BUSINESS ORGANISATION

INTRODUCTION

Introduction

- Meaning and definition of business essentials & scope of business Classification of Business Activities, Meaning, Definition, Characteristics and objectives of Business Organisation, Evolution of Business Organisation . Modern Business, Business & Profession.

HUMAN ACTIVITIES

- Human Activities can be classified into two categories viz.
  1. Economic Activities and
  2. Non-Economic Activities.

1. Economic Activities

- The Activities related to production, Exchange, distribution and consumption of wealth are known as Economic Activities
- These Activities may be undertaken to produce something for or consumption or to earn income to buy goods from the market.
- For example- A doctor attending to his patients and a shopkeeper selling goods to his customers.

2. Non- Economic Activities

- All human activities which are related to wealth or assets are known as non economic activities.
- Those activities which are related to social welfare are termed as non-economic activities.
- These activities takes initiatives to satisfy sentimental pleasures.
- Activities involved are social, charity, etc.

Types of Economic Activities

1) Profession
2) Employment
3) Business

1. Profession

- The term profession refers to the activities which require special knowledge and skill to be a master by individuals in their work for a living.
- For example- Doctors are engaged in medical profession, Lawyers are engaged in legal profession, teachers are engaged in teaching profession etc.

2. Employment

- When a person works regularly for another person and gets salary in return he is said to be in employment.
- For example- companies appoint managers, hospitals appoint doctors or any enterprise appoints employees.

3. Business

- The term business means the state of being busy.
- Business refers to a set of organised activities for production of various goods and services and their exchange for money.
- This way business creates utilities by producing and selling goods and services to satisfy human wants.
- Thus business includes all activities connected with production, trade, banking, insurance, finance, agency, advertising, packaging and other related activities.

Definition of Business

According to F.C. Hooper

" The complex field of commerce and industry, the basic industry's like processing and manufacturing industries and network of service, distribution, banking, insurance, transport and so on which serves the world of business".

Nature of business

1) Sale or exchange of goods and services.
2) Regularity or continuity of dealing
3) Profit motive
4) Risk and uncertainty
5) Social Objectives

Objectives of business

1) Economic Objectives
2) Social Objectives
3) Human Objectives
4) National Objectives

1. Economic Objectives

i. Earning Adequate profits
ii. Exploring New Markets
iii. Innovation

2. Social Objective

i. Generation of Employment
ii. Production of standard quality goods
iii. Providing goods at reasonable prices
iv. Fair return to investors
v. Contribution to community development

3. Human Objective

i. Fair Deal with employees

ii. Participation of Management

iii. Job Satisfaction

4. National Objective

i. Social Justice
ii. Production according to national priorities
iii. Regular payment of taxes
iv. Proper use of national resources

Business Organisation

- The modern society is a society of organisations. Organisations affect our from childhood to adulthood to old age.
- A child takes birth in an organisation (hospital), attains education in an organisation (Schools / colleges), earns lively hood in an organisation(corporate/ non corporate world) and meets his daily requirements also through organisations (those producing and selling goods and services).
- Our constant interaction with organisations (business/ non business) makes the need to study organisations essential and important.
- Organisation is a collective group of people who work together on a continuous basis in order to achieve an intended goal.

Definition of Business organisation

- **According to Chester Barnard-**

"Organisation is a system of consciously coordinated activities or forces of two or more persons".

- **According to SP Robbins-**

" An organisation is a consciously coordinated social unit, composed of two or more people, that functions on a relatively continuous basis to achieve a common goal or set of goals".

Features of business organisation

1) It is a unit composed of two or more people.
2) The people who make an organisation share common values, beliefs and goals.
3) It has a separate identity; distinct from its members. It can enter into agreements in its own name.
4) It is always a goal oriented. The goal may, however, be profit or service.
5) Though goals of members are subordinate to those of the organisations, every organisation strives to maximise both individual and organisational goals.

