on the nature of wants human activities may be classified into two categories.

1) Economic Activity, 2) Non-Economic Activity

Economic Activity : Human activities related to production and exchange of wealth are called economic activities. The main objectives of economic-activity are consideration and profitability.

Non-Economic Activity : Non-economic activities are primarily to satisfy social, religious, cultural or sentimental requiremnts of human beings. The main objective of non-economic activity are guided by love and affection.

Economic Activity - Classification : The economic activities carried out by human beings are classified into three cateegories. They are 1. Business, 2. Profession, 3. Employment.

1.2 CONCEPTS

1.2.1 BUSINESS

A business activity involves production, exchange of goods and services to earn profit. The literal meaning of the word ‘Business’ is a state of being busy.

When a person carries out production or purchase of goods and services for himself, cannot be a business activity. Production or purchase of goods and services should be carried out with an objective of earning some profit or consideration.

Various authors bring out different characteristics in their definitions.

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

According to Urwick and Hunt “a business is an enterprise which makes, distributes or provides an article or service which other members of the community need and are able and willing to pay for it”.

Spiegal considers “all activities concerned with the production and sale of goods”.

Therefore, “business is concerned with production and selling for profit”.

1.2.2 Profession : Profession is an occupation involving the personal services of a specialised and expert nature. The service is based on professional education, knowledge, training etc. The services rendered by Doctors, lawyers, chartered Accountant, etc. come under this category. Every profession has a professional organisation. The professionals should be a member of a professional body and should follow the code of conduct. For example, a person entering law profession has to acquire a law degree and has to obey the guidelines and regulations of the Bar Council of India.

1.2.3 Employment : Employment involves when a person engaged by another in a work under an agreement or under a contract. There exists employer - employee relationship. The person engaged under employment works as per the directions of the employer. Reemuneration for such work takes in the form of wages or salary.

1.2.4 Firm : Firm is an individual organisation engaged in any business activity. The product or service in which it deals may be single or multiple. It may be of any size and any form. Form means sole trading concern, partnership firm or Joint Stock Company. A firm may be defined as “a unit of managemnt operating under a trade name organised either to extract minerals, produce or manufactured goods, or to sell goods or services, or to engage in two or three of these activities simultaneously”.

Thus, a firm is an independently administered enterprise. The size may be small or big. The size may be measured by the value of output or by the labourers it employs, or by the value of its fixed assets like land, building, plant etc. It is a company or any other form of enterprise which engages in trade activity, owned by individual or group of people or by a government agency. It is the outcome of creativity and vision of an entrepreneur. The firm is established to serve the society and they have the social responsibility as they use the resources of the society.

Identical firms collectively are called industry. Suppose there are three different units producing different quantity of sugar, each unit is called firm. All the three units are collectively called sugar industry.

1.2.5 Plant : It is a term referred to the equipment needed for producing a product. Although the term plant used as a synonym for the term factory, plant means only the equipment used for the production of required product.

Plant is an integrated term which explains the functions of various types of machinery installed in a place to produce the product. Different types of machieries are used to produce a product. For example, to produce a product three processes are to be passed through. In each process a different type of machinery is used. It is collectively called Plant. The integrated operation of each machinery is called plant.

1.3 CHARACTERISTICS OF BUSINESS

(1) Entrepreneur : There must be someone to take initiative for establishing a business. The person who recognises the need for a product or service is known as entrepreneur. The entrepreneur visualises a business, combines various factors of production and puts them into a going concern.

(2) Economic Activity : Business includes only economic activities. All those activites relating to the production and distribution of goods and services are called economic activities. These are undertaken with profit motive.

(3) Production of Goods and Services : A business must involve production of goods and services. These goods may be of consumer goods and producer goods. Consumer goods are those which are purchased by ultimate consumer. Example : Soaps, Paste, etc. Producer goods are those which are used for production process. Example : Raw material, plant and machinery, etc.

(4) Exchange of Goods and Services : A business must involve exchange of goods and services with a profit motive. Production or purchase of goods and services for personal consumption do not constitute business. Purchase of goods by a consumer is not business while purchase of goods by a retailer constitutes business.

(5) Profit Motive : The profit motive is an important element of business. Any activity undertaken without profit motive is not business.

(6) Uncertainity : Business involves a large amount of risk and uncertainity. Furture is most uncertain. Unforeseen future uncertainities makes the business more risky. Industrial disputes, price changes, wars, floods, earthquakes etc., leads the business into losses.

(7) Continuity of Transactions : The business inolves the regular and constinuous transactions. If a person purchased a T.V. set and sells and earns profit on it, it does not constitute business. If he keeps stock of T.V. sets and sell them to earn profit becomes business.

(8) Creation of Utility : The goods are produced according to the tastes and requirements of the consumers. Business creates various types of utilities is goods. When raw materials are converted into finished goods creates form utility. The goods are transported from the place of production to the consumers create place utility. The process of storing goods and supplying them in times of need creates time utility.

(9) Satisfaction of Consumer : The ultimate aim of business is to supply the goods according to the tastes and requirements of the consumer. If consumer is satisfied, he will purchase it again and again. So the businessman should produce the goods and satisfy the consumer.

(10) Satisfying Social Needs : The business is a socio-economic institution. Business should aim at serving the soiety at large. It must look to the public good.

(11) Financing : A proper capital structure is a must for the success of the business. Business enterprises cannot move a step without finance. Business requirers two types of capital. (1) Fixed Capital (2) Working Capital. After estimating these financial requirements, businessman tries to findout the sources of finance.

1.4 TYPES OF BUSINESS

Business activities may be broadly divided into two categories. They are 1. Industry, 2. Commerce. Industry is concerned with manufacturing of goods and services. Commerce is concerned with the exchange of goods and services. There are two components in Commerce. They are (1) Trade, (2) Aids to trade.

Trade : The process of purchase and sale of goods and services is called trade.

Aids to Trade : The activities which facilitate Commerce are aids to trade. They are transportation, insurance, banking, warehousing, packing, advertising, etc.

1.4.1 Trade : Trade is an integral part of Commerce. All the activities of Commerce revolve around the trade. The activity of buying and selling of goods is trade :

Trade may be broadly classified into two categories.

1. Internal Trade

2. Foreign Trade

1. Internal or Home Trade : The internal or home trade refers to sale and exchange of goods within the boudaries of a country. Both the buyers and sellers live in the same country. Payments are made in the national currency. This trade is also known as ‘inland trade’ or ‘domestic trade’.

On the basis of scale of operations, the home trade can be classified into two types. (a) Wholesale Trade (b) Retail Trade.

(a) Wholesale Trade : This involvess the purchase of goods on a large scale from the producer and sold in smaller quantities to the retailer. A person, who is engaged in this type of trade is called a wholesaler.

(b) Retail Trade : This involves the purchase of goods in large quantities from the wholesaler and selling them to the final and ultimate consumers. The person, who is engaged in this type of trade is called a retail trader.

2. Foreign Trade or International Trade : It is also known as external trade. The trade which takes place between two or more countries is called Foreign or international trade. It means, buyer lives in one country and the seller is in another country. This type of trade involves payment in foreign currencies. It may be further classified into three categories. (a) Export Trade (b) Import Trade (c) Entrepot Trade.

(a) Export Trade : When a country sells goods to another country, it is called export trade. Export trade involves home goods for foreign use. For example, India sells poultry products to Gulf countries and tea to U.S.A.

(b) Import Trade : When a country buys goods from another country, it is called import trade. It consists of procuring foreign goods for home use. India buys machinery from west Germany, it is an import trade.

(c) Entrepot Trade : When goods are imported from one country and the same are exported to another country, such Trade is called entrepot trade. For example, electronic goods imported from Japan and exported to Africa.

1.4.2 Commerce

The exchange and distribution of goods and services is called Commerce. According to James Stephenson, “Commerce is an organised system for the exchange of goods between the members of the industrial world”. It establishes the link between the producers and the consumers.

The activities which facilitate commerce are (1) Banking (2) Transportation (3) Insurance (4) Warehousing (5) Packing (6) Advertisement, etc.

James Stephenson says, “Commerce is the sum total of those process which are engaged in the removal of several hinderances in the process of flow of goods and services from the producers to Consumers”.

Hindrances in the Process of Exchange of Goods and Services : There are many kinds of hindrances or obstacles standing in the way of trade or transfer of goods from the producer to the consumer. Commerce played an important role in removing the hindrances in the process of exchange of goods and services.

1. Hindrances of Persons : Goods are generally produced in few places, while the consumers spread throughout the country. There is no direct relation between producers and consumers. Trade acts as an arbiter between producer and consumer. The chain of wholesalers, retailers, brokers, agents etc. reduces the distance between producers and consumers. Thus, the trade facilitates easy exchange of goods by removing the hindrances of persons.

2. Hindrances of Place : Goods produced in a place are distributed to various places in the country and also exported to other countries. Commerce reduces the distance between the producers and consumers. The services like transportation, banking, insurance, packing etc are useful in removing the hindrances of transporting the goods from the place of production to the place of consumption.

3. Hindrances of Time : The production of some goods takes place only in a few seasons in large scale. But consumption of these goods is spread throughout the year in smaller quantities. During this time gap between the production and consumption, the product is to be stored in godowns and warehouses.

Example : The central and state warehousing corporation.

4.Hindrances of Finance : Sometimes Trader needs financial assistance. In such circumstances banks and other financial institutions provide finance in the shape of overdraft, loans or cash-credit. Hence banks play an important role to overcome the hindrances of finance.

5. Hindrances of Knowledge : The consumers may not be aware of the availability of various goods in the market. The absence of information about goods is a great hindrance in the way of consumers buying them. Advertisement helps in avoiding the hindrance of information about the availability benefits, features, price range etc., of the products in the market.

6. Hindrances of Risk : There is risk involved in transporting goods from one place to another. There may be a risk due to fire or theft. It acts as an obstacle in the development of trade. The insurance companies provide a coverage for all types of losses of goods.

1.4.3 INDUSTRY

Industry is the backbone of Commerce and Trade. The growth and development of trade and Commerce depends on the scope of industry. The activities related to the production of goods and services are known as industry.

The industries are classified as under :

1) Extractive Industries : These industries include activities in raising or extracting from the soil, climate, air, water or from beneathe the surface of the earth. Agriculture, fishing, mining, afforestation etc are the examples. These are the industries where nature does everything and man does very little to add to it.

2) Genetic Industries : These industries are engaged in re-producing and multiplying of certain species of animals and plants with the object of earning profit from their sale. Nature, climate and environment play an important part in these industries but human skill is also important. Nurseries, Cattle-breeding, Poultry farms are all come under genetic industries.

3) Manufacturing Industries : These are concerned with the working of raw materials or partly finished materials into furnished products. In these industries, role of nature is very less, and man takes the major part of the work. Examples : Engineering, textiles, iron and steel etc.

4) Construction Industries : These are engaged in the construction of buildings, roads, dams, bridges and canals. These industries use the products of manufacturing and extractive industries.

5) Service Industries : Service industries provide the necessary services directly or indirectly. Example: Banks, Insurance companies, Warehousing, etc.

Other Types of Industries :

On the basis of the size, technology and capital outlay, industries are classified as follows:

(1) Heavy Industries : Industries with huge capital, sophisticated technology and heavy machinery are known as heavy industries.

Example : Iron and Steel Industry, Ship Building etc.

(2) Light Industries : Industries set up with minimum capital and common technology are called light industries.

Example : Paper, Cement etc.

1.5 QUALITIES OF A SUCCESSFUL BUSINESSMAN

Success of any business depends on the managerial capabilities of businessman. There are certain qualities which are inherent but some other qualities which can be acquired by experience and training. Some of the important qualities which a businessman should possess are as follows :

(1) Knowledge of Business : The businessman should have a thorough understanding of his business. He should be clear about the aims and objectives of the organisation. Knowledge helps the businessman in solving complex business problems.

(2) Social Responsibility : The main objective of any business is to earn profit. In addition, every businessman has to serve public purpose. Every businessman has to do business not only for profits but also for public.

(3) Honesty : The most essential quality of a businessman is honesty. Businessman should be honest in dealings, then he can get good reputation for his products. Businessman can gain the reputation from his customer by supplying the best quality products. A dishonest businessman cannot exist a long period.

(4) Initiative : A businessman has to tackle many problems every day. He should be initiative and take the right decision in right time for the success of business.

(5) Relations with Employees and Customers: Customer satisfaction is essential to stay in the business. Business man should understand the tastes, likings and dislikings of his customers from time to time. Similarly, he should have the knowledge of the problems of his employees. Hence, he should to maintain good relations with his employees and customers.

(6) Adaptability : A businessman should be able to adjust according to the changing situations. He should be ready to face new challenges with courage and spontanity.

(7) Self-Characters : Businessman should have certain special qualities to run the business successfully such as impressive personality, hardwork, co-operative, courageous, displinarian, self-confidence, leadership qualities, etc.

1.6 OBJECTIVES OF BUSINESS

Every work is started with an objective. The main objective of a business undertaking is to earn profits. Profit earning is considered necessary for the survival of the business. But Now-a-days, the values of society have changed and society expects more from the business. The objectives of business may be categorised as under.

(1) Social Objectives : The business is required to meet varied needs of the society. The social objectives of business cna be explained as follows.

a) Supply of Quality Goods : The business should aim at consumer satisfaction. The supply of quality goods and services to consumers at reasonable price is the responsibility of the business. A business cannot exist in the longrun if it ignores consumers. It is the duty of the business to study wants and needs of consumers and provide them with quality of goods at reasonable prices.

b) Co-operation with the Government : Business should co-operate with the government in helping it to achieve the social objective. The business community should adopt a positive approach towards the policies of the Government.

c) Creation of more Employment : The business can help the society by creating more and more job opportunities. The business community should utilise its profits for further expansion of business activities which creates new job opportunities.

2) Economic Objectives :

a) Profit Earning : Business is started for earning profits. Profit earning is essential for the survival of any business. In modern business world, shareholders, debenture holders, management, banks, financial institutions, employees and government are interested in maximising wealth.

b) Creating Market : The aim of the businessman is to sell products. The businessman made an effort to retain old customers by supplying better quality goods at a reasonable prices and searches for new customers for increasing his sales.

3) Human Objectives :

a) Welfare of Employees : The businessman should look after the welfare of his workers. The workers should be rewarded for thier hardwork. Physical comforts, incentives, appreciation and proper working conditions should be provided to the employees. They will motivate the employees and give the best results.

b) Satisfaction of Consumers : Consumer satisfaction is the main aim of any business. The consumers should be provided quality goods at reasonable prices and service facility also. Businessman should observe the changing tastes, fashions and requirements of the consumers.

1.7 SUMMARY

a) All human activities are divided into (1) Economic, (2) Non-economic Activities.

b) Economic Activities are further divided into (1) Business, (2) Profession, (3) Employment.

c) Production of goods and services is Industry.

d) Distribution of goods and services is Commerce.

e) Purchase and sale of goods and service is trade.

f) Trade, Commerce, Industry are the parts of the business which serves the society through satisfying every-growing wants of human beings.

1.8 TERMINOLOGY

a) Business : Business is an economic activity.

b) Trade : Trade is an important component of Commerce. It is an activity of purchase and sale.

c) Commerce : Distribution of goods and services produced. It has two main components. Trade and Aids to Trade.

d) Trade : Activities of buying and selling.

e) Aids to Trade: Activities facilitate trade. Transportation, Insurance, Banking, etc.

1.9 SELF ASSESSMENT QUESTIONS

5 MARKS QUESTIONS

a) Economic and Non-economic activities.

b) Profession.

c) Business.

d) Home Trade and Foreign Trade.

e) Entrepot Trade.

f) Extractive Industries.

g) Manufacturing Industries.

h) Light Industries.

10 MARKS QUESTIONS

a) What is meant by Business ?

b) What are Types of Trade ?

c) What is Commerce ?

d) Objectives of Business ?

20 MARKS QUESTIONS

a) Explain the Characteristics of Business.

b) Explain the Hindrances of Commerce.

c) What is meant by Industry? Explain various types of Industries.

d) Explain the qualities of Businessman.

1.10 REFERNCE BOOKS

Industrial Oragnisation and Management	Proft. K.V.Sivaiah & V.B.M.Das
Industrial Organisation and Management	Y.K.Bhushan
Industrial Organisation and Management	M.C.Shukla

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LESSON - 2

BUSINESS ORGANISATION - TYPES - 1

2.0 OBJECTIVES

After going through this lesson student can know the following

→ Types of Business Units

→ Sole Trading Business - features, advantages, disadvantages

→ Joint Hindu Family - features, advantages, disadvantages

Structure

FORMS OF BUSINESS ORGANISATION

2.1 INTRODUCTION

Normally, Business enterprises are promoted to produce goods and services, to sell and to earn profits. The size, structure, nature of any business concern depends upon its capital investments, the risk involved and the policies adopted by the Governmnet.

In olden days, the needs and requirements of the people were very limited. As such, the size and volume of business was at a low level. In course of time, the population increased and the demand for goods and services increased correspondingly. This requires more investment and large labour and involves more risk. It led to the establishment of corporate enterprises. Thus in the process of evolution of trade, several forms of business organisations evolved to meet the needs of the people.

Sole Trading concern is suitable for running small business. Business unit which is managed by a single person is sole trading concern. Example : Vegetable shop, Sweet Shop etc.

Partnership form is apropriate for commercial activities such as transport agencies, chitfund companies etc.

The system of Joint HIndu families is unique in India. The Business of Joint Hindu family is controlled under the Hindu law.

Co-operatives are voluntary associations started with the aim of service to the members. They work on no profit - no loss basis.

A company is an association of persons who come forward to run a business with an object of earning profits.

The private enterprises are not willing to set up industries in backward areas. Hence the interference of the government is imperative in establishing industries.

2.2 CLASSIFICATION OF BUSINESS UNITS

Business enterprises can be (1) Non-Corporate Enterprise, (2) Corporate Enterprise.

(1) Non-Corporate Enterprises : Business units which can be started without registration are known as non-corporate enterprises. Ex.: Sole trader, Partnership farm, Joint Hindu family, etc.

(2) Corporate Enterprise : Business enterprises which are established under registration act are corporate enterprises. The business units which are started by the government are called corporations and started by private enterpreneurs as Joint stock company. Joint stock companies are classified as (i) Private Limited Companies (ii) Public Limited Companies (iii) Public Sector Undertakings.

Non-Corporate Enterprises : Business units which are of small size and with low investment come under this category. They can be divided as :

(i) Sole Trading concern.

(ii) Joint Hindu Family

(iii) Co-operatives Societies

(iv) Partnership Firm

2.3 SOLE TRADING CONCERN

2.3.1 Meaning

It is also called as sole proprietorship business or Individual proprietorship. Any business unit which is owned and controlled by a single individual is known as a sole trading concern. He is the founder as well as the controller of the business. In this, a single person subscribes the entire cpaital and arranges all factors of production. All the business decisions are taken by one person only. All the business is carried on by him with the assistance of relatives or employees. He enjoys all profits and bears all losses in the business alone.

It is the oldest of all the forms of business enterprises. It is said to be as old as civilisation. It is easy to set up and manage the sole proprietor's business. No legal formalities are required. His liability is unlimited.

Genrally, an entrepreneur starts his business as a sole trader, gains experience. Later he develops and expands his business into a large unit. Hence, the sole proprietory concern occupies an important place among all the business enterprises.

2.3.2 Definition :

Prof. L.H.Haney opines that the Sole Trading concern is "the form of business organisation, the head of which is an individual who is responsible, who directs its operations and who alone runs the risk of failure'.

James Stephenson defines the single propietor as "a person who carries on business exclusively by and for himself. He is not only the owner of the capital of undertaking, but is usually the organiser and manager and takes all the profits or responsibility for losses.

2.3.3 Characteristics

1. Individual Initiative : The proprietory concern comes into existence only through the efforts and initiative of a single person. He prepares the blue prints of business and arranges all factors of production. He may appoint required staff for his assistance. But he is responsible for all the activities. He enjoys all the profits and bears all the losses.

2. Management and Control : The sole trader manages the whole business himself. He prepares various plans and executes them under his own supervision. He employs required staff for his assistance but the ultimate responsibility lies with the owner.

3. Unlimited Liability : Liability of sole-trader is unlimited. Hence his private property is also liable for business obligations, if necessary.

4. Motivation : Sole trader takes all profits and bears all losses, if any. His efforts are rewarded directly. He is motivated and stimulated by the profits to expand his business activities.

5. Secrecy : All the decisions are taken by the owner himself. He maintains secrecy in all the business activities. Secrecy plays an important role for the success or failure of the business. By maintaining business secrecy sole trader avoids competitors entering into the same business.

6 Uncertain Existence : In sole trade business there is no seperate existence of the business with the owner. The business and the owner exist together. The business is dissolved if the owner dies or become insolvent.

7. Limited Area of Operations : A sole trading business has generally a limited area of operations. Because of the limited resources and managerial abilities of sole trader there is less possibility to expand the business.

8. Risk : In sole trading concern, the sole trader and his business are seperate entities. Nobody shares his profits or losses. Loss in business is his loss and Liabilities of the business are his liabilities.

9. Government Regulations : The registration is not necessary except in certain trades such as medical shop and restaurants. There are no statutory controls. Similarly no restrictions are imposed by the Government.

2.3.4 MERITS

1. Easy in Formation : Sole Trading concern is absolutely free from legal formalities. It can be commenced very easily and quickly. The establishment costs are also very less.

2. Better Control : The sole proprietor is responsible for all the business activities. He controls all functions of the business. He himself takes decision in right time. The centralised direction and personal control result in unifornity of action and effective co-ordination.

3. Maintenance of Business Secrets : Secrecy is vital for any business. A sole trader concern is a singleman's business, he keeps all the secrets within himself. As the accounts need not be published, the dealings and profits are not known to the public. This enables the sole trader to maintain secrecy from his business competitors.

4. Easy to Raise Finance : The sole trader works hard and earns goodwill for the firm. As a result, his credit worthiness enhances in the market. More over, the sole trader bears unlimited hability. Hence, the creditors feel secure in extending credit to sole trader.