Types of Business Organisation

1) Business and Non-Business organisation
2) Primary and Secondary organisation
3) Formal and Informal organisation

Functions of Business Organisation

1) Production Function
2) Marketing Function
3) Finance Function
4) Personnel Function

BUSINESS ORGANISATION

Establishing a new business unit

ESTABLISHING A NEW BUSINESS UNIT

One of the most important decision taken by entrepreneurs is the selection of a suitable form of ownership organisation. Since business organisation vary, no single form of organisation can be considered as the best for all kind of business.

Thus while selecting a business organisation *some of the factors* must be kept in mind which are as follows:-

Factors are:-

i. Easy formation
ii. Location
iii. Capital requirement
iv. Continuity and stability
v. Line of business
vi. Low tax burden
vii. Government control
viii. Need of secrecy

i. Easy Formation

- An ideal form of ownership should be easy to form.
- Ease of formation means absence of legal and other formalities and least expense in formation.
- For example joint stock companies are hard to form because many formalities have to be performed at the time of its establishment.
- On the other hand, sole proprietorship and other partnership business can be started without any formalities.
- A business man who is not capable of observing more formalities should leave the idea of establishing a company.

ii. Location

- Business enterprise has to decide about the place where he will set up the business.
- He chooses that place where total cost of production and distribution is minimum.
- Transportation, banking, labour, insurance, warehousing, credit, research facilities etc. affect choice of region and community.
- Light, air, water, drainage system, cost of land, climate, postal services etc. affect choice of the site where business will be set up.
- Location decision are important as they cannot be easily changed because it requires spending huge amount of time and money.

iii. Capital Requirement

- In business, capital investment is the most important factor.
- The capital requirement depends on the size and nature of business.
- For example, a manufacturing concern requires more capital than a retail shop.
- Sources from where the funds will be raised.
- Raised funds at the right time at minimum cost.
- After having estimated the capital requirement, the form of business organisation should be selected.
- For less capital, proprietorship business is suitable
- For more capital, big organisation is suitable.

iv. Continuity and stability

- A successful enterprise must enjoy uninterrupted existence over a long period of time.
- Only a suitable firm can provide continuous employment to workers and sufficient returns to owners.
- For example, company form business organisation have no effect of joining and quitting of members.
- Whereas, proprietorship business ends with the death of the owner.
- Hence, from the point of view of continuity and stability company organisation happens to be more suitable.

v. Line of business

- Business entrepreneur determines the nature and type of the product he wants to manufacture.
- Profitability of the product is determined by conducting risk- return analysis with respect to different product lines and the amount of capital required for each product line.
- Business lines are largely affected by business opportunities and ideas

vi. Low tax burden

- Profits are subject to tax.
- An ideal form of organisation is the one that pays minimum tax on profits.
- The tax liability of company is more as compare to sole proprietorship.
- The small size of business will result in small tax liability.
- From the point of view sole proprietorship and partnership business are more useful forms of business organisations.

vii. Government control

- An ideal from of ownership is free from strict legal regulations in its day to day to operations.
- Observance of too many regulations involves expense of time and money.
- From this point of view, sole proprietorship and partnership firms are more preferable.

viii. Need of secrecy

- If secrecy of business is required, sole proprietorship permits maximum business secrecy.
- In a partnership secrets can be kept by selecting partners with utmost care.
- But a company is under legal obligation to disclose important information to the shareholders and public.

Business plan

- Business plan is not a business luxury.
- It should be made by both big and small business organisations.
- It is a business tool that shows purpose of the business and what it intends to achieve.
- It provides written picture of ***'WHY'***, ***'HOW'***, and ***'WHEN'*** the business will be built.

Definition of business plan

According to Robinson -

"A business plan is blueprint for building or expanding a business. It is a written document articulating what the business opportunity is; why the opportunity exists; what strategy, actions and resources are necessary to seize it".

Purpose (use) of Business plan

1. Start the Business
2. Expand the business
3. Develop new products
4. Obtain new funds
5. Management decisions
6. Maintain Control

Outline of business plan

1) Title Page
2) Table of contents
3) Executive Summary
4) Business/Industry description
5) Product or service description
6) Organisational data
7) Marketing Strategy
8) Competitive Analysis
9) Operations plan
10) Financial Information

Analysis of business plan

1) Market Analysis
2) Financial Analysis
3) Technical Analysis
4) Economic Analysis
5) Environmental Analysis

1. Market Analysis

- Market Analysis is important to require information on:

i. Consumption trends

ii. Past and present supply position

iii. Production possibilities and constraints

iv. Imports and exports competition

v. Cost structure

vi. Elasticity of demand

vii. Consumer behaviour, intentions, motivations, attitudes, preferences and requirements.