5. Promptness in Decision Making : All the business decisions are taken by a single person. He can take prompt decisions. Delay in decision making results in loss of opportunities to earn profits.

6. Inexpensive Management : The sole trader is the owner, manager and controller of the business. He personally supervises various activities and can avoid wastage in the business. He maintains the accounts of business by himself. Thus managerial and clerical costs are saved to a large extent.

7. Direct Realtions with Consumers : In sole proprietorship the owner can have direct contact with customers and employees. He can know the relations and preferences of consumers. It enables him to make necessary changes in the quality and design of his products. It will help him to boost his sales. He can also concentrate on consumer service.

8. Self-employment : This form of organisation offers the means of self-employment. Those who do not want to serve others or those who cannot get a suitable job can easily start a small sized business unit as a sole-trader.

9. Healthy Relations with Employees : A sole trader is in a position to maintain direct relations with his employees. This enables the employer and employees to understand and appreciate the difficulties of each other. A sole trader cna solve the grievances of his employees. This leads to a healthy relation between employer and employee which is necessary for the success of the business.

10. Benefit of Goodwill : A sole trader passes on the business goodwill to his successor. Generally sole trading concern is dissolved on death of the owner. But in relatity the same business is continued by a heir because of its inherited goodwill.

11. No Legal Restrictions : There are no legal requirements for starting a business. There is no special act governing the work of sole trading concern. There is no restrictions to change the nature of business. Dissolution of the business is also easy. He is taxed as an individual but not as a business unit.

12. More Flexible : As it run by an individual, the business is highly flexible in character. Sole trader is free to change the nature of business and to refix the prices. He can make changes effectively and quickly to run the business more profitable and efficient.

13. Socially Desirable : One man business is generally on a small scale basis and is scattered. It helps in avoiding concentration of wealth. Sole trade business also provides competition to other businesses. Sole trader develops the qualities of self-reliance, self-confidence, responsibility, tact and initiative in the individuals. Thus it generates social values.

2.3.5 DEMERITS

1. Limited Resources : The resources of a sole proprietor are limited. He makes investments from his family sources only. If he wants to raise finance from financial institutions, he has to show securities. The sole trader cannot offer much security, so he cannot get much help from financial institutions. The capacity for expanding business operations is limited for want of resources.

2. Limited Managerial Ability : The managing capacity of the proprietor is limited. One person may not be expert in each and every function of the business. He will not be able to devote sufficient time for all types of activities. So sole trader will not be able to survive effectively. Limited managerial capacity will hinder the growth of concern.

3. Uncertain Continuity : The business continues as far as sole trader is alive. In case of mobility or death, the eixstence is uncertain. The successors of the sole proprietor may not have an aptitude or ability to continue in the business. The closure of a business will cause inconvenience to the customers and it stands as an impediment for the growth of the unit.

4. L**imited Scope of Employees** : A sole trader cannot attract trained and qualified persons because of limited career opportunities and uncertain existence. A sole trader cannot offer financial incentives to employees because his activities are on a small scale. The employees will try to join in good concerns whenever an opportunity arises.

5. No Large Scale Economies : A small scale concern cannot economise in purchase, production and marketing. A large scale enterprise can have such economies due to wholesale buying. In a sole trade concern overhead expenses are also more. So this type of concern cannot enjoy the benefits of large scale economies.

6. More Risk : A sole proprietor is to take all decisions by himself. So there is possibility of taking wrong decisions. In other forms of organisations, the decisions are taken by a group of persons. So the possibility of mistakes and wrong decisions is minimised. Lack of counselling may create difficult situations.

2.4 JOINT HINDU FAMILY

2.4.1 Introduction

This is a form of business organisation which exists in India only. And it is only the Hindus who can form this organisation as the name itself indicates. Outsiders cannot become members of this organsation. Membership to this type of organisation is either by birth or by marriage to a male person who is already a member of a Joint Hindu Family. Membership to a Joint Hindu Family is automatic and cannot be avoided, if one takes his birth in a Hindu Family which is running a business.

It is also knows as undivided Hindu Family. It is a family consists of common ancestor, which is a must to bring a Joint Hindu Family into existence all his male decendants upto any generation along with their wives and unmarried daughters. The death of a common ancestor does not bring the Joint Hindu Family to an end. It continues till perpetuity, as upper links removed by death and lower ones are added by birth.

All the affairs of the Joint Hindu Family are controlled and managed by one person who is known as Karta or Manager. According to Hindu Law, the senior most male member of the family is 'Karta' by virtue of his position in the family. Kartha's powers are almost unlimited. He acts on behalf of the other members of the family. Neither he is accountable to anyone nor prepares accounts.

2.4.2 Schools of Hindu Law

On the baiss of the schools of Hindu Law, Joint Hindu Family is considered under two heads.

1. Mitakshara 2. Dayabhaga.

1) Mitakshara : Mitakshara says of son's right by birth in the joint family property. This means, when a son is born in family, he acquires an interest in the property jointly held by the family. The interests of all sons are equal. In this type of Joint Hindu Family there is community of ownership and unity of profession. The members of a Hindu undivided Family who own a business are called Co-parceners. Such a business organisation is managed by the head of the family called the Karta. However, if all the members agree, a junior member of the family can act as the Karta.

In Mitakshara Joint Hindu Family, property cannot be alienated either by father or by other co-perceners can alienate upto his own undivided share in the joint family property.

The share of a member of Hindu undivided family depends and fluctuate on the births and deaths in the family. The share decreases with birth and incrase with death in the family. Ordinarily, the property belonging to the family cannot be transferred by any one.

Under the old Hindu Law, female was not entitled to any share in the property. Btu with the passage of Hindu Succession Act of 1956 even females have been included in the list of persons who acquire share in succession.

2) Dayabhaga : According to this law, the property can only be inherited. The share of each member is specified. It does not fluctuate on birth and deaths in a family. Further any member can transfer his share of the property in the family.

2.4.3 Rights and Liabilities of Karta and Co-parceners

The Karta who is actually the manager of the firm run by the family occupies a very important and unique position. No other member of the business cna question his action in running the business. The Karta is liable to make good to the other members of the family their shares of all sums which he has misappropriated. The Karta has the power either to carry on the business or to close down.

The Co-parceners have no right of participation in the management. Further they have limited liability i.e., they are liable only to the extent of their share in the business.

2.4.4 Characteristics or Features of Joint Hindu Family Business

1) Governed by Hindu Law : The control and management of the Joint Hindu Family firm is done according to the uncodified or codified Hindu Law. The unccodified law consists of two schols, Mitakshara and Dayabhaga. In the same way rights and duties of its members are governed by uncodified Hindu Law.

2) Membership : The membership of the family can be acquired only by birth. An outsider can be admitted by adoption. Marrying a male member of the family also confers membership.

3) Management : The family affairs are managed by the senior most male member of the family known as Karta or Manager. The powers of management are unlimited. He may manage or mis-manage, it cannot be questioned by any member. But the management is more effective due to nature love and affection with the members of the family.

4) Limited Liability of Others : All the members in a Joint Hindu Family have limited liability to the extent of the joint property of the family. The self occupied property of any member cannot be taken to repay the loans taken by the family. It is only the joint family property which is laible for satisfying debts. However, Karta is personally liable for loan taken on promissory note.

5) Continuity : It continues forever. The death, insolvency, insanity of the any member in the family do not bring the joint family firm to an end. There is no limit to its membership number also.

6) Membership : A person from its very birth becomes the member of the Joint Hindu Family. This is an important feature of this business organisation.

7) Accounts : Accounts are maintained by Karta but this is not obligatory on his part. He is not accountable to any member and no member can ask for the same.

8) Implied Authority of Karta : There is an implied authority in favour of Karta to contract debts and pledge the credit and property of the family for ordinary purposes of family business. These are binding on the entire family. No other member is having such an authority.

2.4.5 Advantages

1. Centaralised Management : The management of a Hindu Joint Family Firm is centralised in the hands of Karta. He is the eldest and the most experienced person gives a very disciplined management. This results in smooth functioning of the business. No other member interferes in his management.

2. Utmost Secrecy : Joint Hindu Family firm is managed by a single man 'Karta'. He can do it with utmost secrecy. He can keep a thing secret even from the members of the firm.

3. Quick Decision : Joint Hindu Family Firm is a single man show. As Karta is the decision-maker, he can take the decision quickly. Further it is advantageous that the decision in final and unchallengeable.

4. Credit Facilities : In Joint Hindu Family firm the credit facilities are more. The reason is that the liability of the Karta is unlimited. Moreover, Karta is having personal relations with others, which are also helpful in raising credit.

5. Work according to Capacity : Work can be divided among the co-parceners on the basis of their capacity and talents. A person who is more strong than others may be asisgned work of physical nature. Disabled and infants are not required to do any work at all.

6. Natural Love Between the Members : In Joint Hindu Family Firm, it is the natural love and affection which the members are having for each other. This helps the smooth working of business. Every coparcener is guaranteed a minimum share of profits irrespective of their contribution to the working of the firm.

7. Economy: Economy is must for the success of any business. It is well balanced and maintained in Joint Hindu Family Firm. This may be due to hanging sword of partition of family on the neck of Karta.

8. Knowledge to Young Generation : The younger members of the family can get the benefit of knowledge and experience of elder members of the family.

9. Limited Liability : The liability of all the members of the family firm is limited to their undivided shares in the propoerty of the family. How ever Karta's liabilities are unlimited.

2.4.6 Disadvantages

1. No reward for Efficiency : There is no encouragement to work hard because profits are divided equally. The persons who work more efficiently and dedicatedly are not rewarded. Due to this the members may try to avoid work.

2. Limited Capital : The investment of this type of firm is limited only upto the resources of the family. They may not be sufficient to meet the business requirement and for the expansion of the business.

3. Limited Managerial Skill : Only the eldest male member of the family is to manage the family business. He performs all the functions of the management. He may not be well conversant with the knowledge of business skills and other problems of managemnt. The views of younger members will not be approved by the elder members. This leads to conflict between old and young members.

4. Suspicion : The Karta is empowered with vast power of secrecy and he can keep a thing secret from its members. But there is no restriction on him. This gives birth to suspicion among the members themselves which can be disastrous for the joint Hindu family.

2.5 DIFFERENCE BETWEEN SOLE TRADING AND JOINT HINDU FAMILY FIRM

Sole Trading	Joint Hindu Family Firm
1. This form of business is owned by a single person.	1. This form of business is owned by the family members.
2. This is not governed by any law	2. This is governed by Hindu Law
3. Liability of sole trader is unlimited.	3. The liability of Karta is unlimited but of the coparceners is limited to their share in the firm.
4. There is no possibility of division of work in sole trading concern.	4. The work can be divided in Hindu undivided Family Firm.
5. Credit worthiness of sole trader is less.	5. Credit Worthiness of Joint Hindu Family Firm is better.
6. The life of sole trading concern is less.	6. Joint Hindu Family Firm has a longer life.
7. Sole trader enjoys all the profits and bears all the losses.	7. Profits and losses are shared in a Joint Hindu Family Firm
8. As there is single person there is no scope for dispute	8. There is Chance of disputes and conflicts among the members of the family firm

2.6 SUMMARY

a. Business carried on by a single person is sole trading concern.

b. Joint Hindu Family Firm is prevalent in India only.

c. Joint Hindu Family Firm is governed by Hindu Law.

d. Affairs of Joint Hindu Family are controlled and managed by one person 'Karta'.

2.7 SELF ASSESSMENT QUESTIONS

5 Marks Questions

1. Various types of Business Organisations.
2. Mitakshara School of Hindu Law.
3. Dayabhaga School of Hindu Law.
4. Position of Karta in a Joint Hindu Family Firm.

10 Marks Questions

1. What are the essential characteristics of Sole Trading concern.
2. What are the characteristics of Joint Hindu Family Firm.

20 Marks Questions

1. Explain the characteristic features, merits and demerits of sole trading concern.
2. Explain the characteristic features, merits and demerits of Joint Hindu Family Firm.
3. Distinguish Sole Trading and Joint Hindu Family Firm.

2.8 REFERENCE BOOKS

1. Industrial Organisation and Management - R.K. Sarma and Shashi K. Gupta
2. Industrial Organisation and Management - Y.K.Bhushan
3. Industrial Organisation and Management - Prof. K.V.Sivaiah & V.B.M.Das
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Lesson – 3

PARTNERSHIP

3.0 Objectives

After going through this lesson student can know

- ➔ Partnership Business
- ➔ Characteristics, Advantages, Disadvantages
- ➔ Partnership Deed
- ➔ Kinds of Partners
- ➔ Rights, Duties, Obligations of Partners
- ➔ Registration and Dissolution of Partnership Firm

Structure

PARTNERSHIP

3.1 INTRODUCTION

Partnership firm is another form of businers organisation. The two deficiencies of sole trading concern are shortage of capital and lack of managerial skills. Moreover risk bearing capacity of an individual was also limited. More persons were required for supervising different functions. Partnership form of organisation can overcome these deficiencies.

The partnership may come into existence either as a result of the expansion of the sole trading concern or by means of agreement between two or more persons. When the size of business expands, the proprietor finds it difficult to manage the business and is forced to take outsiders, who provides additional capital and assistance to manage the business on sound lines.

Two or more persons can join together to establish a partnership firm. It has a legal status. It is covered by the Indian Partnership Act, 1932. There will be union of Capital, Skill, Organising Power and Managerial Ability. The profit or loss is shared according to agreed proportions.

3.2 DEFINITION

According to L.H. Haney, partnership is “The relationship between persons who agree to carry on business in common with a view to enjoying ‘private gain’.

John A. Shubin opines that “Two or more individuals may form a partnership by making a written or oral agreement that they will jointly assume full responsibility for the conduct of the business”.

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

3.3 CHARACTERISTIC FEATURES OF PARTNERSHIP

1. Association of Persons: In partnership form of organisation, there must be at least two persons. Partnership is the outcome of a contract, so there must be two or more persons. Minor cannot form a partnership firm as they are incompetent to enter into a contract. According to sec 11 of the contract Act, there is no maximum limit on partners in partnership Act. But according to Companies Act, the maximum number of partners cannot exceed ten in banking business and twenty in any other business.

2. Contractual Relation: According to partnership Act, the relation of partnership arises from contract but not from status. The contract may be oral or written but in practice written agreement made because it helps to settle the disputes if arise later on.

3. Earning of Profits: The purpose of the business should be to make profits and distribute them among partners. If a work is done for charity purposes or to serve the society it will not be called partnership. The main motive of partnership is earning of profits.

4. Limited Authority: There is an implied authority that any partner can act on behalf of the firm. The business will be bound by the acts of partners.

5. Unlimited Liability: In partnership, every partner is liable to an unlimited extent. He is liable till the last paisa of the firm’s debt is paid, irrespective of the fact that the liability might have been incurred by himself or by other partners of the firm. The partners are liable individually and collectively.

6. Principal and Agent Relationship: In partnership the relationship of principal and agent exist. It is not necessary that all partners should work in the business. Any one or more partners can act on behalf of other partners. Each partner is an agent of the firm and his activities bind the firm. He also acts as a principal because he is bound by the activities of other partners.

7. Good Faith: The very basis of the partnership business are good faith and mutual trust. Every partner should act honestly and give proper accounts to other partners. The partnership cannot run if there is suspicion among partners. It is very important that partners should act as trustees and for the common good of all. Distrust and suspicion among partners lead to the failure of many firms.

8. Existence of Business: Partnership can only be for some kind of business. The term business includes any trade, profession or occupation. By business we mean all the activities concerning production, distribution and rendering services for the purpose of earning profits.

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

10. Common Management: Every partner has a right to take part in the running of the business. It is not necessary for all partners to participate in day-to-day activities of the business but they are entitled to participate. Even if partnership business is run by some partners, the consent of all other partners is necessary for taking important decisions.

11. Partners and Partnership are one: A partnership firm has no separate entity from the partners. No firm can exist without partners. The rights and liabilities of partners are the rights and liabilities of the firm. Partners have implied authority to bind the firm for their acts.

12. Capital: The partners contribute to the capital of the firm. It is not necessary to have capital in profit sharing ratio. A partner can be admitted to the firm even without contributing to the capital. It is not essential that all partners must contribute to the firms capital.

13. Protection of Minority Interest: All-important decisions are generally taken by contensus. It ensures protection of those who may not agree to the majority view point. A partner may even ask for the dissolution of partnership if he feels aggrieved.

14. Continuity: There is no true limit for the continuity of a partnership firm. It continues till the time the partners want it to go. Death, insolvency or any misunderstanding among the partners may dissolve the partnership. Dissolution of partners may not necessarily mean dissolution of the firm. The remaining partners may continue the firm after meeting the claims of outgoing partners.

3.4 ADVANTAGES OF PARTNERSHIP FORM OF ORGANISATION

Partnership form of organisation is suitable for medium size businesses where personal efforts of entrepreneurs are essential. The following are the advantages of partnership.

1. Easy to form: A simple agreement among partners is sufficient to start partnership firm. The registration of the firm is optional.

2. Large Resources: The resources of more than one person are available for the business. More partner can be admitted if capital needs are large. The partnership concern can also arrange funds from the outside resources.

3. Managerial Talents: Different functional departments may be managed and controlled by different partners. The talent, expertise and knowledge of partners in different fields can be used for the welfare of the business. It increases the efficiency of the business resulting in more profits.

4. More Credit-Worthiness: The partners may have sufficient contacts in the market. The liability of the partners being unlimited, they will be able to raise more finances. As compared to a sole-trading concern, partnership concern has more credit-worthiness.

5. Prompt Decision-making: The partners meet frequently and they can take prompt decisions. The firm will not lose any business opportunities because of delay in taking a decision.

6. Sharing of Risk: The risk of business is shared by more persons. The burden of every partner will be much less as compared to the burden of sole-trader. Further more, the business expansion will not be hampered for fear of risk.

7. Relation between reward and work: The partners try to put more labour to earn more and more profits. These is a direct relationship between reward and work. The more they work, the more they be benefited.

8. More possibility of Growth and Expansion: As compared to a sole-trading, partnership concern has more possibilities for expansion of growth of the business activities. The partner can contribute more and manage the activities more systematically.

9. Close Supervision: The partner themselves look after the business. So they can avoid wastages. They have direct access to the employees and can encourage them for more production. The management of partnership is much cheaper when compared to joint stock company.

10. Flexibility of Operations: Government approval is not necessary for making changes in the business set-up. There can be any change in managerial set up, capital and scale of operations.

11. Secrecy: The firms are not required to publish any accounting information to outsiders. The partners can keep the business secrets to themselves. The competitors do not know about the exact position of the business.

12. Protection of Minority Interests: Every partner has a right to participate in the management of the business. All-important decisions are taken by the consent of all partners. If majority decision is enforced on minority then effected partners can get the business dissolved.

13. Easy Dissolution: The partnership can be dissolved on insolvency, lunacy or death of a partner. If the partnership is at will, then any partner can get the firm dissolved by giving notice to other partners. No legal formalities are required at the time of dissolution. So it is easy to start as well as dissolve a partnership concern.

14. Democratic Administration: All partners may take active interest in the working of the firm. All the partners are consulted on important decisions. Generally, strategic decision are taken by concensus only.

15. Saving in Managerial Expenses: There are savings in expenses of a partnership firm. The partners divide all important functions among themselves and look after them.

3.5 DISADVANTAGES OF PARTNERSHIP

1. Limited Resources: There is restriction to the number of partners in a firm, i.e., ten in case of banking business and twenty in any other business. Hence the capital is limited to the extent of financial ability of each partner in the firm. They cannot finance for bigger ventures.

2. Unlimited Liability: The liability of partners in the firm is unlimited. The personal properties are held liable for clearing the debts and obligations of the firm. Partners owning private properties have to be careful to become partners in a firm.

3. Instability: The partnership concern suffers from the uncertainty of duration. The partnership may be dissolved at the time of death, insolvency or lunacy of a partner. The discontinuity of the business is a social loss and it causes inconvenience to the consumers and workers.

4. Mutual Distrust: The mutual distrust among partners is the main cause for the dissolution of partnership concern. It is difficult to maintain harmony among partners. They may have different opinions and may not agree on certain matters. This may lead to the dissolution of the firm.

5. Limitation on Transfer of Shares: A partner has no right to transfer his shares to third party without the consent of other partners.

6. Burden of Implied Authority: A partner can bind the business by his acts. A dishonest partner creates problems in business. The other partners will have to meet the obligations incurred by the partner. The provision of implied authority may create problems for the business.

7. Lack of Public Faith: Partnership concern has no obligation of publishing accounts. Public is unaware of the exact position of the business. There is suspicion in the minds of public about the profits and financial position of the firm. So partnership concerns lack of public confidence.

8. Lack of Prompt Decisions: Every partner is entitled to take part in the management of the firm. Collective decisions may lead to delay and sometimes lead to misunderstanding. Delay in decision making leads to a loss in business. Lack of harmony among partners often leads to the dissolution of the firm.

9. Cautious Approach: Unlimited liability of partners leads to cautious approach on the part of partners. Risk bearing capacity of partners may also be limited. They try to avoid decisions where risk is involved. Because of this nature, a number of opportunities may be lost.

10. No Independent Legal Status: The partners and the partnershipfirm are treated as one and the same. Partners have no separate entity and partnerships do not enjoy an independent legal status.

3.6 PARTNERSHIP DEED

If the partners work collectively with understanding and cooperation then the firm can run smoothly. If there are disputes and conflicts among the partners resulting to the closure of the firm. Hence, to avoid the disputes and conflicts among the partners there must be an agreement between the partners.

In order to constitute a partnership there must be an agreement between the parties. The agreement may be oral or in writing. The document which contains an agreement among the partners is called “Partnership Deed”. The deed must be duly stamped and signed by all the partners.

The deed should be drafted properly incorporating all the necessary terms and conditions of partnership. These terms and conditions may vary from firm to firm.

Contents: The Partnership Deed usually contains the following information.