2. Financial Analysis

While conducting a financial analysis certain aspects has to be looked into like:

i. Investment outlay and cost of project
ii. Means of financing
iii. Project profitability
iv. Break-even point
v. Survival in depression
vi. Reduction in bed debts

3. Technical Analysis

i. Input Analysis
ii. Process Analysis
iii. Output Analysis

4. Socio-Economic Analysis

i. It is undoubtedly desirable for business firms to earn profits but it should not be the sole objectives of the business.

ii. All projects are not backed by profit motive, some are for social welfare also.

iii. Those projects which create infrastructure for growth and promote industrialisation of the country.

iv. Irrigation, power , energy, communication, transport, banking, insurance etc. are helpful for the growth of society and economy.

5. Environmental Analysis

- What is the likely damage caused by the project to the environment?
- What is the cost of remedies required to ensure that the damage to the environment is contained within acceptable limits?

FORMATION OF A COMPANY

Formation brings a company into existence through compliance with legal procedure. The procedure or stages in the formation of a company consists of the following four steps:

1) Promotion
2) Incorporation/ Registration
3) Floatation/ Capital Subscription
4) Commencement

1. Promotion

Meaning-

- Promotion Involves taking preliminary steps for the formation of company.
- It begins with conception of an idea to form a company.
- After the idea is conceived, it involves detailed investigation about testing the profitability of the idea.
- If the idea appears feasible, it involves assembly of resources, physical and financial, to launch the business enterprise.
- Thus, promotion is putting an idea into practice.

Process of promotion

- The process of promotion involves the following steps:

1) Exploring the business opportunities
2) Assembling Resources
3) Providing Finance

Promoter

1) Promoter is an individual, association, partnership or a company that carries out the process of promotion.
2) They are the persons who originate the idea of forming a company, arrange resources, hold the various resources together, supervise the steps to form the company, get the memorandum and articles of association prepared, printed, executed and registered, and make arrangements with brokers, bankers, and legal advisors.
3) Promoter is a person " who undertakes to form a company with reference to a given project, and to set it going, and who takes the necessary steps to accomplish that purpose."

4) According to Section 62(6)(a) of the companies Act, the expression “promoter” means a promoter who was a party to the preparation of the prospectus or the portion thereof containing the untrue statement, but does not include any person by reason of his acting in a professional capacity for persons engaged in procuring the formation of the company.

Functions of Promotors

1) They originate or conceive the idea of forming of a company.
2) They make arrangements with people who have funds to convert the idea into reality.
3) They seek the opinion and guidance of experts and legal advisors to test the economic and legal significance of the proposed project.
4) They satisfy consumer needs by producing the desired goods and services.
5) They benefit the society by providing them employment opportunities.
6) They arrange with bankers, brokers and legal advisors.