1 Name of the firm

2 Names, Addresses, Occupation of the Partners

3 Nature of the business to be carried on.

4 Amount of capital and contribution of each partner.

5 Profit sharing ratio.

6 Duration of partnership.

7 Amount of with drawals to be allowed to each partner.

8 Rate of interest payable on capital and chargeable on with drawals.

9 Salary, Commission or Bonus payable to partners.

10 Evaluating Goodwill, Profit sharing ratio, Revaluation of assets and liabilities at the time of Admission, Retirement or Death of a partner.

11 Proceedure for dissolution of the firm and settlement of accounts.

12 Arbitration clause for settlement of disputes among partners.

13 Division of work among the partners.

14 Maintenance of Book of Accounts and Audit of Accounts.

15 Rights duties and obligations of partners.

16 Additional capital introduced by partners.

This is not exhaustive and final list of clauses, which can be inserted in the partnership deed. If partnership deed is silent in any point, then provisions of partnership act will apply. The deed is not rigid in nature and the contents of the deed can be altered from time to time with the consent of all the partners of the firm.

3.7 REGISTRATION OF PARTNERSHIP FIRM

The registration of partnership is not compulsory under Indian partnership Act. But there are certain previlages, which are allowed to registered firm. To avail certain advantages under law the firm must be registered with the Registrar of firms of the state. Registration of firm does not provide a separate legal entity to the concern as in case of Joint Stock Company.

3.7.1 Procedure of Registration: The Proceedure is divided into two parts.

1. Filing an Application: The first thing to be done is to file an application with the Registration of firms on a prescribed form. A small amount of registration fees is also deposited along with the application. The application should contain the following information.

    1. The name of the firm.
    2. The Principal place of business of the firm.

3. Date of a Commencement of the Business.
4. Names and Addresses of Partners.
5. Duration of the firm.
6. Profit & Loss Sharing Ratio.

The application form should be verified and signed by each partner or by his duly authorised agent.

2. Certificate: The particulars submitted to the Registrar are examined, whether all required legal formalities have been followed or not. If everything is approved, then the Registrar shall record an entry in the Register. Then the firm is considered to be the registered firm.

Alteration of Particulars: Whenever a change or alteration is made then it should be communicated to the Registrar of firms and a suitable change is made in the register.

Following changes or alterations are to be sent to the Registrar.

1. Any change in the name of the firm.
2. Any change in the principal place of the business.
3. Constitutional change i.e., old partner may retire and a new partner may be added.
4. Any change in the name of a partner or his address.
5. When a minor partner attains the age of majority and he elects to become or not to become a partner.
6. When the firm is dissolved.

3.7.2 Advantages of Registration:

1. **Advantages to the firm**: The firm has a right to the third parties in civil suits for getting its rights enforced. In the absence of registration, the firm cannot sue outside partners in courts.
2. **Advantages to Creditors**: A Creditor can sue any partner for recovering his money due from the firm.
3. **Advantages to Partners**: The partners can approach the law against each other in case dispute arise, among the partners. The partner can sue the outsider also for recovering his money.
4. **Advantages to Incoming Partners**: A new partner can fight for his rights if the firm is registered. If the firm is unregistered, the new partner has to depend on the honesty and mercy of other partners.
5. **Advantage to outgoing Partner**: The registration of a firm is benefited to outgoing partner also. On the death of a partner his successors are not responsible for the liabilities of the firm after the death of the partner. The retiring partner continues to be responsible up to the time he does not give public notice. The public notice is not registered with the Registrar and he ceases his liabilities from the date of this notice. So it is necessary to register the firm for these advantages.

3.8 KINDS OF PARTNERS

There are different kinds of partners and they may be classified as under:

1. **Active Partner or working Partner**: A Partner who not only invest his capital in the business but also participates actively on the management of the firms business is called Active Partner. He may act in different capacities such as Manager, Organiser, Adviser and Controller of all the affairs of the firm.
2. **Dormant or Sleeping Partner**: A partner who contributes capital, shares profits and bears losses of the business but does not take interest in running the business of the firm. Sleeping partner is liable for the liabilities of the business like other partners. He cannot bind the business i.e., firm, to third parties by his acts. He is not known to the public as a partner. So he may be called as a 'Secret Partner'.
3. **Nominal Partner**: A Partner who does not contribute any capital nor does he shares profits of the business. He does not take any active role in the management of the business. Simply he lends his name and fame in the interest of the firm. So that the business may get more credit in the market or may promote its sales. However, he remains liable for the debts and liabilities of the firm.
4. **Partner in Profits only**: A person may become a partner for sharing the profits only. He contributes capital and is also liable to third parties like other partners. He is not allowed to take part in the management of the business.
5. **Partner by Estoppel:** When a person is not a partner but poses himself as a partner, either by words or in writing or by his acts he is called a partner by estoppel. A partner by estoppel shall be liable to outsiders who deal with the firm on the presumption of that person being a partner and does not contribute anything to the business.
6. **Partner by Holding out**: When the third parties declare any person as partner and if that person does not deny that fact knowingly and intentionally, he is called "Partner by Holding Out". Such a person does not contribute any capital and will not enjoy any rights to participate in the management of the firm. However, the partner is liable to the third parties to the extent of credit granted to the firm, considering him to be a partner.
7. **Sub Partner**: A partner may associate anybody else in his share in the firm. He gives a part of his share to the stranger. The relationship is not between the sub-partner and the firm but between him and the partner. He is not liable for the debts of the firm.
8. **Minor as a Partner**: A minor is a person who has not yet attained the age of majority. Partnership is a contractual relationship and minor being incompetent to enter into contract. However a minor may be admitted to the benefits of the existing partnership with the consent of all partners. Minor is not personally liable for the debts of the firm. His share in partnership property and profits will be liable for the debts of the firm.

3.9 RIGHTS, DUTIES AND OBLIGATIONS OF PARTNERS

The rights, duties and liabilities of the partners are determined by the provisions of the Indian Partnership Act, 1932. They are specifically provided in partnership deed. In case the deed fails to provide any point, the provisions of the act are applicable.

3.9.1 Rights of Partners

Every Partner of the firm has a right

1. To take part in the management of the business of the firm.
2. To express his opinion on any matter relating to the firms business. The decisions on the ordinary issues of the business may be taken on the opinions of the majority of partners where for all important matters consent of all the partners is required.
3. To share the profits of the firm equally, unless otherwise mentioned in partnership deed.
4. To inspect books of accounts of the firm and copy them.
5. To prevent the admission of the new partner without the consent of all partners.
6. To receive interest at 6% per annum on excess money supplied over his capital.
7. To get himself reimbursed with the amount spent by him in the ordinary course of business.
8. To claim compensation from the firm for any loss suffered or any liability incurred by him in the ordinary course of firm's business.
9. To prevent a change in fundamental matters.

Implied authority of a partner:

A partner is an agent of the firm and his acts can bind the firm. The acts must be for the purpose of the business of the firm. The act is done in the firm's name and to bind the firm. This authority of a partner is called his implied authority.

Under implied authority, a partner may bind the firm for such type of acts.

1. He may purchase and sell the goods of the firm.
2. He may accept the payment of debts due to the firm and issues valid receipts.
3. He may hire employees for the partnership business.

In case of a trading firm a partner has the following additional powers:

1. He may make, draw or accept or otherwise deal with negotiable instruments in the name of the firm.
2. He may employ an attorney on behalf of the firm.
3. He may engage and instruct an advocate in a suit by or against the firm for debt.

3.9.2 Duties of Partner

The partnership business will be successful if all the partners show interest in running the business. They must be duty minded. For the success of partnership firm all the parners work ogether in a team spirit.

Every partner should :

(1) Carry on the business with interest to attain the maximum common benefit.

(2) be fair and faithful to other partners.

(3) maintain true and correct accounts of the firm.
(4) indemnify the firm for loss caused by his wilful negligence or fradulent conduct.
(5) disclose the true information and details relating to the firm to the other partners.
(6) not to carryon any business in competition with the business of the firm.
(7) not to earn profits secretly with the firm's name such as commission etc.
(8) not to use firms assets for personal purpose.
(9) not to transfer part of his share to any body without the consent of other partners.
(10) act within the powers given to him. If he performs beyond the powers, resulting in loss, the partner is liable to the firm.

3.9.3 Liabilities of a Partner

All the partners are liable to each other as per the partnership deed. In addition they are also liable to the outsiders. The following are the liabilities of partners against the third parties:

(1) The liability of each partner is unlimited. If the firms assets are insufficient to meet the firm's debts, the private properties of the partners are also liable.

(2) The liability of the partners is joint and several. They are individually as well as collectively liable for the debts of the firm. If any partner makes any loss to the outsider, then the partner as well as the firm are liable to that outsider.

(3) The minor partner of the firm is not personally liable for the debts of the firm. But his share in profits and assets can be held liable.

(4) The newly admitted partner shall not be liable for the debts incurred by the firm before his admission, unless there is agreement.

(5) The retiring partner is not liable for the debts of the firm incurred after his retirement.

3.10 KINDS OF PARTNERSHIP

Different kinds of partnership may be explained as :

1. General Partnership 2. Limited Partnership

3.10.1 General Partnership

In this type of partnership, the liability of members in unlimited. All the partners personally and collectively are liable for the obligations of the firm. All partners can take part in the working of the business. In India, this kind of partnership exists. On the basis of its diuration partnership can be divided as

a) Particular Partnership : When a partnership is started for certain work it is called particular partnership. When the work is completed the partnership comes to an end. The partnership may also be for a limited period. It will be dissolved at the expiry of that period.

b) Partnership at Will : This type of partnership is neither for a fixed period nor for a particular purpose. The partnership at will continues upto the time the partners have faith in each other. The life of partnership is not limited by time and work. The strength of this partnership depends upon the mutual trust and confidence among the partners.

2 Limited Partnership : In limited partnership, the liability of some partners is limited while liability of some partners is unlimited. The partners with limted liability are called special partners while those with unlimited liability are called general or active partners. The liability of special partners is limited only to the extent of their capital while the liability of general partners can go beyond their capital. This type of partnership can be seen in U.S.A. and several Europe countries.

3.10.2 Features of Limited Partnership

1. There are two classes of partners i.e., special and general partners. There must be atleast one general partner whose liability will be unlimited and atleast one partner should be a special partner with limited liability.
2. The special partners can not bind the firm by their acts.
3. The special partner only invest money but cannot take part in the business. The day-to-day work is done by genral partners only.
4. The limited partnership must be registered under acts. Non-registration of the firm will be treated as general partnership.
5. The special partner is not allowed to withdraw his capital as long as he continues to be a partner in the firm.
6. The death, insolvency or lunacy of a special partner does not dissolve the firm.
7. The special partner is allowed to enjoy his share of profits and can inspect the books of the firm.

3.11 DISSOLUTION OF PARTNERSHIP FIRM

The end of contractual relationship between all the partners is called dissolution of firm. The dissolution of a firm means discontinuous of its activities. But if one or more partners terminate their relationships with the firm and the rest of them continue the business under the same firm's name, it is not the dissolution of firm. Indian partnership act makes a clear distinction between the two.

Circumstances

3.11.1 The Dissolution of Partnership

Partnership will be dissolved under the following circumstances.

(1) Completion of duration or agreed period of partnership, if partnership existed for particular period.

(2) Completion of particular work or venture.

(3) Death of any partner or partners.

(4) Retirement of any partner or partners.

(5) Insolvency of any partner or partners.

3.11.2 Dissolution of the Firm

Firm will be dissolved under the following circumstances.

(1) If the partners agree to dissolve the firm.

(2) If all the partners except one becomes insolvent or retired or died.

(3) If the business of the firm is declared as illegal.

(4) If the court ordered to dissolve the partnership firm.

(5) In case of partnership at will, any partner can seek for dissolution of the firm by giving a prior notice of 14 days to all the partners of the firm.

3.11.3 Dissolution under an Order of the Court

Any partner of the firm may approach the court for dissolution of the firm under following circumstances :

(1)If a partner became insane.

(2) If a partner became disabled.

(3) If a partner is guilty of misconduct, which adversely affects the business.

(4) If a partner commits breach of agreement relating to business.

(5) If a partner transfers his share to the third party without the consent of other partners.

(6) If the firm is incurring losses continuously for long time.

(7) If there is any dispute, miunder standing between the partners.

(8) If there are any justifiable reasons that the court deems it fit to dissolve the firm.

Settlement of Accounts after Dissolution

On the dissolution of partnership, all the assets are realised and they are used to meet the outside liabilities of the firm. The order of preference to be followed while settling the accounts is

(1) to pay off outside liabilities.

(2) to pay off the loans of partners.

(3) to pay the partners' capital.

(4) Distribute the surplus among the partners in their profit sharing ratio, if any.

In the proceeds realisation of assets are less than the liabilities, the partners shall have to contribute the deficiency propertionately from their private properties. Under such circumstances if any partners is insolvent, the solvent partners have to bear the burden of insolvent in their capital contribution ratio.

3.12 Differences Between Partnership and Sole Trade Business

Sole Trade Business	Partnership Business
1. This is started by a single person.	1. To start this business, atleast two persons are required.
2. Maximum limit of members is also one.	2. Maximum limit of members should be 10 in banking and 20 in other business.
3. The investment is less.	3. The capital contribution is more.
4. It does not require any formality	4. It requires an agreement between partners.
5. Managerial skill is low. It is controlled and managed by one person only	5. Managerial talents are more. All partners can participate in the management.
6. Possibility of expansion of business is less	6. Possibility of expansion of business is more.
7. There is no scope for division of work	7. There is scope for division of work among partners.
8. More risk and single man should bear the whole risk.	8. Risk and loss shared by all the partners.
9. Motivation is more.	9. Motivation is less

10.Secrecy is more because the owner does reveal the business secrets.
11.There is possibility of taking prompt decisions.
12.The existence of business is uncertain. The death, insolvency of the owner leads to its dissolution.

10.Possibility of maintaining secrecy is less.
11.There is possibility of taking slow decisions.
12.The life of partnership is more. The insolvency, retirement, death of any partner does not affect the existance of the firm.

3.13 Difference between Hindu Undivided Family Business and Partnership Business :

Hindu Undivided Family Business

1. It is constituted by Hindu Law. Membership can be obtained only by birth or marriage with a male member of the family.
2. It is not dissolved because of death or insolvency of Karta or any other member.
3. Business is managed only by Karta, head of the family.
4. There is no ned of registration of firm.
5. The representative of the firm is only Karta.
6. Minor is also a partner of the firm. As soon as the child is born, becomes the member.
7. Every member of the family is guaranteed a minimum share in the profits of the firm. The ratio of share of profits and losses depends on the births and death.
8. It is governed by Hindu Law.
9. It has no separate legal entity from its members.
10. No maximum number of members all the family members are the members of the firm.
11. Karta has no need to prepare the books of accounts. No member can ask for the accounts.
12. The liability of Karta is unlimited. All the other members have limited liability.

Partnership Business

1. It is constituted by an agreement between the partners.
2. It may be dissolved because of death, insolvency or retirement of any partner
3. Every partner has the right to take part in the management of the business.
4. It is necessary to register the firm to attain some advantage.
5. Every partner is representative of the firm.
6. Minor is not a partner. Minor can be admitted for the benefits of the firm.
7. Partners share profits and losses on the agreed ratio.
8. It is governed under India Partnership Act, 1932.
9. It has a legal entity and identical to its partners in the eyes of law.
10. Maximum number of members is fixed. It is ten in banking business and twenty in any other business.
11. Any paprtner can inspect the accounts of the firm.
12. The liability of partners is unlimited. The person properties of partners are also liable in addition to their share in the business.

3.14 SUMMARY

1. Two or more persons carry on busienss jointly is partnership.
2. Liability of partner is unlimited, his liability is joint as well as several.
3. Registration of partnership firm is not compulsory.
4. The discontinuance of activities of partnership firm is known as the dissolution of firm.

3.15 TERMINOLOGY

1. Partners : Members in a partnership business are partners.
2. Partnership Deed : Agreement between partners.

3.16 SELF ASSESSMENT QUESTIONS

5 Marks Questions

1. Kinds of Partnership firms.
2. Liability of Partners
3. Minor Partner
4. Nominal Partner.
5. Partner by estoppel

10 Marks Questions

1. Characteristics of Partnership Business.
2. Contents on Partnership Deed.
3. Limited Partnership.
4. Registration of Partnership firm.
5. Rights and Duties of Partner.

20 Marks Questions

1. Define Partnership Business. Explain its advantages and Disadvantages.
2. Explain the kinds of partners.
3. Explain the dissolution of Partnership firm.
4. Distinguish sole trading concern and Partnership firm.

3.17 REFERENCE BOOKS

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LESSON - 4

JOINT STOCK COMPANY

4.0 OBJECTIVES

After going through this lesson student can know

→ Company, its characteristics.

→ Advantages and Disadvantages of Company.

→ Kinds of Companies.

→ Characteristics of Cooperatives.

→ Merits and Demerits of Cooperatives.

Structure

4.1 INTRODUCTION

The increased needs of modern industry and Commerce could not met by sole trading concern and partnership frrms. Therefore some other form of organisation was essential to accept the challenges of the modern industry.

Sole trading business and partnership firms are suffering with certain limitations such as limited resources, unlimited liability, limited existence etc. To overcome these drawbacks, and to carry on business on large scale, Joint stock companies came into existence.

Joint Stock Company Organisation started first in Italy in thirteenth Century. In India the first companies Act was passed in 1850. The principle of limited liability was introduced only in 1857. The application of Act was extended to Banking and Insurance companies in 1860. A comprehensive bill was passed in 1956. The firms incorporated under this Act are known as 'Companies'. The Companies Act, 1956 for the first time provided for a greater measure of government control over the formation and management of a Joint Stock Companies in India.

4.2 DEFINITION

According to James Stephenson, A company is 'an association of many persons who contribute money or money's worth to a common stock and employ it in some trade or business, and who share the profit and loss arising thereform".

According to Prof. L.H.Haney "A Joint Stock Company is a voluntary association of individuals for profit, having a capital divided into transferable shares, the ownership of which is the condition of membership".

Chief Justice Marshall opines that "a corporation is an artificial being, invisible, intangible and existing only in contemplation of the law. Being a mere creation of law, possesses only the properties which the charter of its creation confers upon it either experessly or as incidental to its very existence".

According to section 3 of Indian Companies Act 1956, "A company means a company formed and registered under the Companies Act".

According to clause (ii) of section 3, "existing company means a company formed and registered under any of the previous company laws".

From the above definition, it is clear that a company is an association of persons who contribute money in the shape of shares and a company gets a legal entity and enjoys a permanent existence.

4.3 CHARACTERISTICS OF A COMPANY

Following are the characteristic features of a company.

(1) Association of Persons : A company is an association of persons with a common motive. A private company must have atleast two persons and a public limited company must have atleast seven persons to register it. Maximum number of members is 50 in case of private company and there is no maximum limit for the number of members in public company.

(2) Independent Corporate Existence : The distinguishing feature of a company is its independent corporate existence. Being a seperate legal entity, a company bears a corporate name. A company acts independently of its members. It acts almost like a human being. But company has no physical existence and it is an artificial person but not a natural person. It is capable of owning property, incurring debts, borrowing money, the company can sue and can be sued.

(3) Common Seal : Being an artificial person, a company cannot put its signature. The law requires every company to have a seal and get its name engraved on it. The seal of the company is affixed on all important documents and contracts as a token of signature. The directors must witness the affixation of the seal.

(4) Limited Liability: The liability of its shareholders is limited to the value of shares held by them. In case the company incurs huge debts, the shareholders are not personally liable for the debts.

(5) Transferability of Shares : The shares of a company can be transferred by its members without the consent of other members. Under articles of association, the company can put certain restrictions on the transfer of shares but it cannot stop.

(6) Perpetual Existence : The company has a permanent existence. The shareholder may come or may go but the company may go on forever. The lunacy, insolvency or death of the shareholders does not affect the continuity of the company. The shares of the company may change from time to time, but the continuity of the company is not at all affected.

(7) Seperation of Ownership and Management : The companies are managed by the Board of Directors. The ownership and management are in two seperate hands. A shareholder may like to invest money but do not have any right to participate in managemnt. Directors, who are the representatives of the shareholders have th right to manage the affairs of the company.

(8) Corporate Finance : A joint stock company raises large amount of funds. A large number of persons purchase the shares of the company and contribute to the capital of the company. Since, there is no limit on number of members in public companies, large amounts of sources can be raised from public.

(9) Centralised and Delegated Management : A joint stock company is an autonomous and self-governing body. The shareholder can not participate in day to day activites of the company. Hence they elect the Board of Directors in general body meting for managing the company. All important decisions are taken in a democratic way. The centralised management and democratic functioning brings in unity of action.

(10) Publication of Accounts : A joint stock company has to file annual statement with the Registrar of companies at the end of a financial year. The annual statement are open to every one for inspection in the office of Registrar.

4.4 ADVANTAGES OF COMPANY FORM OF ORGANISATION

(1) Large Resources : Joint stock companies are suitable for those business where large resources are required. A company can collect large sum of money by issuing shares and debentures.

(2) Limited Liability : The liability of members in a company is limited to the normal value of shares they held. If the shares are partly paid, then the liability of shareholders is only the unpaid value of the share. The limited liability encourages many persons to invest in shares of joint stock companies.

(3) Continuity of Existence : Company has a permanent existence. The members of a company may go on changing from time to time but it does not affect the continuity of a company. The continuity of a company is not only in the interests of members but also the beneficial for the society. The discontinuation of a company may cause wastage of resources and inconvenience to the consumers.

(4) Efficient Management : In company form of organisation, ownership and managemnt are in two hands. The large resources enables the company to attract and appoint talented persons for efficient managemnt of business functions. The efficient management helps the company to expand its activities.

(5) Economies of large Scale Operations : The increase in scale and size of business will result in economies in purchase of raw materials, cost of production, marketing and management etc.

6 Ability of changing its nature of Business : The needs and tastes of consumers are changing day to day. Hence every business is required to invest on research and development programmes. Joint stock companies can afford to invest money on research projects. It enable them to cope with ever changing business conditions.

(7) Risk Sharing : In company form of organisation, the contributors are large in number. So the risk is shared by them. As the risk and burden is shared by all the members, the company can take up the new ventures.

(8) Democratic Set up : Share holders come from all walks of life. Every individual has an opportunity to become a shareholder. Boards of Directors are elected by the members, will manage the company. So, the company management is based on democratic principle.

(9) Public Confidence : Public confidence can be easily gained by the company. Formation, managemnt and winding up of companies etc are well regulated by the act. Moreover, the company publishes its audited accounts and reports for public inspection.

(10) Social Benefits : There are several benefits to the society such as encouragement to the savings, motivation to invest, utilisation of natural resources, establishment of large industries and employment opportunities etc.

4.5 DISADVANTAGES OF COMPANY FORM OF ORGANISATION

1. Difficulty of Formation : Formation of a Company is both expensive and risky. The suitability of a particular business is to be decided first. Association of a number of persons is required to incorporate a company. A lot of legal formalities are to be followed at the time of its registration etc.

2. Seperation of Ownership and Management : Democratic management is not practical in company management. The owners, i.e., the shareholders spread all over the country and they cannot even attend the meeting. Therefore only a few of the shareholders always manage the company.

3. Lack of Secrecy : The management of companies remains in the hands of many persons. Everything is discussed in the meetings of the Board of Directors. The trade secrets cannot be maintained and the accounts and reports are published every year.

4. Delay in Decision - making : All the important decisions are taken either by Board of Directors or are referred to the general house. So Decision taking process is time consuming. Many business opportunities may be lost because of delay in decision making.

5. Concentration of Economic Power : Some members become directors in a number of companies and try to formulate policies which promote their own interests. Interlocking of directorship and establishment of subsidiary companies have facilitated concentration of economic power in the hands of a few business houses.

6. Lack of Initiative : The entire management is earned on by the salaries personnel. They may not have individual interest and initiative.

7. Group Rivalries : Various parties particpate in the administration of the company. Because of their own interests conflicts may develop. Disputes arise on salaries and bonus between directors and workers, on dividends between shareholders and directors and on loans and interest between creditors and Directors. These disputes affects the administration of the company.

8. Social Problems : The large scale business is carried on by companies. Gaint companies give rise to social evils of monopolies and concentration of economic power in a few hands. Companies are also responsible for evils such as weather pollution, drainage problem, shortage of houses, over population etc.

The company form of organisation possesses good and bad as two sides of a coin. By virtue of its merits, the company has been playing an important role in the economy of the country.

4.6 KINDS OF COMPANIES

KINDS OF COMPANIES

According to Incorporation ity	According to liability	On the basis of Ownership	According Nationality	According to transferabil- of Shares
1. Chartered Companies	1. Limited by Shares	1. Government Companies	1. Indian Companies	1. Private Companies
2. Statutory Companies	2. Limited by Guarantee	2. Holding Companies	2. Foreign Companies	2. Public Companies
3. Registered Companies	3. Unlimited Companies	3. Subsidiary Companies		

4.6.1 According to Incorporation

The companies may be categorised into three types according to their incorporation.

1. Chartered Companies : These companies are incorporated under Royal charter by the King. They are popular in England. The East India Compnay, the Chartered Bank of India etc.At present they are not found in India.

2. Statutory Companies : These companies are formed and registered under a special act of Parliament. The objects, powers, rights and responsibilities of these compnaies are clearly defined in the act. Examples are Reserve Bank of India, The Industrial Finance Corporation of India, the Life Insurance Corporation, etc.

3. Registered Companies : Any company formed and registered under the Indian Companies Act, 1956 or earlier Companies Act is called a Registered Company. The method of formation, management and liquidation are given under various clauses of this Act. These Registered Companies may be limited by shares, limited by guarantee or unlimited companies.

4.6.2 According to Liability

According to liability, the companies may categorised into three categories :

1. Companies Limited by shares : According to Sec 12(2)(a). A company having the liability of its members limited to the unpaid amount of the shared held by them. In case a member has paid the entire amount of his shares held by him, he will not be liable for any debts of the company. If the share are partly paid up, the members are liable to pay the balance on shares to the company. Most of the companies functioning in India are companies limited by shares.

2. Companies Limited by Guarantee : A company limited by guarantee may be formed with share capital or without share capital. These companies are also formed under the companies Act with a stipulation that the members are guaranteed to pay a certain amount of money. Trade or merchant associations, sports clubs, recreation clubs are examples of companies limited by guarantee.

3. Unlimited Companies : The companies registered without limiting the liability of members to the value of shares are called unlimited companies. All the members are liable to meet the liabilities of the company to an unlimited extent.

4.6.3 According to Nationality

According to the nationality companies are classified as :

1. Indian Companies : A company incorporated in India under the Companies Act, 1956, whether operating in India or outside, is called an Indian Company. They may be manufacturing companies, banking companies.

2. Foreign Companies : A company incorporated outside India but has a place of business in India through its branches or agencies in called a Foreign Company. Such company has to submit the necessary information to Registrar of Companies within 30 days of its incorporation.

1. Memorandum of Association and Articles of Association.
2. Address of Registered Office.
3. List of Directors.
4. Secretary of the Company
5. Names and addresses of persons who manage the business in India on behalf of Company.
6. Place, address of business centre in India.

4.6.4 On the Basis of Ownership

On the basis of ownership companies are classified as :

1. Government Companies : A company in which not less than 51% of shares in capital is held by central government, state or both Central and State governments is called Government Company. Examples are Bharat Electronics Limited, the Hindustan Aeronautics Limited, etc.

2. Holding Company : A holding company is a company which is controlling a subsidiary company.

A holding company is one which holds not less than 51% of the paid up capital of another company and which controls the composition of the Board of Directors of another company.

3. Subsidiary Company : The company which is controlled by a holding company is called a subsidiary company.

A Company is also a subsidiary of another company which is itself a subsidiary to another company For example 'A' company is a subsidiary of 'B' company and 'C' is subsidiary of 'A' company. Then 'C' company is also a subsidiary of 'B' company.

4.6.5 According to Transferability of Shares

On the basis of number of members and transferability of their shares the companies are classified as :

1. Private Company : According to sec 3(1)(iii) of the Act, " A private company is a company which by its Articles of Association (1) Restricts the right of members to transfer shares, if any. (2) Restricts the number of its members to 50 (the past and present employees of the company are not counted for this). (3) Prohibits any invitation to the public to subscribe for any shares and debentures of the company.

A private company can be formed with atleast two members. It may be limited by guarantee.

2. Public Companies : Sec 3(1)(iv) of the Indian Companies Act, 1956 says that all the companies other than private companies are called Public Companies. Public company means that public at large is interested in those companies. The membership of a public company is open to all persons capable of entering into a contract. A minimum of seven members are required to constitute a public company and to get it registered. There is no restriction on the maximum number of members. It can issue a prospectus for inviting people to purchase their shares.

4.7 Distinction between a Private and a Public Company

Both the Private and Public Companies are registered under Companies Act. They have certain similarities. However these are some differences between them.

Private Company	**Public Company**
1. Number of Members : At least two members are required to form. The maximum number should not exceed 50.	1. It can be started by seven persons and there is no maximum limit for members.
2. Commencement Business : Business can be started after getting the certificate of Incorporation.	2. Business can be started only after getting the certificate of commencement of business.
3. Issue of Prospectus: The company cannot issue prospectus for inviting public to purchase of its shares.	3. The Company must issue a prospectus or a statement in lieu of prospectus for inviting public for the purchase of its shares.
4. Transfer of Shares : The transfer of shares is genrally restricted by the articles.	4. Transfer of shares is freely allowed through some procedure for transfer has to be followed.
5. Kinds of Shares : It can issue equity, preference and deferred shares also.	5. It can issue equity and preference shares.

6. Share Warrants : It is prohibited in issuing share warrants.	6. It is allowed to issue share warrants.
7. Directors : There must be atleast two directors.	7. There must be atleast three directors.
8. Qualification Shares : Directors need not buy qualification shares to be elected as directors.	8. Directors have to subscribe qualification shares to become directors.
9. The remuneration should not exceed 11% of the net profits. In case of insufficient profits, maximum limit is restricted to Rs.50,000/-.	9. Remuneration to Directors : No restriction on the remuneration of directors.
10.Permission of central govt., is necessary for appointment of directors.	10 Appointment of Directors : No restrictions on appointment of directors.
11.Directors should submit their acceptance in writing to the Registrar.	11.Acceptance of Directors : No need of certificate of acceptance from Directors.
12.Every year 1/3 of the directors should retire by rotation.	12.Retirement of Directors : There is no such sale for the retirement of Directors.
13. It may prepare its own articles. If not, it can adopt Table-A of the Companies Act.	13.Articles of Asociation : It has to prepare and file with the registrar.
14.The company should conduct a statutory meeting within one year from the commencement of the business.	14.Statutory Meeting : No restriction. The company need not hold a statutory meeting.
15.The company has to submit its annual reports to the Registrar of the companies along with profits and loss account and Balance Sheet.	15.Annual Report : There is no need to attach the profit and loss account and balance sheet to the annual report which is submitted to the Registrar.
16.Only the word 'Limited' is used with the name of a Public Company.	16.Name of the Company : The word 'Pvt. Limited' must be added at the end of the name of the Company.

4.8 Distinction Between Partnership And Joint Stock Company

PARTNERSHIP	JOINT STOCK COMPANY
1. Status : A partnership concern is governed by Partnership Act, 1932.	1. Joint Stock Company is governed by the Companies Act, 1956.
2. Registration : Registration of Partnership is not compulsory.	2. The registration of a Company is compulsory.
3. Number of Members : Minimum number of members is 2. Maximum number is ten incase of banking and insurance business and twenty in case of any other business.	3. Minimum number of members in private company is 2. Maximum number is 50. In case of Public company, minimum number is 7 and no maximum limit on its members.

Partnership	Joint Stock Company
4. Legal Status : A partnership has no seperate legal entity apart from its members. Members can not enter into an agreement with the firm.	4. A company has a seperate legal entity members of the company can also enter into contract with the company.
5. Liability : The liability of partners is limited. The partners are jointly and seperate liable for the debts of the business.	5. The liability of shareholders is limited to the value of shares held by them. They are not personally liable for the obligations of the business.
6. Transfer of Shares : A partner can transfer his shares only with the consent of all other partners.	6. A shareholder may transfer or sell his shares in public limited companies. But some restriction are imposed on transfer of shares in case of private company.
7. Management and Control : A partnership is managed and controlled by the partners.	7. The company is managed by the Board of Directors, who are elected as representatives by the shareholders. But the members can not participate in day-to-day managment.
8. Statutory Obligations : There is no compulsion to maintain certain books of accounts, get the accounts audited and to publish them.	8. A company is required to maintain prescribed book and have a periodical audit.
9. Continuity : A partnership concern is dissolved on the death, insolvency of a partner.	9. The member may go on changing but the company will not be affected by the death or insolvency of a member.
10.Authority of members : A partner can bind the firm by his acts. There is an implied authority. A partner is an agent of the firm	10.A shareholder has no implied authority to bind the company. A shareholder cannot act on behalf of the company.
11.Winding up : A partnership concern can be dissolved easily. No legal formalities are required for its winding up.	11.A proper procedure should be followed. It is wound up only through court. If the court is satisfied that there is reasonable ground, then only it is to be wound up.

4.9 PREVILEGES AND EXEMPTIONS OF A PRIVATE COMPANY

A private limited company in confined to a group of persons. This company is given certain privileges and exemptions as compared to Public Company.

1. Just two members are enough to form a Private Company.
2. Only two directors are sufficient for the management.
3. It is not necessary to prepare and file a prospectus or a statement in lieu of prospectus.
4. There is no restriction of minimum subscription. It can directly allot the shares.
5. It can start the business immediately after getting the certificate of incorporation. And it has no need to wait for certificate of commencement.
6. A private company is not required to convene the statutory meeting and file the statutory report.
7. In the private company, the quorum for a meeting is just two

8. Directors need not buy qualification shares to be elected as directors.

9. The private company is exempted from publishign the mode of allotment of shares and filing with the registrar.

10. There is no necessity of seperate resolution for the appointment of every director.

11. There are no restrictions on appointment, remuneration and retirement of directors.

4.10 CO-OPERATIVE SOCIETIES

4.10.1 Introduction

In all forms of organisation, a sole trade, partnership or Joint Stock Company, the primary motive is to earn profits. The businessman wants to promote his own interest by all means including exploitation of consumers. The cooperative form of organisation is a democratic setup run by its members for serving their own interests.

The advent of factory system during 19th century, due to industrial revolution brought drastic changes in the growth of the economy of every country. As long as cottage industries dominated the production world. There was equitable distribution of wealth. But the industrial revolution started exploiting the poorer sections and few hands ruled all the economies during this period. The exploitation of consumers leads the way for birth of cooperatives for the first time in England and Germany.

Mr.Frederick Nicholson, a civil servant of Madras Government started co-operative movement in India. A committee was appointed by the Government of India to study and recommend the modalities to establish them. On the basis of its recommendations, cooperative societies Act was passed in 1904. Therefore the Co-operative movement took birth on the basic principle of “one for all and all for one”. Profit making was not the objective of these societies but service was their main motto.

The Act came into force in 1904 and many defects were observed in the management and implementation of the cooperatives. To overcome these defects, the act was amended in 1912. Progress was made at later stages. The establishment and registration became a state subject after passing an Act by the Government of India in 1919.

4.10.2 Definition

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

Dr.H.N.Kunzen defines co-operatives as “Cooperative is Self help as well as mutual help. It is a joint enterprise of those who are not financially strong and cannot stand on their legs and therefore come together not with a view point to get profits but to overcome disability arising out of the want of adequate financial resources”.

The Indian Cooperative societies Act, 1912 defines Cooperatives in section-4 as “a society which has its objectives the promotion of economic interests of its members in accordance with Cooperative principle”.

4.11 CHARACTERISTICS OF CO-OPERATIVE ORGANISATION

1. **Voluntary Membership** : Every one is at liberty to enter or leave the Cooperative society as and when one likes. Nobody is compelled to joint a Cooperative society.
2. **Political and Religious Neutrality** : The membership of a Cooperative society is open to all irrespective of religion caste, creed, colour or political affiliation.
3. **Democratic Management** : The management of Cooperatives is always on democratic lines. All the members of a society elect a body of persons to conduct and control day-to-day working of the society. But the ultimate control lies with the members.
4. **Equal Voting Right to All** : In cooperative societies every member is given right to vote irrespective of his contribution towards the capital. All members have equal voice in the management of the society.
5. **Service Motive** : The primary objective Cooperative societies is to provide service to their members. The aim is not to earn profits.
6. **Capital** : The share capital contributed by the member is for the purpose of using it to the maximum advantage of all the members. Hence the members do not expect retain on capital employed.
7. **Distribution of Surplus** : The societies earn surplus from their services. This surplus is not divided according to capital contribution. A certain percentage is paid in the form of dividend on capital contributions. Some part of the surplus should be kept as reserve in the society and some part should be spent for general welfare of the members.
8. **Cash Trading** : Another feature of cooperative socieites is trading on ‘cash basis’. Cash trading ensures economy for the Cooperatives. It eliminates bad debts and collection expenses.
9. **Government Regulations** : The Cooperative societies are to follow certain rules and regulations imposed by the government. And societies are registered and regulated under the Indian Cooperative Societies Act.
10. **Cooperative Education and Training** : The members of the society should be properly educated about the aims and objectives of the societies. Then the members may work for the success of the society.
11. **Limited Liability** : Liability of members of society is limited to the value of the shares held by them. They are not liable to the extent of their personal properties to meet the debts of the societies.
12. **Transfer of Shares** : Members should not transfer their shares to anybody.
13. **Tax Exemptions** : Societies are enjoying some tax exemptions and subsidise. These societies need not pay registration fee, income tax and stamp duty.
14. **Number of Members** : Minimum Ten members are required to establish Cooperative society. There is no maximum limit.

4.12 MERITS OF CO-OPERATIVES

1. **Open Membership** : The membership of Co-operative Societies is open to each and every person. Anybody wants to enjoy the fruits of a Co-operative society can joint it. Members may be limited in numbers but not discriminated in any way.

2. **Service Motto** : They are formed not for profits but for service. The societies try to promote the interest of this members. A feeling of Co-operation is developed among the members. Financial help is provided to the members at concessional rates and goods also provided at cheap rates.

3. **Supply of Goods at Cheaper Rates** : The societies purchase goods directly from producers and sell them to the member at cheap rates. Middlemen are eliminated in the process of distribution of goods and services.

4. **Democratic Management** : All the members are given equal participation in management of the Co-operative Society. Absence of profit maximisation and democratic management makes the society as the best service organisation to promote the public interest and social welfare.

5. **Low Managemnt Cost** : The Management of society is in the hands of the elected persons among the members. Members take active part in the working of the society. So the societies need.

6. **Surpluses shared by Members** : These societies sell goods to the memberrs on a nominal profit, and to non members at market rates. Some of the profits is distributed among the members and some part is used for welfare of the members.

7. **Perpetual Existence** : The society enjoy perpetual success on. the death or insolvency of members does not affect the life of the society.

8. **Check on other Business** : Cooperatives are working with service motive. When businessman try to exploit consumers by raising prices of their commodities, the cooperatives supply goods at reasonable prices. The Cooperatives are a check on other forms of organisation.

4.13 DEMERITS OF CO-OPERATIVES

1. **Lack of Capital** : The Cooperatives are started by economically weaker sections of the society. The resources are not enough to start large enterprises. They cannot undertake the production of goods for lack of resources. Moreover the return on capital is not attractive. Hence people hesitate to invest their money in these societies.

2. **Lack of Unity among the Members** : The participation of all the members of the society cannot be uniform. Domination of some members may lead to conflict among the members. Educated members may take the advantage of the uneducated members.

3. **Cash Trading** : The cash Trading business has both advantages and disadvantages. Private Traders facilitate Credit facilities to consumers. The societies sell goods at lower prices but absence of credit facilities forced them to go to private traders.

4. **Political Interference** : Many Co-operative societies are becoming platforms for politics and making some of the officers corrupt power and money. The societies are governed on political consideration rather than on business lines.

5. **Lack of Public Confidence** : The objectives of the societies are good but implementation and management are not proper. It leads to lack of public confidence on societies.

4.14 TYPES OF CO-OPERATIVES SOCIETIES

Various types of Co-operatives have been started with differnt motives. They are -

1. Consumer's Co-operatives : The consumer co-operative societies are started to help lower and middle class. These societies protect the weaker section from the profit thrust of the business men. The societies make bulk purchases directly from the producess and sell them to the members on retail basis. The society charges a small profit to meet the administrative costs.

In India, consumer co-operatives started under the control of Government. Government sells essential commodities to consumers at regulated prices through co-operative societies. They are working both in urban and rural areas.

2. Producers' Co-operatives: These societies are established for the benefit of small producers who find it difficult to collect various factors of production and also to face the marketing problems. The main purpose of them to provide necessary facilities to small producers and to improve their economic conditions. These societies are of two types.

a. Production co-operatives: The production of goods is undertaken by the members, sells them in the market. some of the profits retained in common pool and the remaining profits are distributed among the members.

b. Industrial service Co-operatives: These societies provide services to industries. These Co-operative societies purchase supply the raw material and other equipment to the members at reasonable prices. The output of member is marketed by the society. Individual members earn profits on their sales and also share the profits on an agreed ratio.

3. Marketing Co-operatives: These societies are associations of producers for selling their products at remunerative prices. This society undertakes to sell the products of the members by eliminating middle men. These societies also provide services like Grading, Warehousing, Transportation, Finance, Insurance etc., The goods are sold when the market is favourable.

4. Housing Co-operatives: The low and middle income people can not afford huge money to construct own houses. Housing co-operative societies help people to own their houses. The housing societies are of different types.

a. Some societies construct the houses and give them on small rent to the members. These societies are not popular because the fundamental aim of them is not satisfied i.e., instinct to own a house is not satisfied.

b. Some societies are helpful in arranging cheap plots and loans for the members. These societies are very popular in most of the states in India.

c. Another type of societies acquire land and construct houses themselves. The constructed houses are handed over to the members who pay the price in easy instalments over a longer peirod on low rate of interest.

In addition to the housing co-operatives many Government agencies like State Housing Boards help economically weaker sections of society in owning their houses.

5. Credit Co-operatives: The credit co-operatives are formed to give financial help to small farmers and other poor sections of the society. These societies are may be of two types.

a) Rural Credit Co-operative Societies : These societies provide short term loans at low rate interest. The object of these societies is “better farming and better living”.

b) Urban Credit Co-operative Societies : The aim of these societies is to help small traders, workers, artisans and otehr middle class people.

6. Coopeartive Farming Societies :

Coopeartive farming societies are voluntary associations of farmers framed to reap the benefit of large scale farming on scientific line. These societies helps to small land holders and cultivators to use advanced farm technology to raise their produce and to raise their economic position.

The farming co-operative may be of the following types :

a) Co-operative better Farming Societies : Members cultivate their lands independently. The society provides only services and the members pay service charges to the society.

b) Co-operative joint Farming Societies : The land of the members pooled in these societies. Members are paid wages for their work. The profits are divided according to the wages earned by the members.

c) Tenant Farming Societies : These societies are formed to help the tenants. The society acquires land on lease hold basis and distributes among the members. The society also arranges financial help and also various inputs like seeds, fertilizers etc. The members pay rent for utilising land, the produce to the tenants, but not to the society.

d) Collective Farming Societies : The land is owned by the society and the members work collectively on the land. No member has independent ownership on land. Daily wages are paid for their labour and profits are distributed among the members on the ratio of their wages.

4.15 Distinction Between a Company and Co-operative Society

JOINT STOCK COMPANY	CO-OPERATIVE SOCIETY
1. Registration Companies are registered under Companies Act, 1956	1. Societies are registerd under either Coopertive Society Act, 1912 or State Co-operative Acts.
2. Number of Members A Private company can start with a minimum of two members and maximum of fifty. Whereas in a public company minimum number is seven and there is no maximum.	2. A Society can start with minimum of ten and there is no maximum limit.
3. Object The main object is earning profits.	3. The main object of the Sciety is to provide service to its members.
4. Share Capital There is a chance of huge capital. It is desirable and possible.	4. It is not desirable and possible of having huge capital.
5. Voting Right There is right to vote for each and every share.	5. There is one vote to one member.
6. Transfer of Shares The members can transfer their shares to others.	6. The members cannot transfer their shares to others.

7. Payment of Registration fee etc. Company has to pay registration fee, stamp duty and Income Tax.	7. Society need not pay registration fee, stamp duty and income tax.
8. Withdrawl of Capital Shareholder cannot withdraw his capital from the company, but can get back his capital by selling his shares in the market.	8. Member can withdraw his capital from the society if he desires by giving due notice to the society.
9. Ownership and Control Elected board of directors manages and controls the affairs of company. Ownership and managemnt are different.	9. Both Ownership and managemnt are one and the same in the societies.
10.Issues of New Shares If new shares are issued, they are offered to existing shareholders and if they do not accept, they can be issue to the public	10.If capital is increased, new shares are issued to the public.
11. Distribution of Profits Profits are distirbuted among the shareholders on the basis of their share capital.	11.Surplus is distributed among the members on the basis of their dealing with the society.

4.16 SUMMARY

1. A company organisation is suitable for business enterprises which are engaged in large scale production.
2. Companies are classified on the basis of incorporation, on the basis of liability, on the basis of ownership, on the basis of nationality, on the basis of transferability of shares.
3. Co-operatives are formed on the principle of service.
4. Various Co-operative Societies are formed not for making profits but to privode service to their members.

4.17 TERMINOLOGY

1. Common Seal	:	Common seal of the company acts as its official signature.
2. Chartered Company	:	A company created by the special charter of the King or Head of the State.
3. Limited Liability	:	The liability of the members of the company is limited to the extent of face value of shares held by them.
4. Limited by Shares	:	Liability of the members of the Company limited to the unpaid amount of shares held by them.
5. Co-operative	:	Co-operative movement took birth on the principle of 'one for all and all for one'.

4.18 SELF ASSESSMENT QUESTIONS

5 Marks Questions

1. Chartered Companies.
2. Statutory Companies.
3. Private Company.
4. Company Limited by Shares.
5. Government Company.
6. Co-operatives

10 Marks Questions

1. Explain the characteristics of Joint Stock Company.
2. Explain the previlages enjoyed by a private company.
3. Explain the characteristics of Co-operative form of organisation.
4. Explain the difference between a private and public company.

20 Marks Questions

1. What are the merits and demerits of Joint Stock Company.
2. Define Company, What are various kinds of Companies.
3. What is Co-operative Society? Explain its merits and demerits.
4. Distinguish Partnership and Joint Stock Company.

4.20 REFERNCE BOOKS

1. Industrial Organisation and Management Y.K.Bhushan
2. Industrial Organisation and Management M.C.Shukla
3. Industrial Organisation and Management Jagadish Prakash
4. Industrial Organisation and Management V.Surendar

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LESSON - 5

INCORPORATION OF A COMPANY

5.0 OBJECTIVES

After going through this lesson student can know about

- → Promters
- → Necessary documents required for formation of a Company
- → MOA
- → AOA
- → Prospectus
- → Commencement of Business

Structure

5.1 FORMATION OF A COMPANY - DOCUMENTATION

A company like any other business requires a process to be followed. A number of formalities have to be completed before a unit can come into existence. It is easy to start soletrade and partnership concerns but a Joint Stock Company requires a lengthy process.

According to L.H.Haney, “Promotion may be defined as the process of organising and planning the finance of a business enterprise under the Corporate form.”

Guthmann and Dougal consider that “promotion starts with the conception of the idea from which the business is to evolve and continue down to the point at which the business if fully ready to begin operations as a going concern”.

5.2 STAGES OF PROMOTION

There are four stages in the promotion of a Joint Stock Company. They are :

1. Discovery of an Idea.
2. Detailed Investigation.
3. Assembling the Requiremnts
4. Financing Proposition.

1. Discovery of an Idea : The term promotion is associated mainly with the thinking aspect of the persons actively engaged in the formation of a company. A person may visualise that there are opportunities for a particular type of business. The idea may be a new area or more profitable venture in an existing line of business. He develops this idea with the help of technical experts in that field.

The promoters are always engaged in hunting after business opportunities and possibilites. They are always in search of new business opportunities, new manufacturing processes, new innovations and so on.

2. Detailed Investigation : At the second stage various factors relating to that business are studied from a practical point of view. The promoters will estimate the total demand for the product. Then he will think of arranging finances for the venture. The availability of power, labour, raw materials and machinery is also considered. The cost structure of the product is analysed to find the profitability of the venture. The promoter will collect the opinions from technical expert, economists, market analysts, managerial advisors etc., and he can take the final decision.

3. Assembling the Requirements : After making sure that the decision is practical and profitable, the promoter proceeds for further requirements. The promoter selects the factory site, decides about the plant and machinery and suppliers of raw materials, appointment of staff and expertise managerial personnel, mobilising capital, and getting necessary licences from government etc.

4. Financing the Proposition : The promoter decides about the capital structure of the company. The requiremnts of finances are estimated first. The sources of finances are determined. The financial requirements of short and long periods are estimated seperately. Amount of share cpaital and type of shares to be issued, mode of issuing shares and debentures, the nature of loans are finalised.

5.3 PROMOTERS

A promoter conceives an idea for setting up a particular business at a given place and performs various necessary formalities to start a company. Professionals like counsels, solicitors, accountants, etc., assist the promoter in fulfilling various legal formalities.

Justice C.J.Cokburn says, “A promoter in one who undertakes to form a company with refernce to given object and takes the necessary steps to accomplish that purpose”.

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

5.3.1 Characteristics of a Promoter

The above given definitions bring out the following characteristics or features of a promoter :

1. A promoter conceives an idea for the setting up a business.
2. He makes preliminary investigvations and ensures about the future prospects of the business.
3. He brings together various persons who agree to associate with him and share the business responsibilities.
4. He prepares various documents and gets the company incorporated.
5. He raises the required finances and gets the company going.

5.3.2 Kinds of Promoters

The promoters may be of the following types :

1. Professional Promoters: These are th persons who specialise in promotion of companies. They hand over the companies to shareholders when the business starts. In India, there is lack of professional promoters.

2. Occasional Promoters: They take up the promotion of some company and then go to their earlier profession. For instance, engineers, lawyers etc., may float some companies.

3. Financial Promoters: They generally take up this work when financial environment is favourable at the time.

4. Managing Agents as Promoters: In India, Managing Agents played an important role in promoting new companies.

5.3.3 Remuneration of Promoters

The promoters undertake the work of promoting new companies and bear the initial risks. They do this work with a view to get some gains for them. In India, promoters try to become managing directors of the companies promoted by them; so they do not charge anything separately for this work. In other cases, the promoters may be remunerated in the following ways:

1. They may be given lump sum amount for thier services. They may also be allotted shares or debentures too.
2. The promoters may purchase some property and then transfer it to the company at inflated

rates and pocket the difference.

3. They may be given some commission on the purchase price of business taken over by the company.

5.3.4 Legal Position of Promoter

The company law has not given any legal status to pormoters. He stands in a fiduciary position. The promoter moulds and creates the company and under his supervision it comes into existence. It is the duty of the promoter to get maximum benefits for the company. He should not get secret profits from the company.

5.4 FORMATION OF A COMPANY

Legal aspect of promotion deals with the formalities required for setting up a business. The formalities are linked to the form of organisation of the enterprise and its scale of operations.

A Joint Stock Company requires a number of legal formalities before it can be set up. It has to deal with the following aspects :

A. Registration or Incorporation

B. Capital Subscription

C. Commencement of Business

5.4.1 Registration or Incorporation

A company being an artificial entity comes into existence only after its registration with the Registrar of Companies. A number of formalities have to be completed before a request is made to the Registrar for its registration. After ensuring that all necessary documents are filed, the Registrar of companies issues a certificate of Incorporation. With this certificate, the company becomes a separate legal entity.

Steps for Incorporating a Company

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

1. Appliication for approval of name
2. Preparation of Memorandum of Association
3. Preparation of Articles of Association.
4. The consent of first directors.
5. Copies of preliminary agreements, memorandum and Articles of Association.
6. Address of a registered office and its information.
7. Names of first directors in its Articles, their particulars.
8. A statutory declaration that all legal requirements for registration have been complied with is also filed with the Registrar at the time of registration. The declaration must be signed by an advocate of Supreme Court or High Court, or an attorney or pleader of High Court or a practising Charactered Accountant.
9. **Payment of Fees** : At the time of registration, prescribed registration fees and filing fee for each document filed for registration are to be paid at the Registrar's office.
10. **Incorporation Certificate :** When all the required documents are filed with the Registrar along

with the requisite fees, a scrutiny is made. When all documents are found in order, the Registrar will enter the name of the company in the Registrar of Companies and issues a Certificate of Incorporation. The date mentioned in the certificate is the date of incorporation of the company.

5.4.2 Capital Subscription

After going through the incorporation formalities, the next stage will be to raise funds. A public company cannot commence business unless minimum subscription as stated in the prospectus has been subscribed. The amount stated for allotment should be duly recieved in cash and allotment has been made properly.

5.4.3 Commencement of Business

A private company is not required to get a Certificate of Commencement. It can straightway start work after getting Certificate of Incoporation. A company has to complete certain formalities before it can get the Certificate of Commencement. The company will file the following documents with the Registrar.

1. A declaration that a prospectus or a statement in lieu of prospectus has been filed with the Registrar of Companies.
2. A declaration that shares payable in cash equivalent to minimum subscription have been allotted.
3. A declaration that directors have taken up their qualification shares and have paid application and allotment money in the same proportion as others.
4. A statement that no money is liable to become refundable to the applicants by reason of failure to apply for or to obtain permission for shares or debentures to be dealt in on any recognised stock exchange.
5. The secretary of the company or a director files a statutory declaration that the requirements relating to the commencemnt of business have been duly complied with.

The Registrar will satisfy himself that all the documents are in order and all the lgal formalities have been completed. He will issue a Certificate of Commencemnt of business entitling th company to start its business from the date mentioned in the certificate. The process of company formation comes to an end with the iissue of this certificate.

5.5 IMPORTANT DOCUMENTS ISSUED BY A COMPANY

1. Memoradum of Association
2. Articles of Association
3. Prospectus

5.5.1 Memorandum of Association

The Memorandum of Association is the constitution of the company and provides the foundation on which its structure is built. It is the principal document of the company and no company can be registered without the memorandum of association. The memorandum of association is the company's charter and defined the limitations of its powers. Its purpose is to enable shareholders, creditors and those who deal with the company, to know what is its permitted range of enterprise.

Purpose

The main purpose of the memorandum is to explain the scope of activities of the company. The prospective shareholders know the areas where company will invest their money and the risk they are taking in investing the money. The outsiders will understand the limits of the working of the company and their dealings with it should remain within the prescribed scope.

Clauses of Memorandum

The memorandum of association contains the following clauses :

1. The Name Clause. A company being a separate legal entity must have a name. A company may select any name which does not resemble the name of any other company and should not be objectionable in the opinion of the government. The word 'limited' must be used by the Private Company. These words are used to ensure that all persons dealing with the company should know that the liability of its members is limited. If the company has a name which is undesirable or resembles the name of any other existing company, this name can be changed by passing an ordinary resolution.

2. Registered Office Clause. Every company should have a registered office, the address of which should be communicated to the Registrar of Companies. The place of registered office can be intimated to the Registrar within 30 days of incorporation or commencement of business, whichever is earlier.

A company can shift its registered office from one place to another in the same town with an intimation to the Registrar. But if the company wants to shift its reigstered office from one town to another town in the same state, a special resolution is required to be passed. If the office is to be shifted from one state to another state it involves alteration in the memorandum.

3. Object Clause. This is one of the important clauses of the Memorandum of Association. It determines the rights and powers of the company and also defines its sphere of activities. The object clause should be decided carefully because it is difficult to alter this clause later on. No activity can be taken up by the company which is not mentioned in the object clause.

The Companies (Amendment) Act, 1965 requires that in case of companies formed after this amendment, the memorandum must state separately (a) main objects, and (b) other objects.

4. Liability Clause. This clause states that the liability of the members is limited to the value of shares held by them. The liability of the members may be limited by guarantee. It also states the amount which every member will undertake to contribute to the assets of the company in the event of its winding up.

5. Capital Clause. The clause states the total capital of the proposed company. The division of capital into equity share capital and preference share capital should also be mentioned. The number of shares in each category and their value should be given.

6. Association Clause. This clause contains the names of signatories to the memorandum of association. The memorandum must be signed by atleast seven persons in the case of a public limited company and by at least two persons in case of private limited company. Each subscriber must take at least one share in the company. The signature of subscribers are attested by at least one witness each. The full addresses and occupations of subscribers and the witnesses are also given.

5.5.2 Alteration of the Memorandum of Association

Companies are not allowed to make alterations in their Memorandum in any manner they like. The Act has prescribed the procedures and the extent of alternation of different clauses of Memorandum.

1. Name Clause: With the written permission of central government and by passing a special resolution the name of company can be changed anytime. If a company is registered with such a name by inadvertance, which is identical or nearly similar to the name of an existing company then the new company can change its name by an ordinary resolution and with the prior approval of the central government. Whenever the name of company is changed the same must be informed to the Registrar.

2. Domicile Clause : Alteration of domicile clause means shifting of company's registered office from one place to another place, which may be :

i. To shift the registered office from one locality to another locality in the same town an ordinary resolution should be passed and a notice of change of location given to the Registrar.

ii. To shift the registered office form one town to another town in the same state - a special resolution should be passed and notice of change of location should be given to the Registrar.

iii. To shift the registered office from one state to another state - a special resolution should be passed and confirmation of the Company Law Board should be obtained. Finally the confirmation so obtained and the altered Memorandum of Association must be filed with the Registrar of both the states.

3. Objects Clause : In fact, the objects of the company cannot be altered. However, to attain the original object, an alteration is permitted. The alteration should be:

i. to carry on its business more economically or efficiently.

ii. to attain its main purpose by new or improved means.

iii. to enlarge the area of its operation.

iv. to carry on some other business in combination with the eixsting one.

v. to sell the whole or a part of the company's property.

vi. to amalgamate with any other company or association.

vii. to restrict or abandon any of the objects specified in the memorandum.

For the purpose of altering the objects clause a special resolution should be passed and confirmation of the Company Law Board should be obtained and and altered Memorandum should be filed with the Registrar.

4. The Liability Clause. The liability of the shareholders cannot be altered as unlimited in case of companies limited by shares. But the directors liability can be made as unlimited. A special resolution is required to alter the liability clause.

5. The Capital Clause : The alteration of capital clause may be in any of the following ways:

i. Alteration of the Share capital

ii. Reduction of share capital.

iii.Variation of the rights of the shareholders.

iv.Rearrangement of share capital by passing resolution in general meeting.

6. The Association Clause : It is not subject to alteration.

5.5.3 Articles of Association

The Articles of Association contains the rules and regulations for the internal management of the company. Many procedural matters relating to the day-to-day administration of the company are mentioned in the Articles. The Articles regulate the relationship between the company and the members.

The Articles of Association is the second most important document to be prepared and filed compulsorily by private companies, companies limited by guarantee, and unlimited companies for the purpose of registration whereas by an option is given to the public companies who may frame their own Articles of Association or may adopt “Table-A” of the Companies Act as their Articles.

The Articles should be printed, divided into paragraphs and signed by each of the subscribers to the Memorandum in the presence of at least one witness.

Contents of Articles : Usually on the following matters the Articles frame the rules.

1. The extent to which ‘Table-A’ applies.
2. Different classes of shares along with their rights.
3. Issue of shares and allotment of shares.
4. Issue of share certificates and share warrants.
5. Lien on shares.
6. Forfeiture of shares and the re-issue of forfeited shares.
7. Transfer and transmission of shares.
8. Calls on shares.
9. Conversion of shares into stock.
10. Underwriter’s commission on shares and debentures.
11. Preliminary contracts and their adoption.
12. Reorganisation and consolidation of share capital.
13. Alteration of share capital.
14. Borrowing powers.
15. Different kinds of general meetings.
16. Voting rights of members, proxies and polls.
17. Dividends.

18.Appointment, powers, duties etc of Directors.

19.Common seal of the Company

20.Books of account and audit, Auditors.

21.Capitalisation of profits.

22.Board meeting resolutions.

23.Appointment, powers, duties etc of managing directors, manager, secretary if any.

24. Winding up and such other provisions as may be necessary for the routine conduct of the company's business.

Alteration of Articles of Association

There are no regulations so far as alteation of Articles is concerned. The Articles cna be freely altered at any time. For the purpose of alteration the following steps should be taken:

a. A special resolution should be passed.

b. A copy of the special resolution should be filed with the Registrar within 30 days of passing the resolution, and

c. The altered printed copy of the Article must be filed with the Registrar within 3 months of passing the special resolution.

5.5.4 Difference between Memorandum of Association and Articles of Association

Articles of Association

The articles contain bye-laws for the day-to-day working of the company. Articles are framed in the orbit of the memorandum of association.

Public companies may not have their own articles, but can adopt Table A of Schddule I as its articles. Private companies, companies limited by guarantee and unlimited companies must have their own articles.

The articles of association are subordinate to the memorandum and Companies Act and cannot contain anything contrary to both.

Anything done beyond the scope of the articles will not be void and it can be ratified by passing a special resolution.

It defines relationship between company and the members and among members themselves.

Alteration of articles is not difficult. It can be altered by passing special resolution.

5.5.5 Prospectus

Prospectus intends to inform to inviting public to subscribe for its shares and debentures. It gives the details of the company with regard to the amount of shares or debentures issued, rights of the shareholders, the property purchased, directors, managing directors, auditors, bankers etc. It creates confidence in the minds of the public.

Contents of Prospectus : All the necessary details required for an investor to decide about his investment in a company are given in the prospectus.

The contents of prospectus are given below :

1. Detials of debentures if issued.
2. Rights of different classes of share holders.
3. Particulars of directors and managing director with regard to the remuneration, power etc.
4. Details of pre-incorporation expenses.
5. Details of minimum subscription.
6. Opening and closing date of subscription list.

It should be noted that every promoter director or any other person will be responsible for marketing any false statement in the prospectus.

5.5.6 Allotment of Shares

The dates of acceptance of applications for the allotment of shares are decided in advance and advertised in the newspapers. Accordingly, after the expiry of the last date, the directors hold a meeting, scruitinise the applications with the number of shares and then allotment is made. If the applications are less than the number of shares, the shares are allotted in full to all the applicants. In case, the applications are in excess, the shares are allotted on prorata basis. the excess applications are rejected and the amount thereon is refunded to the applicants or the surplus amount is adjusted to allotment money due. After the allotment, the applicants become authorised shareholders.

5.5.7 Minimum Subscription

Some minimum amount is required to purchase fixed assets and to meet the preliminary expenses and working capital of the company. Without this amount, it is not possible to establish the company. Thus, the least amount required to set up the company and keep it going, is called "Minimum Subscription. "A Company should collect this amount from the public necessarily. Otherwise, it is not allowed to allot shares. This amount should necessarily be mentioned in the prospectus. The minimum subscription is fixed covering the following items.

Items Constituting Minimum Subscription

1. Purchase of fixed assets viz., Land, Buildings, Plant and Machinery, Furniture, Vehicles, etc.
2. Expenses incurred in connection with Incorporation viz., Registration Fee, Stamp duty, Stationery etc.
3. Preliminary expenses, viz., commission and brokerage payable to underwriters etc.
4. Working capital expenses, viz., Raw materials, Wages, Fuel, Transport charges, etc.
5. Any other expenditure towards promotion and management of the company.

The minimum subscription should be raised from the public within 120 days from the date of issue of prospectus. If the company fails to do so, it is deemed that the public is not interested in the promotion of the company. In such a case, the whole amount collected so far should be refunded to the applicants within 10 days without interest. If it fails to do so, the persons authorising the company are punishable under companies Act. Thereafter, the directors are liable to repay the money with an interest of 6 per cent per annum.

5.5.8 Preliminary Expenses

A company requires a lot of expenditure for its formation. These expenses are known as preliminary expenses. They include promotional expenses, registration charges, expenses for collection of capital etc. Since these expenses are indispensable for the commencement of the concern, these are also known as "Commencement Expenses." The following expenses are regarded as preliminary expenses:

1. Registation fee and cost of applications for the incorporation of the company with the Registrar.
2. Preparation and printing charges of Memorandum and Articles of Association.
3. Expenses towards contracts with suppliers, transport agents, importers, exporters, bankers, brokers, etc.
4. Fees payable to values for assessing the value of assets.
5. Cost of stationery and printing relating to debentures, share certificates, letters of allotment etc.
6. Purchase of account books and office equipment such as day books, ledgers, stationery for office use and preparation of common seal.
7. Cost of preparation, printing and distribution of prospectus.
8. In case an existing company is acquired, payment of remuneration is made to the business accountant for assessing the profits.

5.6 SUMMARY

1. Every company should be registered with the Registrar of Companies. it cannot carry on business without registration.
2. Important documents should be filed are Memorandum of Association, Articles of Association Prospespectus, Declaration of Directors etc.
3. Registration fee should be paid.
4. The Registrar scrutinises the documents and if found satisfactory, will issue the certificate of incorporation.

5.7 TERMINOLOGY

1. Promoter - A person by which a company is brought is to existence.

2. M.O.A. - Memorandum of Association is the constitution of the Company. It defines the

scope of Companies activities.

3. A.O.A. - Articles of Association consists of rules and regulations for the enternal manage ment of the Company. It gives the Objectives of the Company.

4. Prospectus - An invitation to the public to subscribe the shares and debentures of the Company

5.8 SELF ASSESSMENT QUESTIONS

Five Marks Questions

1. Describe the characteristics of a Promoter.
2. What are the various documents required for incorporation of a Company.
3. Discuss Object Clause.
4. Explain Preliminary expenses.
5. Explain statement in lieu of prospectus.

Ten Marks Questions

1. What is the procedure followed for altering object clause.
2. What are the contents of Articles of Association.
3. Explain the differnece between memorandum of Association and Articles of Association.
4. Discuss the need for issuing Prospectus.

Twenty Marks Questions

1. Explaint he various formalities in the formation of a Company.
2. What is Memorandum of Association? Explain the procedure followed for the alteration of its clauses.
3. Explain the documents required at the time of formation of a Company.
4. What is meant by Prospectus. Discuss the contents of Prospectus.

5.9 REFERENCE BOOKS

1. Industrial Organisation & Management R.K.Sharma & Shashi K.Gupta
2. Industrial Organisation & Management Y.K.Bhushan
3. Industrial Organisation & Management Prof.K.V.Sivaiah & VBM Das
4. Industrial Organisation & Management M.C.Shukla

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LESSON - 6

FUNCTIONS OF MANAGEMENT

6.0 Objectives:

After studying this lesson you should be able to understand the following-

➔ What is Management.

➔ Different dimensions of Management.

➔ Importance, principles and functions of Management.

Structure

6.1 Introduction:

Good Management produces sound results. Management as a function or a process is necessary for organisations, whether they are business organisations or non-business organisations. This is so because persons working within an organisation need some responsible individual to direct activities so that human and material resources may be effectively used to achieve given ends, that responsible individual is the manager who manage and exercise leadership. The manager matches human resources (talent, skill) with non human resources (plant, material, money etc.,). The manager's job is basically the same at all levels in the management hierarchy.

6.2 Different Dimensions of Management:

Following are the important dimensions of management-

1. Management as an Economic Resource: - Management is a vital factor of production. It transforms the various resources into a productivity entity. The input of labour, capital and materials do not by themselves ensure growth. They require the catalyst of management to produce results. It is management that coordinates various factors of production. Therefore, management occupies a central place among productive factors.

2. Management as a Team: - As a team or a group of persons, management consists of all personnel having managerial responsibility. Managers occupy positions at different levels of authority but perform the same basic functions. Top-level managers have greater authority than middle-level managers who in turn have greater authority than operating managers.

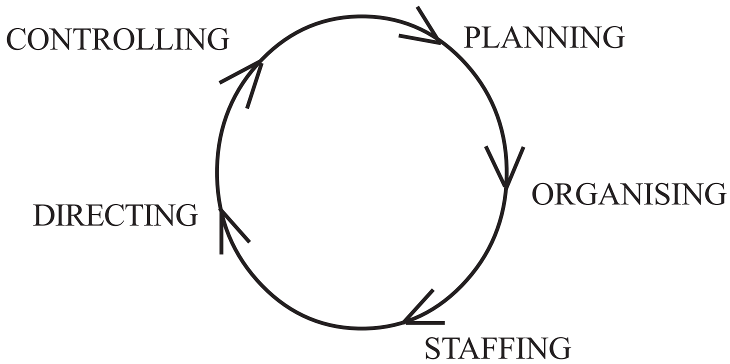
3. Management as an Academic Discipline: - As an academic discipline or field of study, management implies a branch of knowledge. It comprises management theory and principles for tackling managerial problems, and offers a very fruitful and rewarding career.

4. Management as a process: - Management involves organising, directing and controlling human efforts to accomplish predertined goals. As a process, management refers to a series of interrelated elements or functions. This concept of management is the simplest and the most pragmatic. It also highlights the universal nature of management.

5. Management as a human process: - Manager manages different managerial functions planning, organising, staffing, directing, controlling are the functions of management. They rotate like cycle. This is showed in the following diagram-

FIGURE - 1.1

PROCESS OF MANAGEMENT



6.3 Management - Definitions:

Many Management scholars defined management in different ways. Some definitions are given below.

'Louis Allen' defined "Management is what a manager does".

According to 'Harold Koonty' "Management is the Art of getting things done through and with people in formally organised groups".

According to 'Mary Parker Follott' "Management is the art of getting things done through people".

'F.W.Taylor' defined "Management is the art of knowing what you want to do and then seeing that they do it in the best and cheapest way".

These definitions take managerial activities as basis for defining management. Management is the performing of managerial activities for the attainment of enterprise goals. Managerial activities are performed by managers.

6.4 Management Vs Administration

There has been a controversy on the use of the two terms-management and administration. Various authorities have expressed divergent views. Many experts make no distinction between administration and management and use them as synonyms. Several American writers consider them as two distinct functions. A few experts treat administration as a part of management. These three points of view are explained below:

Administration is above management. According to this viewpoint, administration is a top-level function while management is a lower-level function. Administration is a determinative (thinking) function concerned with laying down basic objectives and broad policies of an organisation. On the other hand, management is an executive (doing) function involving the direction of human effort towards the realisation of such objectives. Therefore, managers are often called executives. This view is held by eminent American experts on management.

Administration is a part of management. European School of thought holds that management is a comprehensive term and administration is a part of it. According to E.F.L.Brech, "Management is the generic term for the total process of executive control involving responsibility for effective planning and guidance of the operations of an enterprise. Administration is that part of management which is concerned with the installation and carrying out of the procedures by which the programme is laid down and communicated and the progress of activities is regulated and checked against plans".

Administration and management are one. Henri Fayol, William Newman, Chester Barnard, George R.Terry, Louis A.Allen, Harold Koontz, Cyril O'Donnell and many other writers make no distinction between administration and management. According to William H.Newman, management or administration is "the guidance, leadership and control of the efforts of a group of individuals towards some common goals." Fayol said, all undertakings require the same functions and all must observe the same principles. There is one common science which can be applied equally well to public and private affairs.

The distinction between administration and management is superfluous and meaningless. In practice, the two terms are used interchangebly because both involve the same principles and functions. Somehow, the word management has become popular in business enterprises where economic performance is of primary importance. On the other hand, the term administration is preferred in government departments, hospitals, religious trusts, educational institutions and other non-business organisations.

In order to resolve the terminological conflict between administration and management, management may be classified into:

i) Administrative Management; and
ii) Operative management.

Administrative management involves determination of objectives and policies whereas operative management is primarily concerned with the execution of plans for the achievement of the objectives. At every level of management, an individual manager performs both types of functions.

Every manager spends a part of his time on administrative management and the remaining time on operative management. This can be seen from Fig. 1.2.

FIGURE - 1.2

ADMINISTRATION AND MANAGEMENT COMPARED.

BOARD OF DIRECTORS
MANAGING DIRECTOR
PRODUCTION MANAGER
PLANT SUPERINTENDENT
SUPERVISOR

It is clear from the above figure that higher-level managers spend a major production of their time on decision-making and policy formulation (administration) while lower-level managers spend comparatively greater time on execution of plans and policies (management). But every manager, irrespective of his position or level in the organisation, must plan as well as execute the plans. This approach appears to be more logical because of two reasons. *First*, two separate sets of people are not required to perform administrative and managerial functions. *Secondly*, planning and doing are two faces of the same coin and it is not desirable to separate them.

TABLE - 1.1

DISTINCTION BETWEEN ADMINISTRATION AND MANAGEMENT

S.NO.	*POINTS OF DISTINCTION*	*ADMINISTRATION*	*MANAGEMENT*
1.	NATURE	It is a determinative or thinking function.	It is an executive or doing function.
2.	SCOPE	It is concerned with the determination of major objectives and policies.	It is concerned with the implementation of policies.
3.	LEVEL	It is mainly a top-level function.	It is largely a middle and lower-level function.
4.	INFLUENCE	Administrative decisions are influenced mainly by public opinion and other outside forces.	Managerial decisions are influenced mainly by objectives and policies of the organisation.
5.	DIRECTION OF HUMAN EFFORTS	It is not directly concerned with direction of human efforts.	It is actively concerned with direction of human efforts in the execution of plans.
6.	MAIN FUNCTIONS	Planning and control are the main functions involved in it.	Directing and organising are the main functions involved in it.
7.	SKILLS REQUIRED	Conceptual and human skills.	Technical and human skills.

S.NO.	POINTS OF DISTINCTION	ADMINISTRATION	MANAGEMENT
8.	USAGE	Used largely in government and public sector.	Used mainly in business organisations.
9.	ILLUSTRATIONS	Minister, Commander, Commissioner, Registrar, Vice-Chancellor, Governor, etc.	Managing Director, General Manager, Sales Manager, Branch Manager, etc.

6.5 Importance of Management:

Management is a significant tool for the following reasons:

1. Facilitates achievement of goal: - It facilitates achievement of firms objectives through limited resources. Scarce resources have to be effectively allocated and utilised in an optimum manner.
2. Smooth sailing: - It ensures smooth sailing in case of difficulties. A manager guides the organisation, espically in trouble. He anticipates and makes the necessary changes in the organisation, to achieve the targets.
3. Continuity in Organisation: - Modern organisations are based on systems and procedures. Thus, Continuity is ensured. Organisation do not collapse when some key people leave. But there could be a change in the focus or priorities of the organisation.
4. Economy and efficiency: - Without managers, it may be difficult to get the job performed efficiently. A manager plans, coordinates and monitors the progress of work and suggest whether the work is satisfactory or not. Organisational costs can be minimised through sound management practice.
5. Group efforts: - Management focuses on group efforts chaos will rule an organisation, if each individual is allowed to plan and organise things independently.
6. Economic growth: - Management is the key to economic growth. Efficient management is important for the nation in terms of social and economic development. By providing wealth, managers facilitate the increase in national income and thus, the living standard of the people. Management is thus, key to the economic growth.

6.6 Management: Science, Art or Profession

The controversy with regard to the nature of management, as to whether it is a science or art, is very old. Specification of exact nature of management as science or art or both is necessary to specify the process of learning of management. It is to be noted that learning process in science differs from that of art. Learning of science basically involves the assimilation of principles while learning of art involves its continuous practice.

Much of the controversy of management as science or art is on account of the fact that the earlier captains of the industry and managers have used intuition, hunches, commonsense, and experience is managing organisations. They were not trained professional managers, although they were very brilliant and had developed commonsense through which they managed well. Commonsense and science differ in the following ways:

1. Commonsense is vague as compared to scientific knowledge.
2. Flagrant inconsistency often appears in commonsense whereas logical consistency is the basic of science.
3. Science systematically seeks to explain the events with which it deals; commonsense ignores the need for explanation.
4. The scientific method deliberately exposes claims to the critical evaluation of experimental analysis; commonsense method fails to test conclusions in any scientific fashion.

Science is based on logical consistency,systematic explanation, critical evaluation and experimental analysis. Thus science can be defined as follows:

> Science is a body of systematized knowledge accumulated and accepted with reference to the understanding of general truths concerning a particular phenomenon, subject, or object of study.

Thus science is a systematized body of knowledge. The process of scientific theory construction and confirmation can be viewed as involving the following steps:

1. The formulation of a problem or complex of problems based on observation;
2. The construction of theory to provide answers to the problem or problems based on inductions from observations;
3. The deduction of specific hypotheses from the theory;
4. The recasting of the hypotheses in terms of specific measures and the operations required to test the hypotheses;
5. The devising of actual situation to test the theorem; and
6. The actual testing in which confirmation does or does not occur.

■ Management as Science

Judging from the above features, management is not as exact as natural or physical sciences are. This phenomenon can be explained as follows:

1. Science may be viewed in terms of its structure, its goals, and its methods. The extent a science is mature, such internal consistency may be attained but there are many young sciences like management that only approximate this state.
2. One of the most important rules of science is that concepts have to be defined clearly in terms of the procedures involved in their measurement. One has to know excatly what one is talking about while using a particular term. Meanings have to be clear and unambiguous to avoid confusion and erroneous classification. Since the second decade of this century, a number of disciplines have claimed to contribute to human knowledge of managing. These disciplines have been immature to be a science. The consequence has been almost unfathomable confusion over the various terms, a confusion in which ambivalence in using the various terms has played a conspicuous part.

3. In science, observations must be controlled so that causation may be imputed correctly. This is a difficult rule to follow, specially in studying organisational phenomena.

4. Theories in science are in terms that permit empirical confirmation. Scientific statements are testable and the tests are capable of repetition with same result. Many of the management principles lack empirical evidences and are not testable. Principles in management on the basis of scientific observations which may have universal application, but still the process is in evolutionary stage.

The various factors analysed above suggest that management is not a pure science but it can be simply called 'inexactscience'. This is so because management also makes use of scientific methods in evolving principles. Therefore, it bears partial characteristics of science. In fact, many people have suggested that with greater use of mathematics and statistics in management, the direction is toward more and more use of true science in management. The knowledge consists in how and where to use mathematics in solving issues of managerial difficulty. Science may contribute to the solution of managerial problems in two ways:

i) existing reaserch and theory relevant to the problem may be brought to bear on its solution; and

ii) where sufficient time is available, research may be conducted to provide information not previously available and to guide solution accordingly.

■ **Management as an Art:**

Management can be regarded as an art also. The meaning of art is related with the bringing of a desired result through the application of skills. That is, art has to do with applying of knowledge or science or of expertness in performance. The adequate consideration of people involved in managerial action is vital and adds to the concept of art of managing.

Science and art are complementary fields of endeavour; they are not mutually exclusive. The medical doctor requires the knowledge or science of chemistry, biology, and anatomy. Management is an art and a better manager is one who knows how to apply the knowledge in solving a particular problem. Management is an art can be seen from the following facts:

1. The process of mangement does involve the use of know-how and skills like any other art such as music, painting, sculpture, etc.

2. The process of management is directed to achieve certain concrete results as other fields of art do.

3. Management is creative like any other art. Creativity is major dimension in managerial success. It creates new situations for further improvement.

4. The success of managerial task is related with the personality of the man apart from the character and quality of general body of knowledge.

■ **Management: Both Science and Art:**

Thus to be a successful manager, a person requires the knowledge of management principles and also the skills of how the knowledge can be utilised. Absence of either will result into efficiency. A comparision between science and art can be presented below which suggests that a manager requires both aspects of management to be successful.

Table - 2
Comparision between Science and Art

Science	Art
Advances by knowledge	Advances by practice
Proves	Feels
Predicts	Guesses
Defines	Describes
Measures	Opines
Impresses	Expresses

It can be seen that management uses both scientific knowledge and art in managing an organisation. As the science of management increases so should the art of management. A balance between the two needed.

- **Management as a Profession:**

Management is regarded as profession by many, although it does not possess all the features of a profession. Therefore, it is desirable to find out whether management is a profession. The word profession has been given a variety of meanings, and different people attach different characteristics to it. Cogan suggests that a profession is "a vocation whose practice is founded upon an understanding of a theoretical structure of some department of learning of science." Both of these definitions merely imply that professions are, in some manner, service occupations and, therefore, valuable to society. However, these definitions do not bring out the characteristics of a profession. Houle has suggested that there are atleast fourteen characteristics that can be associated with the dynamic process of corporate improvement within the occupation (professionalisation). These characteristics are: definition of the occupation's functions, mastery of theoretical knowledge, capacity to solve problems, use of knowledge, self-enhancement, public acceptance, ethical practice, penalties, relations to other vocations, relations to the users of the service. While Houle places these characteristics along a number of different axes-conceptual, performance and collective identity characteristics-he does not really define the concept of profession itself.

The various approaches of defining the characteristics of profession without really defining it is dangerous because characteristics may be added to or subtracted from any existing list by any author without any theoretical rationale. Therefore, an operational definition of profession may be given as follows:

> Profession is an occupation for which specialised knowledge, skills and training are required and the use of these skills is not meant for self-satisfaction but these are used for larger interests of the society and the success of these skills is measured not in terms of money alone.

Thus all professions are occupations in the sense that they provide means of livelihood; however, all occupations are not professions because some of them lack certain characteristics of a profession. The various characteristics of profession may be:

i) existence of an organised and systematised body of knowledge;

ii) formal method of acquisition of knowledge;

iii) existence of an association with professionalisation as its goals;

iv) formulation of ethical codes; and

v) service motives.

Let us discuss the extent to which all these characteristics are found in management to determine whether management is profession or not.

1. Existence of Knowledge: - Profession emerges from the establishment of fact that there is a body of knowledge which cannot be skirted around but has to be studied for being a successful professional. This is true for all professions including management.

2. Acquisition of Knowledge: - An individual can enter a profession only after acquiring knowledge and skills through formal training. For example, only law graduates can enter the profession of legal practice. A professional is one who practises a profession and is regarded as an expert since he has mastery of a specific branch of learning upon which his occupation is based so that he may offer a service to his client. However, the emphasis is put on the initial acquisition of knowledge through some formal method. From this point of view, management cannot be regarded as a profession because the entry to the managerial cadre in an organisation is not limited to management graduates only, though it can be said that management graduates can put better performance in the organisation because of their familiarity with the various techniques of management.

3. Professional Association: - An occupation which claims to be a profession should have an association. A professional association consists of firms and individuals whose membership is based on common professional, scientific, or technical aims. The representative body of professionals is needed to regulate and develop the professional activities.

4. Ethical Codes: - For every profession, some ethical standards are provided and every individual of the profession is expected to maintain conformity with these standards. The need for ethical codes arises because of the fact that occupations whose practitioners have mastery over an area of knowledge have a degree of power by virtue of their expertise and this power can be used for the benefit of the professionals at the cost of the society. This has resulted many occupations issuing a code of ethics of professional practice so that clients may know the standard and commitment that they should receive from a professional. In management also, code of conduct has been formulated to suggest the behavioural pattern for professional managers. Though there is a lack of universally accepted ethical codes for managers throughout the world, in most of the countries, managers are supposed to be socially responsible, and it is their duty to protect the interest of all parties associated with an organisation. In fact, in India, many professional managers are not even aware about the code of conduct formulated by the All India Management Association.

5. Service Motive: - Management is an integrating agency and its contribution in the society by way of integrating various resources into productive units is very important for the stability of the society. This important contribution of management cannot be measured in terms of money alone because without the integrating effort of management, resources worth millions of rupees may be useless.

6.7 Principles of Management:

Fayol recognised a wide spread need for principles of management and for management teaching. In order to acquire managerial knowledge, he developed following principles of management. He has given fourteen principles of management, they are not rigid but flexible.

1. Division of work: - Fayol has advocated division of work to take the advantages of specialisation. According to him, "specialisation belongs to natural order. The workers always work on the same part, the manager concerned always with the same matters, acquire an ability, sureness, and accuracy which increase their output. Each change of work brings in it training and adaptation which reduces output.... yet division of work has its limits which experience and a sense of proportion teach us may not be exceeded." This division of work can be applied at all levels of the organisation.

2. Authority and Responsibility: - The authority and responsibility are related, with the latter the corollary of the former and arising from it. Fayol finds authority as a continuation of official and personal factors. Official authority is derived from the manager's position and personal authority is derived from personal qualities such as intelligence, experience, moral worth, past services, etc. Responsibility arises out of assignment of activity. In order to discharge the responsibility properly, there should be parity of authority and responsibility.

3. Discipline: - All the personnel serving in an organisation should be disciplined. Discipline is obedience, application, energy, behaviour, and outward mark of respect shown by employees.

4. Unity of Command: - Unity of command means that a person should get orders and instructions from only one superior. The more completely an individual has a reporting relationship to a single superior, the less is the problem of conflict in instructions and the greater is the feeling of personal responsibility for results.

5. Unity of Direction: - According to this principle, each group of activities with the same objective must have one head and one plan. Unity of direction is different from unity of command in the sense that former is concerned with functioning of the organisation in respect of its grouping of activities or planning while latter is concerned with personnel at all levels in the organisation in terms of reporting relationship. Unity of direction provides better coordination among various activities to be undertaken by an organisation.

6. Subordination of Individual of General Interest: - Common interest is above the individual interest. Individual interest must be subordinate to general interest when there is conflict between the two. However, factors like ambition, laziness, weakness, etc., tend to reduce the importance of general interest.

7. Remuneration to Personnel: - Remuneration of employees should be fair and provide maximum possible satisfaction to employees and employers. Fayol did not favour profit-sharing plan for workers but advocated it for managers. He was also in favour of non-financial benefits though these were possible only in the case of large-scale organisations.

8. Centralisation: - Everything which goes to increase the importance of subordinate's role is decentralisation; every thing which goes to reduce it is centralisation. Without using the term 'centralisation of authority', Fayol refers the extent to which authority is centralised or decentralised. Centralisation and decentralisation are the question of proportion. In small firms, centralisation is the natural order, but in large firms, a series of intermediaries is required.

9. Scalar Chain: - There should be a scalar chain of authority and of communication ranging from highest to the lowest. It suggests that each communication going up or coming down must flow through each position in the line of authority. It can be short-circuited only in special circumstances when its rigid following would be detrimental to the organisation. For this purpose, Fayol has suggested 'gang plank' which is used to prevent the scalar chain from bogging down action.

10. Order: - This is a principle relating to the arrangement of things and people. In material order, there should be a place for everything and every thing should be in its place. Similarly, in social order, there should be right man in the right place. This kind of order demands precise knowledge of the human requirements and resources of the organisation and a constant balance between these requirements and resources. Normally, bigger is the size of the organisation, more difficult this balance is.

11. Equity: - Equity is the combination of justice and kindness. Equity in treatment and behaviour is liked by every one and it brings loyalty in the organisation. The application of equity requires good sense, experience, and good nature for soliciting loyalty and devotion from subordinates.

12. Stability of Tenure: - No employee should be removed within short time. There should be reasonable security of jobs. Stability of tenure is essential to get an employee accustomed to new work and succeeding in doing it well. Unecessary turnover is both cause and effect of bad management.

13. Initiative: - Within the limits of authority and discipline, managers should encourage their employees for taking initiative. Initiative is concerned with thinking out and execution of a plan. Initiative increases zeal and energy on the part of human beings.

14. Esprit de Corps: - This is the principle of 'union is strength' and extension of unity of command for establishing team work. The manager should encourage esprit de corps among his employees.

6.8 Functions of Management:

The process of management encompasses certain functions to be performed in a logical sequence. While Koontz identified planning, organising, staffing, directing and leading, and controlling as major functions, other management thinkers suggested more or less the same with slight changes.

For instance, Luther **Gulick** coined a new term 'POSDCORB' which is: P-planning, O-organising, S-staffing, D-directing, Co-controlling, R-reporting and B-budgeting. Gulick emphasised two additional functions-*reporting* (a manager has to report to his boss and, hence, reporting dynamics have to be considered) and also *budgeting* (every manager has to prepare a budget for the department).

Henri Fayol lists five functions as elements of the management process-planning, organising, commanding, coordinating and controlling.

It can be concluded that the functions of a manager are planning, organising, staffing, directing (which includes leadership, motivation, communicating and coordinating) and controlling. These are discussed below:

Planning It is the process of deciding now what is to be done in future. It bridges the gap between the present and the future. Corporate goals set the direction for planning.

Planning involves essentially four stages:
(a) identifying the goal to be achieved,
(b) exploring the course of action available to reach this goal,
(c) evaluating each course of action, and
(d) finally, selecting the best course of action for implementation.
In other words, *planning ends with selection or decision making*.

Planning is also referred to as the process of determining *the best course of action to achieve given goals,* it is unlikely that an organisation's goals can be achieved. If its activities are not planned properly. The complexity of the business environment adds fuel to fire. In other words, it makes the function of planning more vital.

To protect the organisation from such an uncertainty, plans should be *flexible* enough to consider the contingencies. The planning function is performed throughout the organisation and it is said to be *all-pervasive*. The best way of ensuring performance is to ensure that people 'know' the plans drawn to achieve the targets.

Organising Organising refers to the process of grouping related activities and assigning them to a manager with the authority to supervise it. Organising is an essential function that makes the plans operational by identifying and classifying the necessary activities. Responsibility is fixed on every manager for the achievement of the plans. Fayol explains superior-subordinate equations. Organising shows how to achieve a *task* with the given resources. It paves the way for formal communication.

Organising makes the organisational environment more conducive for group effectiveness. Well-defined authority and responsibility are tools to evaluate one's performance at work. The function of organising provides the manager enough flexibility to create higher managerial positions that the employees would want to achieve!

Staffing Organisational structure is a tool to explain how many positions there are in an organisation and at what level. The next task is to figure out what type of candidates are required for each position and accordingly fill these with the right people. Staffing is a process which includes recruitment, selection, training, placement, appraisal, promotion and career planning. A manager does all these in small organisations. But in larger organisations, the personnel department looks often these functions led by a qualified professional manager called personnel manager.

Directing After filling the positions, it is important to guide and enable the people to achieve the common goals of the organisation. Directing is a process of issuing orders and instructions to guide and teach the subordinates in the proper methods of work and ensuring that they perform their jobs as planned. The role of a manager is simplified if the goals and objectives of his subordinates match with those of the organisations. In the process, the manager has to lead, motivate, communicate and coordinate their efforts to achieve the corporate goals. In othe words, a manager has to perform the following while directing the members of his group:

- **Leading:** It is a decisive function of the management in which workers/employees are led and directed so that the objectives of the organisation are successfully achieved. It is likely that the workers will work willingly and enthusiastically if they like their leader. An effective manager should also be an effective leader. To be effective, the leader should understand his/her followers well and accordingly assume an appropriate style of functioning: authoritarian or democratic.

- **Motivating:** The process of encouraging an employee to perform more effectively using his abilities and full potential is called motivation. This happens when his social and psychological needs are met, which contribute to organisational goals. Different factors motivate different people. These can be broadly categorised into two types: (a) financial and (b) non-financial. The following are some prominent factors to motivate employees on the work front:

  Financial factors include a competitive salary package which includes monthly/annual salary, perquisites, bonus, overtime, allowances, reimbursement of medical and telephone bills etc.

  Non-financial factors include appreciation from the top, congenial work environment, career growth, minimal supervision, flexible working hours, opportunity to work on live projects (as in the case of R&D and software companies), team building and self-managed work teams.

- **Communicating:** It is the process of creating, transmitting and interpreting messages, ideas, facts, opinions and feelings. The vital function of the manager is to communicate to his staff what they should do through orders, meetings, circulars and notices. Communication is always a two-way process. An important part of the communication process is feedback.

  It is necessary to overcome the usual barriers (resulting from status differences, fear, or emotions, bias, lack of trust etc.) to communication by ensuring a free flow of information through reports, memos, instructuions or personal briefings etc. Employee productivity is often affected adversely because the management fails to communicate its expectations to employees. Absence of free flow of information leaves the employees misunderstood, disappointed, frustrated and finally, separated from the organisation.

- **Coordinating:** Organisational structure provides for division of labour. This calls for linking the different parts of the organisation in terms of their performance to help achieve the given goals. Coordination refers to the process of arranging group efforts in such a way that the common purpose is achieved effectively and efficiently.

  When an employee is elevated to a managerial position, he is not just involved in doing his own work. His job is now concerned with 'coordinating' the efforts of other people and resources under his command. Excellent results come from good coordination.

- **Controlling:** It is the process of measuring the current performance of the employee and assessing whether the given objectives are achieved or not. It involves (a) measuring the actual performance of the employee; (b) comparing it with the target; and (c) taking followup action-corrective or remedial-for improving the performance.

6.9 Summary:

The term Management is viewed as a function, a process or a body of people at the top level in the organisation. As a function, it covers all the activities of a manager. As a process, it covers designing and maintaining an environment that is helpful to acomplish a company's aims. Management is defined as a social process of planning, organising, coordinating, commanding and controlling for the purpose of achieving organisational goals by using limited resources effectively and efficiently. Administration and Management are closely related. Henry Fayol suggested Fourteen principles for effective working of management. Management functions are considered ubiquitous because all these are performed in an organisation at every level, though in varying degrees.

6.10 Glossary:

1. Profession: Means of livelihood.

2. Planning: It bridges the Gap between where we are where we want to go.

3. Administration: Decision making function.

4. Management: Execution function.

6.11 Self Assessment Questions:

- **Five Marks Questions:**

1. Define Management?

2. What is meant by Administration?

3. Explain 'Management is an art'.

- **Ten Marks Questions:**

1. Differentiate Management from administration?
2. Explain importance of Management?
3. What are the different dimensions of Management?

- **Twenty Marks Questions:**

1. What is Management? What are its functions?
2. Explain Henry Fayol principles of Management?
3. 'Management is an art, science or profession'. Explain.

6.12 Books Recommended:

1. Industrial Organisation And Management.
- A.R.Aryasri
- V.V.Ramana Murthy

2. Management Theory & Practice.
- C.B.Gupta

3. Principles And Practice Of Management.
- L.M.Prasad.

- Dr.K.Kanaka Durga

Lesson - 7

MANAGEMENT APPROACHES

7.0 Objectives : After studying this lesson you should be able to understand the following concepts.

- Different approaches to the study of Management.
- Evolution of Management thought

Structure

7.1 Introduction :

The pattern of management has been undergoing change with the varying social, economical, political and technological factors. Industrial Revolution brought out the necessity of developing a theory of management. The management thought has passed through various stages to reach its present level. For the purpose of study it is divided into three stages, each covering different period and ideology of the contributors

Stages In Management Thought :

I . The Classical Theory of Management : In this stage three streams of thought are identified.

1. Scientific management - F.W.TAYLOR - 1910
2. Process management - Henry Fayol - 1910
3. Bureaucratic Mode - Max Webber - 1900

II. The Neo- classical Theory : It consists of two streams of thought.

1. Human Relation Movement -- Elton Mayo and Roethlis berger - 1930.
2. Behavioural Science Movement -- Maslow, Mc Gregor - 1940.

III. The Modern Management Theories : It comprises of three streams of thought.

1. Quantitative Approach - Taylor - 1950.
2. Systems Approach - Boulding, Johnson - 1950
3. Contingency Approach - Lonsch, Lawrence

7.2.1 Classical Approach :

Classical approach are divided into three categories they are :

A. Scientific Management :

F.W. Taylor was the father of Classical approach of Management. He was joined Midvale steel works in Philadelphia, U.S.A. in 1978 as a mechanist and was rose to the Chief engineer position. He was well known as father of Scientific Management. Through his experience in different capacities in the organisation., Taylor found that :-

- Methods of production lacked planning.
- Tools and equipment were meagre and odd.
- Working Methods were haphazerd.

He made efforts to replace the primitive methods by modern scientific methods based on investigation, analysis and measurement.

He defined management as “It is the art of knowing exactly what you want men to do and seeing that they do it in the best and cheapest way”.

Taylor gave the following Scientific Principles for efficient management.

1. Every job should be broken into elements and a scientific method to perform each element should be established.

2. Workers should be Scientifically selected, trained with right attitude.
3. Management should cooperate with workers to ensure that all work is done in accor dance with the Scientific principles.
4. The work and responsibility should be scientifically distributed between workers and management.

B. Administrative or Process Approach :

Father of Administrative approach was Henry Fayol (1841 Born). He stared his career as a junior engineer in a coal mine company in France and became its general manager in 1980. He wrote a book on General and Industrial Management in 197 which was published in English in 1949.

Henry Fayol observed that management was an activity common to all human undertakings whether in the home business or government. He divided all activities of a business enterprise into six categories :-

1.Technical activities - Production.
2.Commercial activities - Buying, selling and exchange.
3.Financial activities - Search for and optimum use of capital.
4.Security activities - Protection of property and persons.
5.Accounting activities - including statistics.
6.Managerial activities - Planning organising, directing, coordination and control.

C. Bureaucratic Approach :

Beurocratic approach was evolved by a German sociologist, Max Webber. It visualises a machine model of organisation characterised by a hierarchy of authority, a web of rules and regulations and impersonal control over human beings. Bureaucraties are neither good nor bad. They are good organisational forms in some situations, and they are bad in others.

Features of Bureaucracy : According to Max Webber under a bureaucracy the organisation structure has the following features :

i) tasks are divided into very specialized jobs and a rigorous set of rules must be followed

ii) to insure predictability and eliminate uncertainity in task performance.

iii) a stable and well defined hierarchy of authority ensuring clear authority-responsibility relationships.

iv) Superiors take an impersonal attitude in dealing with subordinates.

v) specified qualifications for individuals holding office.

vi) employment and promotions based on merit.

7.2.2 Human Relations Approach or Neo Classical Approach :

Human Relations approach is also known as Neo classical approach. This approach was highlighted by the famous experiments conducted at the Hawthorne plant of the western Electric company during the late 1920's and early 1930 's by a team of researchers from the Harward University. The direct result of the Hawthorne studies was the development of the field of human relations. Human relations may be described as "the study of human behaviour work in order to develop higher levels of productivity and satisfaction.

Elton Mayo, the director of the Hawthorne studies, is generally considered to be the father of the human relations school. The Hawthorne studies provided evidence that an organisation not merely a formal arrangement of men and functions more than that it is a social system which can be operated successfully only with the application of the principles of Psychology and other behavioural sciences. The main aspects of the behavioural science approach are :

a) Employee Motivation : Which includes a determination of the factors that lead to high productivity and high morale.

b) Organisation as a Social System : It includes studies or role, status and status symbols as also the functions of informal groups.

c) Leadership : It involves the study of successful and unsuccessful managerial behaviour.

d) Communication : It includes the study of factors related to achieving understanding between persons in an organisation as a consideration of the best structuring and use of the channels of contract in an organisation.

e) Employee development : It is concerned with the continued upgrading of employee skills and managerial skills.

7.2.3 MODERN MANAGEMENT APPROACH

Modern Management Approaches are divided into two. They are Systems Approach, Contingency Approach.

1. Systems Approach : The General Systems Theory was applied to organisation and management during the fifties. Many Pioneers such as Kenneth Boulding, E.L.Trist,R.A. - Johnson and Chester Barnard have made significant contribution towards the development of the systems approach to management. A system is a set of distinguishable but interdependent and interrelated parts operating in a logical manner or sequence in order to achieve a goal. Each part affects the others and the system as a whole. Every system operates within a wider system. A system is goal oriented and operates in a logical manner in accordance with some plans.

2. Contingency Approach :- Contingency approach is also known as situational approach. It is new approach to management. It is an extension of the systems approach. The basic theme of the contingency approach is that organisations have to cope with different situations in different ways. In order to be effective, the internal functioning of an organisation must be consistent with the demands of the external environment.

Features : The main features of the contingency approach are as follows :

i) Management is entirely situational. The conditions and complexity of the situation determine which measure or technique is applicable and effective.

ii) Management should, therefore, match or fit its approach to the requirements of the particular situation. The organisation structure, the leadership style, the control system all should be designed to fit the particular situation.

iii) Since management's success depends on its ability to cope with its environment. It should sharpen its diagnostic skills so as to anticipate and comprehend the environmental changes.

iv) Managers should understand that there is no one best way to manage. They must not consider management principles and techniques universal.

The contingency approach is the outcome mainly of the research studies conducted by Tom Burns and G.W. Stalker, Joan Wood Ward etc., These experts analysed the relationships between the structure of an organisation and environmental conditions.

7.3 EVOLUTION OF MANAGEMENT DISCIPLINE :

Management practice is as old as human civilisation when people started living together in groups. For every human group requires management. In the earlier years, management could not get the attention of researchers because the field of business in which the management concepts were applied was held low, unworthy of study; indifferent approach of other social scientists like economists, sociologists, Psychologists etc., towards management and business organisations; treatment of management as an art not as a science and the commonly held belief that managers are born and not made. These factors created the situation where the need for a systematic study of management was not felt this situation continued till the beginning of the twentieth century.

The situation started changing with the beginning of the present century. Growing competition and complexity of managing large business organisations further provided impetus to developing systematic management concepts and principles. The real development of management thought has begun with scientific management approach given by Taylor.

7.3.1 Stages in Management Thought :

The evolution of management thought may be divided into three stages.

1. The Classical Theory of Management
2. The Neo Classical Theory of Management.
3. The Modern Management Theory.

7.4.1 I. The Classical Theory of Management :

The Systematic study of management as a separate field of activity started only during the second half of the 19th century.

In this stage three streams of thought are identified :

A) Bureaucratic model - Max Webber
B) Scientific Management - F.W. Taylor
C) Process Management - Henry Fayol.

A) Bureaucratic Model : Max Webber, a German Sociologist, was the Chief exponent of the Bureaucratic Model. According to him, the recognition and exercise of authority is the fundamental question. According to him Authority Structure is in three types i.e. Chrismatic, Traditional and Bureaucratic.

I. Chrismatic Authority :- A chrismatic leader's authority is accepted by virtue of some exceptional innate qualities. The Chrisma remains with the leader and it is not necessary that the successor too has chrisma.

II. Traditional Authority :- If the Authority structure is based on heredity or procedure and rules, such an organisation will become a traditional.

III. Bureaucratic Authority :- Webber names it rational legal. It is more efficient form of organisation. Because specific objectives of the organisation are laid down and organisation is designed to achieve them and it is legal because authority stemmed from clearly defined rules, roles and procedures.

B) Scientific Management Stage :

Taylor has defined the basic problem of managing as the art of "knowing exactly what you want men to do and then see in that they do it in the best and cheapest way. Sinnce Taylor has put the problem of managing on a scientific way, he is often called as the father of scientific management.

The main features of scientific management are : -

i) Separation of planning and doing.

ii) Functional foremenship which consists of eight persons to direct the activities of workers.

iii) Job analysis to find out the one best way of doing the thing.

iv) Standardisation should be maintained in respect of inspect of instruments and tools, period of work, amount of work and working conditions.

v) Scientific selection and Training of workers.

vi) Financial incentives to efficient personnel.

vii) Mutual co-operation between management and workers.

Organisation Stage : Henry Fayol's contribution to the management thought was divided into three categories they are :

i) Classification of business activities

ii) Functions of Management.

iii) Principles of Management.

i) Business Activities : He divided all activities of a business enterprise into six categories -

a) Technical Activities	-	Production
b) Commercial Activities	-	Exchange
c) Functional Activities	-	Optimum use of capital
d) Security Activities	-	Protection of property & Persons
e) Accounting Activities	-	Preparation of Accounts
f) Managerial Activities	-	Functions of Management

ii) Functions of Management : Fayol divided the key function of administration into five elements -

a) Planning	-	Forecast the future
b) Organising	-	Every thing useful to its functioning
c) Staffing	-	Recruitment and Training
d) Directing	-	Lead the personnel in better way
e) Controlling	-	Ensuring everything goes as per plans.

iii) Principles of Management : Henry Fayol gave the following fourteen principles of management . Such as : 1) Division of work, 2) Authority and Responsibility, 3) Discipline, 4) Unity of Command, 5) Unity of Direction, 6) Subordination of Individual interest to general interest, 7) Fair Remuneration to workers, 8) Effective Centralisation, 9) Scalar Chain, 10) Order, 11) Equity, 12) Stability of tenure, 13) Initiative and 14) Espirit decorps.

7.4.2 II. Neo-Classical Theory :

Neo-classical theory deals with the human factor. Neo-classical approach also causes 'Behavioural Science Management' which is a further refinement of human relations approach. It consists of two thoughts :

i. Human Relations Movement : Human relations movement deals with the factors which encourage higher performance on the part of workers. The improvement of working conditions, reduction of working hours, improvement of social relations of workers, besides monetary gains help in increasing productivity. The contributors are Elton Mayo, Mary Parker Follett.

ii. Behavioural Sciences Movement : Behavioural sciences movement is regarded as a further refinement of human relations movement. It laid emphasis on the application of the methods and findings of general and social psychology and sociology for understanding the organisational behaviour. The important aspects of behavioural approach are -

i. Motivation of employees

ii.Organisation as a social system.

iii. Leadership study of managerial behaviour.

iv. Communication for better understanding.

v. Upgrading of employee and management skills.

The contributors to this thought are Maslow, Mc Gregor, Bernard.

7.4.3 Modern Management Theories :

I. Quantitative Approach :-

It is also known as Mathematical approach. The Management scientists are of the view that if managing or organising or planning or decision making is a logical process. It can be expressed in mathematical symbols and relationships. The development of Technology and the introduction of computers brought mathematics and management closer to each other. The study of problems, their analysis and finding out rational solutions is also due to decision theory's school of thought.

ii. Systems Approach :

The Systems approach looks upon the management as a 'system' or as an 'organised whole' made up of sub-systems integrated into a unit. The main thrust of this approach is on the interdependence and inter-relatedness of the various sub-systems from the point of view of the effectiveness of a larger system.

Contributors to this thought are Bernard, Kenneth, Boulding, Martin etc.,

iii. Contingency Approach : It is also known as situational approach. It was developed by J.W.Lorsch and P.R.Lawrence. The contingency or situational approach emphasises the fact that what managers do in practice depends upon a given set of circumstances. This approach not only takes into account only given situations but also the influence of given solution on behaviour patterns of an enterprise. According to this approach, managers should develop variable methods, tools or action plans as per the specific situation. The type of motivation, communication system, type of leadership in an organisation will depend upon the circumstances prevailing in different enterprises at different times.

7.5 SCHOOLS OF MANAGEMENT THOUGHT :

The various approaches to the study of management as propounded by specialists from different disciplines have come to be called schools of management thought. Management theory can be classified into the following schools of thought.

1. Management Process School : This school considers management as a process of getting things done by people who operate in the organisation. Henry Fayol is the father of this school of thought. The Management process can be divided in five broad functions such as : Planning, Organising, Staffing, Directing and Controlling. It seeks to analyse the nature, purpose, structure and the underlying process of each of these functions.

2. The Empirical School : The empirical or case approach analyses management by studying experiences of people actually managing business. This thinking is based on the belief that the study of actual situation, where success will help the student's and practitioners to know how to manage effectively in similar situations. This knowledge will help managers in taking decisions in different situations.

3. The Human Behaviour School : This approach is based on the idea that managing involves getting things done through people so its study should concentrate on inter personal relationships. The school concentrates on the human aspect of management and the belief that when people work together to accomplish objectives, 'people should understand people'. The relationship among people are the cementing force that bind them together to accomplish common objectives. The main contributors to this school are Elton Mayo, Mc Gregor, Keith Davis. The thinkers of human behaviour approach are of the view that the effectiveness of any organisation depends upon the quality of relationships among the people working in the organisation.

4. The Social Systems School : This thought is closely related to human behaviour school of thought. In this approach, an organisation, could be considered as a social system consisting of various groups of people. The founding father of this school is Chester Bernard. The main contribution of this school of thought is its focus on cultural factors in the working of an organisation.

5. The Decision Theory School : This school of thought is based on the belief that managers make decisions. We should concentrate on decision-making, what ever managers do is the outcome of decisions made by them out of the alternatives available to them. Decisions are important for formulating policies in managing business. The decisions should be taken at right time, should be related to the environment or situation and should be feasible in a given situation. The decisions should be communicated to the right persons so that these are implemented in a right manner.

7.6 SUMMARY :

Thus management has been practised in some form or the other since the dawn of civilisation. Ever since human beings started living together in groups, techniques of organisation and management were evolved. Despite ancient origins, very little conceptual and organised body knowledge was developed in management till the end of 19th century. Systematic study and analysis of management as a science began in the 20th century after the Industrial Revolution. Since then management has developed as a distinct discipline and as a social science. Before the scientific management movement several pioneers, like Robert Owen, Charles Babbage, Henry Vernun Poor, gave some concepts of management.

7.7 Self Assessment Questions :

1. Five marks questions :

1. Explain Beurocratic approach

2. Explain Human relations approach

3. Explain Process approach

2. Ten marks questions :

1. How the Taylor Opinioned on Management.

2. What are the opinions of Henry Foyal on Management thought.

3. Twenty marks questions :

1. Explain various approaches to the study of management.

2. Describe evolution of management discipline.

7.8 Glossary :

Scientific Method - Approaches through Scientific Principles

Morale : It is the willingness of the members of a group to work enthusiastically as a team for the accomplishment of common objectives.

7.9 Books Recommended :

1. Management Theory & practice - C.B. Gupta.

2. Principles and Practice of management - L.M.Prasad.

3. Principles of business organisation & Management - P.N. Reddy.
   - S.S.Gulshan.

4. Industrial organisation & management - R.K.Sharma.

- Dr. K.KANAKA DURGA

LESSON - 8

PLANNING

8.0 Objectives:

After studying this lesson you should be able to understand the following

- ➔ What is Planning, what are its features.
- ➔ Relation between Planning and Control.
- ➔ Merits and Demerits of Planning.
- ➔ Types of Plans
- ➔ Strategic Planning.

Structure

8.1 Introduction:

Every human activity undertaken with a view to achieve something must be preceded by planning. For instance, A student desirous of securing a good grade in the examination has to plan his study. A person intending to set up a business cannot do so unless he has done a lot of previous thinking, considered various aspects and taken many decisions if not all. He has to plan within the available resources, the location, the products to be sold, customers to be approached or the markets to be entered.

Managerial operations must be based on suitable and sufficient planning. It is the primary function of management. It has to plan not only in the beginning but throughout the operations.

To plan is to look ahead and chart out the future course of operations. It is the determinant of a course of action to achieve a desired result. It is one of the cornerstones upon which successful enterprise depends.

Planning is meant for-

1. the analysis of a problem
2. thinking out the forward solutions to that problem.
3. outlining the steps that must be taken to reach the objectives.

8.2 Definition of Planning:

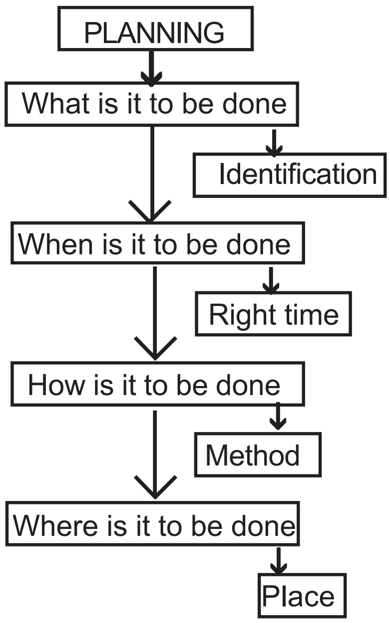
Planning is defined in many ways-

1. Planning is deciding in advance what is to be done.
2. Planning bridges the gap from where we are to where we want to go.
3. Planning will involve deciding a course of action from amongst a number of alternative courses which would help the enterprise to achieve its objectives most expeditiously and economically.
4. Planning ensures proper application of resources for the attainment of desired ends.

Following chart shows stages in Planning.

CHART - 1

STAGES IN PLANNING



8.3 Features of Planning:

The nature of Planning reveals the following features.

a) Goal oriented: - It contributes positively to achievement of mission and goals. It identifies the measures to be taken to achieve the targeted results efficiently and economically.

b) Intellectually a demanding process: - Planning is not mere guessing, one should be capable of thinking in a systematic manner. It is so because planning demands intellectual skills such as vision, foresight, imagination and analytical skills to take rational decisions.

c) Involves choice: - There are alternatives available to achieve a particular target. The manager has to select the best alternative.

d) Basis for other functions: - Since planning is the first function of the manager, the results of planning from the basis for all other managerial functions.

e) All pervasive in nature: - All managers have to plan. Planning is essential for all organisations. Managers at the top, middle and lower levels in any organisation have to systematically plan for the future. Thus, planning is said to be all pervasives.

f) Continuous process: - Since business is complex plan also need to be dynamic. At the end every year plans must be reviewed and new plans prepared for the next year. Thus planning is a continuous process.

g) Flexible in nature: - Plans should not be rigid. They should be flexible in nature and accommodate a change in circumstances.

h) Intends to enhance efficiency: - The aim of planning is to achieve the maximum targets at minimum costs and quickly. So plans should be cost effective and worth their investments.

8.4 Significance of Planning:

1. Managerial planning attempts to achieve a consistent, co-ordinated structure of operations focused on desired ends.

2. Planning overcomes in consistencies, contradictions and duplication of work in the operations of an enterprise.

3. With planning, the structure of operations comprising various activities of an organisation acquires design and shape. Focuses attention on objectives.

4. The planning function brings the manager's attention to focus on the formulation of objectives. It enables the manager to take his mind off the present problems and the headaches.

5. By constant planning, the manager can take care of the future developments.

6. Planning brings economy into operation: - The importance of planning lies in the fact that it ensures, proper application of resources, avoids wastages and they brings economy in operation. Through proper planning resources can be obtained at the most favourable terms.

7. Planning makes control possible: - Control cannot be exercised without planning with the help of planning. Comparisons can be made. The actual output can be compared the desired one. If there is difference it would be considered. Reasons would be located and necessary action will be taken.

8. Planning helps motivation: - The managers cannot only verify but can encourage workers to attain the targets. When tangible goals are in sight it is easier to encourage the workers to reach those levels.

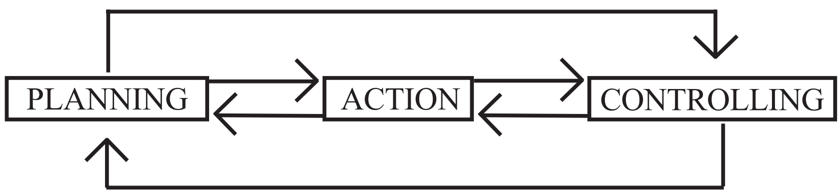
9. Planning ensures against failures and set backs: - Planning is based on estimates. It is an effort to visualise the future and attain goals through present action.

8.5 Relation Between Planning and Control:

Planning is the first function of management, whereas controlling is the last one. Planning is difficult with controlling. Controlling is base for the preceding years plans. In the planning stage managers decide how the resources would be utilised to achieve organisational objectives; at the controlling stage, managers try to visualise whether resources are utilised in the same way as planned. Thus control completes the whole sequence of management process. Control is the result of particular plans, goals, or policies. Thus planning offers and affects control . Not only the planning is also affected by control in the sense that many of the information provided by control is used for planning and replanning. Thus there is a reciprocal relationship between planning and control. This relationship is presented in the following figure.

FIGURE - 1

PLANNING AND CONTROLLING RELATIONSHIP



8.6 Advantages of Planning:

Folliwing are the advantages of Planning.

1. Minimises Uncertainity: - Planning certainly minimises future uncertainities by basing its decisions on past experiences and present situations.

2. Better Utilisation of Resources: - All the resources are first identified and then operations are planned. All resources are put to best possible uses.

3. Economy in Operations: - The objectives are determined first and then possible course of action is selected for achieving these objectives. The operations selected being better among possible alternatives, there is an economy in operations.

4. Better Co-ordination: - Planning will lead to better co-ordination in the organisaion, will ultimately lead to better results.

5. Encourages Innovation: - Planning helps innovative and creative thinking among managers because they will think of many new things while planning.

6. Management by Exception Possible: - Planning fixed objectives of the organisations and all efforts should be made to achieve these objectives. Management should interfere only when things are not going well. By the introduction of management by exception, managers are given more time for planning the activities rather than waiting their time in directing day-to-day work.

7. Facilitates Control: - Planning will enable the management to check performance of subordinates. The deviations in performance can be rectified at the earliest by taking remedial measures.

8. Facilitates delegation: - They will be requiring requisite authority for getting the things done. Delegation of authority is facilitated through planning process.

8.7 Limitaions of Planning:

Despite of many advantages of Planning, there may be some obstacles and limitations in this process. The following are some of the limitations of planning.

1. Lack of Reliable Data: - Planning is based on various facts and figures supplied to the planners, which are difficult to procure Absence of accurate data will upset the plan.

2. Expensive: - Planning is an expensive process. The gathering of information and testing of various courses of action, setting up the planning machinery, appointment of staff for the collection of data, analysis, editing, formalation of hypothesis require huge amount of money. Small concerns can not afford to use planning.

3. Time Consuming Exercise: - As planning involves a number of steps, a lot time has to be devoted to plan before actual operations start.

4. Lack of workers initiative: - Under planning exercise worker has to act only mechanically. It robs him of his interest in the work.

5. External Factors may ReduceUtility: - Besides internal factors there are external factors too which adversely affect planning. These factors may be economical, social, political, technological or legal.

6. Psychological Hurdle: - Human psychology also, to an extent, places some hurdles in the success of planning. There is a certain degree of conservatism in people which implies resistance to change.

7. Sudden Emergencies: - In case certain emergencies arise then the need of the hour is quick action and not advance planning. These situations may not be anticipated.

8.8 Making Planning Effective:

The question is not whether to plan or not, but the question is how well to plan. Therefore, managers should take adequate precautions to make planning activity more effective to gain its real contributions in realising organisational objectives. However, it is not sufficient to say that managers should take action to make planning effective, but they should be clear about what actions can be taken in this regard. Following factors are important to planning more effective.

1. Establishing Climate for Planning: - Every superior should remove obstacles to planning and present facilities for planning. This can be done by setting goals, establishing and publishing planning premises. Involving all managers in planning process, reviewing subordinates' plans and their performance, and ensuring that managers have appropriate staff assistance and information.

2. Initiative at Top Levels: - The role of Top management in planning process is quite unique and important. It is the top management which is responsible for the success or failure of any organisational process and planning is no exception. For planning process, basic goals from which others stem must be organisation-wide and therefore goals must be set at the top management level. Effective planning may start at the top level and get support from lower level managers. There is some thing to encouraging an upward push as well as a downward press.

3. Participation in Planning Process: - The best planning is likely to be done when managers are given opportunities to contribute to plan affecting areas over which they have authority.

4. Communication Planning Elements: - Many planning efforts fail because managers do not really understand their goals and other planning premises which affect their planning efforts. In order to avoid this impediment, it is highly desirable. That these aspects of planning are communicated properly. There should be direct communication between various level managers whose planning efforts are directly related. While communicating, it should be borme in mind that information about planning should be specific and clear.

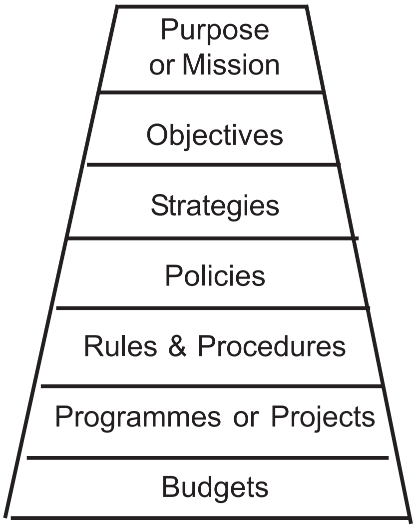
5. Integration of Plans: - Integration of long term and short term plans is necessary that both are fully integrated in which short term plans should be taken as contributing to long term plans.

6. An Open Systems Approach: - Planning can be made effective by taking it as an open systems approach. Objectives, a starting point in planning, should be set taking into account the various environmental forces.

8.9 Types of Plans:

A plan is a commitment to a particular course of action believed necessary to achieve specific results. From this point of view, there can be several types of plans. Various plans in an organisation may be purpose or mission. objectives, strategies, policies, procedures and rules, programmes, and budgets. These can be arranged in a hierarchy because a higher level plan gives or generates lower level plan as presented in the following figure.

Figure - 2
Hierarchy of Plans



Purpose or Mission: - Purpose or Mission is a standing plan in the sense that it defines the basic intention of an organisation in the light at which other actions are designed. The purpose of business is to make profit through purchase and sale of goods just as the purpose at a university is to teach, enable research. A well defined mission or purpose provides inspiration and guidance to employees to do their best in their individual and collective capacities.

Objectives or Goals: - Goals or objectives are different from the over all objectives or basic objectives. Based on the plans, every individual and department in an organisation, has a set of objectives to achieve.

While profit making is the basic objective for the entire organisation through sale of personal computers, the object of production department is to produce a certain configuaration at a certain cost. The objective of a production cell here forms the basis for many other activities in this department objectives thus, form the basis for all functions of management.

Strategies: - Strategies reflect broad areas of an enterprise operation. Strategies are used to determine and communicate the envisioned growth. They make use of basic objectives and broad policies.. Strategies are helpful at both micro and macro levels. They are very useful and important in guiding the planning function.

Policies: - Policies are statements of understanding that specify what 'can be done or what cannot be done' to achieve the given objectives. Policies guide the behaviour or thinking of people in an organisation policies are essential in cases where a situation recurs often and the analysis of underlying issues takes a long time. In such cases, managers must be allowed to use their authority and monitor the performance of employees. Policy is a valuable tool at all levels of management.
For example: - 'Pricing products lower than minimum retail price' is a policy.

Unless policies are made in a consistent and integrated way, it may not be possible to achieve the over all objectives.

Procedures: - Procedures outline in detail the method of carrying out a task. It is concerned more with execution than thinking. Every organisation formulates procedures to ensure that tasks are performed in a given sequence. The Top management is concerned with the laying down of procedures and the middle and lower levels with their implementation.

For example: - The procedure to settle the account is- Suppliers directly dispatch invoices to the accounts department to settle bills. The accounts department sends it to the stores for verification, then passes the invoice for payment.

Rules: - Rules guide action or non-action on the part of people in organisations. Any non-compliance with rules may invite punishment.

For example: - 'No Credit' is a rule.

'No Smoking' is a rule.

Programmes: - These specify what is to be done. They reflect goals, policies, procedures and rules to be followed, steps to be taken, resources to be employed and even minor details necessary to execute a task. Every programme is supported by a budget. Programmes may be major or minor based on their purpose, scope, and time duration.

For instance: - The programme may be- 'How to compensate the shareholders'.

All programmes need coordination and timing.

Budgets: - When plans are expressed in numbers, they become budgets. A budget may be expressed in financial terms or any other measurable form such as machine hours, labour hours or units produced. It can also be expressed in terms of enterprise activities such as sales budget, advertisement budget, purchases budget, cash budget etc. Budgets are prepared for a clearly defined period, say a week, month or year. It can serve as a better means of control only when it reflects the plans.

8.10 Steps in Planning:

Planning process may differ from plan to plan or from one organisation to another. With minor modifications the process, given below is applicable to all types of plans.

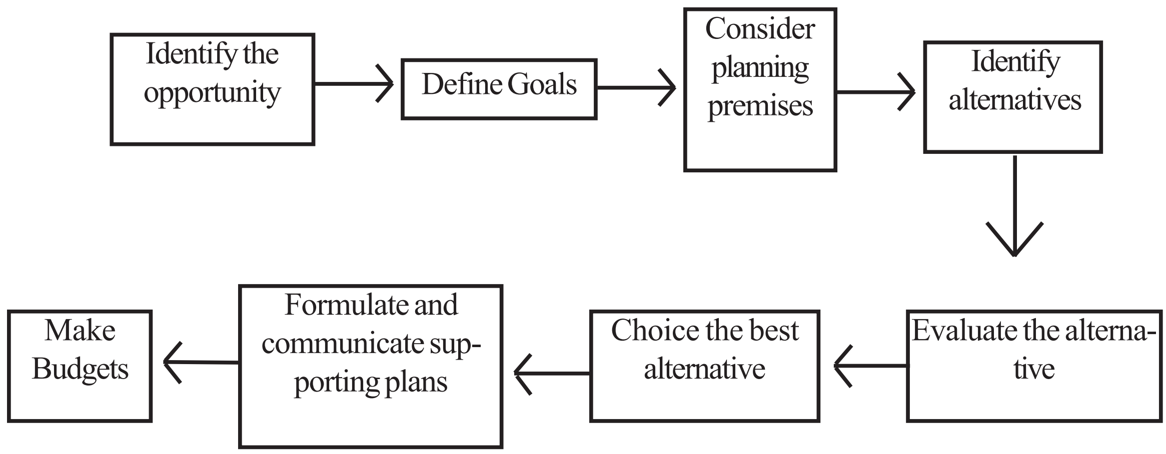


Figure - 3

Steps in Planning Process

1. Identify the oppurtunity: - Real planning starts with knowing the availability of different opportunities. For each opportunity, assess carefully the size of markets, type of customers, degree of competition, needs of customers, finances required and the strengths and weaknesses of the firm. Then, identify the right opportunity.

2. Define goals: - Once the opportunity is identified, define the goals you want to achieve for the entire organisation. Goals, in turn, will throw light on what objectives, strategies, policies, procedures, rules, budgets and programmes you should follow.

3. Consider the planning premises: - Planning premises refers to the assumptions about the environment in which plans have to be carried out. Correct assumptions about markets, competition, product technology, prices, volume of sales, costs, tax rates etc are essential for business planning. Govenment policies, annual budgets, economic indicators, survey of specific industries etc. provide valuable insights on the basis of which 'premises' can be worked out.

   Premises may be *internal or external* to the firm. Internal premises refer to the assumptions about the firm's finances, employees, technology-in-use etc. External premises are assumptions about competitors, lenders, changes in technology, government policies and procedures.

   Premises may be controllable or non-controllable. Managers can exercise control over internal premises but not over the external ones. For instance, a firm can decide about the wages and salaries of its employees but not on the taxes payable. The government determines taxes and the firm has just to follow the prevailing tax rates.

   Premises may be *tangible or non-tangible*. Tangible premises refer to what can be quantified as sales, number of employees etc. Intangible premises refer to what cannot be quantified such as employee morale or the goodwill of the business.

4. Identify alternatives: - There may be more than one alternative to reach a goal or objective. Search for and identify all the available alternatives. Work out the requirement of resources under each alternative. In most cases, finding alternatives may be easier. Shortlisting the promising ones is a relatively complex task.

5. Evaluate the alternatives: - Examine each alternative in relation to the other and identify the merits and demerits of each. One alternative may look very profitable but it may involve a large capital investment and also take longtime to return the original investment. It may also involve a high degree of risk. There may be some good alternatives which cannot be considered even though they fit into the long term interests of the organisation.

   Evaluation of given alternatives is a complicated process as the business environment is full of uncertainties. Government policy may change, technology may change, adequate funds may not be available etc. The alternatives have to be evaluated in the light of many variables and constraints. There are some modern techniques such as operations research and computing which can be gainfully employed in evaluating the given alternatives.

6. Choose the best alternative: - The best alternative is decided on a given situation. Normally it involves optimum utilisation of resources. At times, the number of best alternatives could be more than one. To eliminate errors in judgement, the manager may even decide to follow more alternatives than confining himself to one.

7. Formulate and communicate supporting plans: - Supporting plans are also called derivative plans. These are derived from the best alternative chosen. when a company decides to launch a new product, it also has to formulate several supporting plans for recruiting and training more staff, mobilise more infrastucture and working capital for advertising and insurance. Managers have to communicate these supporting plans to the employees concerned so that they can be involved in their implementation.

8. Make budgets: - Budget is “numerical expression” of a plan. Budgets can be formulated for the entire organisation and also for each department or programme. When cash, sales, production and other budgets are integrated, it results in an overall budget for the entire organisation, popularly known as Mater Budget or Integrated budget. Budget set standards for measuring and controlling the actual performance of the employees in an organisation.

8.11 Strategic Planning:

Strategic planning is also called long term planning. Some parts of the organisation require planning for many years into the future, while others require planning over a short period only. The former is called strategic planning.

‘Anthony’ defined strategic planning as “Strategic Planning is the process of deciding on objectives of the organisation, on changes on these objectives, on the resources used to attain these objectives and on the policies that are to govern the acquisition, use and disposition of these resources”.

Following are the examples for strategic planning in an organisation.

i) Estimation of capital expenditure
ii) Planning growth rate in sales
iii) Diversification of business into new lines,
iv) Type of products to be offered.

- **Features:**

i) Encompasses fundamental areas: - The strategic planning encompasses all the functional areas of business and it affects within the existing and long range frame work of economic, political, technological and social factors.

ii) Type of Environment: - Strategic planning takes into account the external environment and tries to relate the organisation with it.

iii) Primary: - Strategic planning sets trends and direction for managerial actions.

iv) Formulation: - Strategic planning is formulated usually by top level management and other specified planning staff in the organisation. At this level, managers can take overall view of the organisation and have necessary capability to relate the organisation with the external environment.

■ **Merits of Strategic Planning:**

1. Strategic planning involves the analysis of various environmental factors particurlarly with respect to how organisation relates to its environment.

2. Strategic planning guides the choice among the broad directions in which the organisation seeks to move and concerns the general planneel allocation of its managerial, financial and physical resources over future specified period of time.

3. It allocates resources effectively.

4. It identifies the business that helps to meet a mission.

■ **Demerits of Strategic Planning:**

1. A basic problem in strategic planning is the period for which plan is to be formulated.

2. Strategic planning is expensive. Organisation should not plan for a longer period than is economically justifiable.

3. The commitment principle implies that long-range planning is not really planning for future decisions but rather planning for the future impact of today's decisions.

8.12 Summary:

Planning bridges the gap between the present and the future. Planning helps managers to do things in an orderly way. It is a managerial function and also an independent process and goal oriented. It forms the basis for other functions. It helps to achieve targets, minimises uncertainty. Identifying opportunity, defining goals, considering the planning identifying alternatives, evaluating the alternatives choosing the best alternative formulating and communicating plans are the steps in the planning process. Objectives, policies, procedures, rules, regulations, programmes, strategies, Budgets are the types of plans. Strategic planning is the process of detemining by the top level management, the ways and means of pursuing long term plans. On the other hand planning is a costly process, it may promote rigid behaviour and tends to be inaccurate.

8.13 Glossary:

1. ***Planning:*** Thinking before doing
2. ***Controlling:*** Comparision of actuals with plans to know the differences, and causes of differences.
3. ***Strategies:*** Strategy is a special kind of plan formulated in order to meet the challenges of competitors.
4. ***Budget:*** A Budget is a plan expressed in numericals.
5. ***Strategic Planning:*** Long term planning.

8.4 Self Assessment Questions:

- **Five Marks Questions:**

1. What is meant by Planning?
2. Relation between Planning and Controlling.
3. Rules Vs Programmes.

- **Ten Marks Questions:**

1. What is Plan? What are its features?
2. Explain the importance of Planning?
3. Explain Strategic Planning?

- **Twenty Marks Questions:**

1. Explain Merits, Demerits and Limitations of Planning?
2. Explain Types of Plans?
3. Explain Stages in Planning?

8.15 Books Recommended:

1. Industrial Organisation & Management.
   - R.K.Sharma & Shashi K.Gupta.
2. Principles of Management.
   - Harold Koonty & Curil O'Donnell.
3. Principles of Management.
   - P.C.Tripathi & P.N.Reddy.
4. Principles of Business Organisation & Management.
   - P.N.Reddy & S.S.Gulshan.

- Dr.K.Kanaka Durga.