2. Registration/ Incorporation

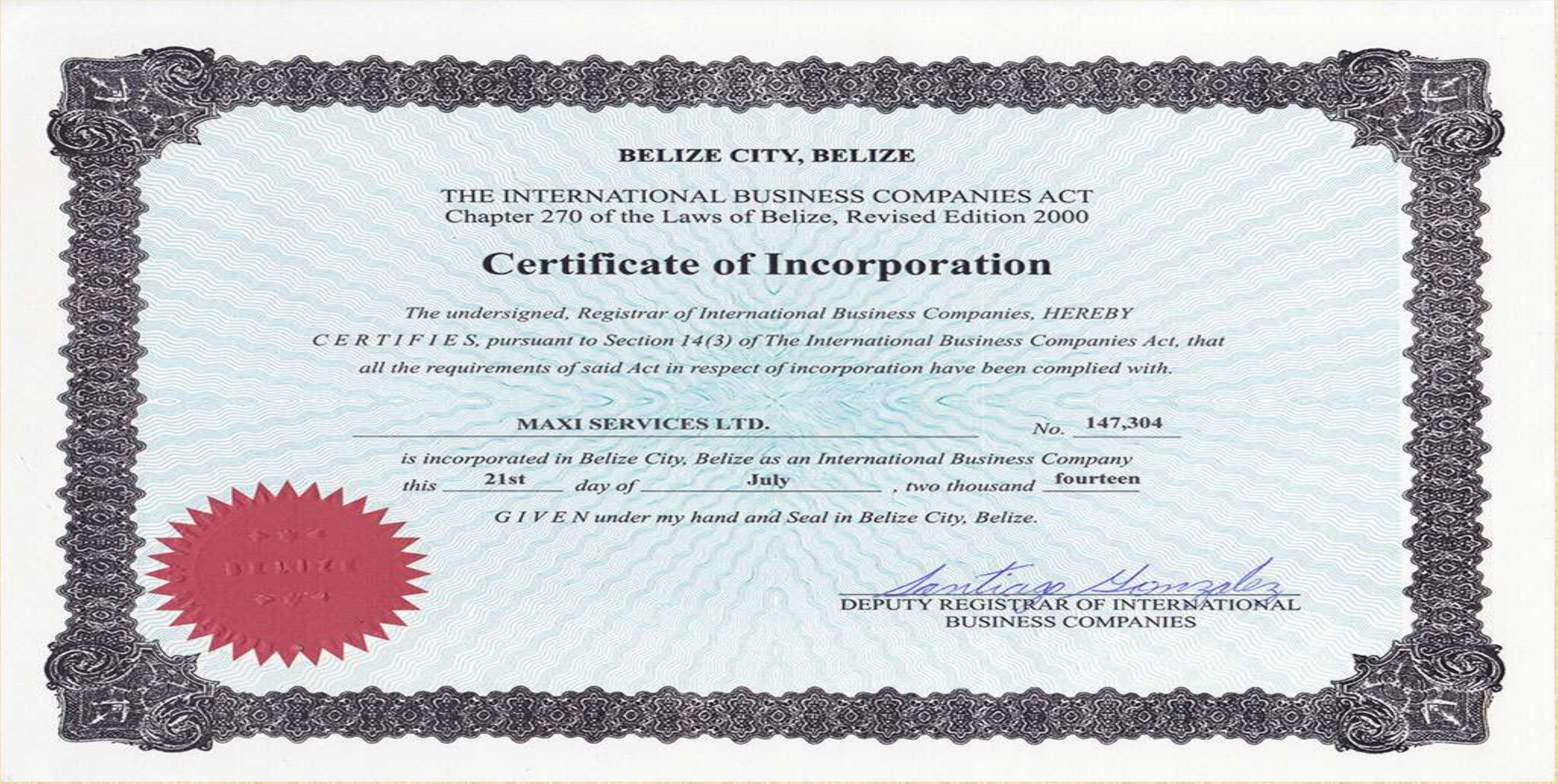
- Incorporation of a company is the second stage of the company formation.
- Incorporation is the birth of company when it is consolidated in one body.
- Any seven or more persons can form a public company and any two or more persons can form a private company

Steps involved in Incorporation

1) Type of Company
2) Availability of name
3) Preparation of memorandum and article of association
4) Vetting of documents (Printing, signing, and stamping of M/A and A/A)
5) Power of Attorney
6) Other documents to be filed (Consent & particulars of directors, Registered address of the company, Declaration etc.)

7) Payment of Registration fees
8) Payment of filing fees

Examples of certificate of incorporation



BELIZE CITY, BELIZE

THE INTERNATIONAL BUSINESS COMPANIES ACT
Chapter 270 of the Laws of Belize, Revised Edition 2000

Certificate of Incorporation

The undersigned, Registrar of International Business Companies, HEREBY C E R T I F I E S, pursuant to Section 14(3) of The International Business Companies Act, that all the requirements of said Act in respect of incorporation have been complied with.

MAXI SERVICES LTD. *No.* 147,304

is incorporated in Belize City, Belize as an International Business Company this 21st *day of* July *, two thousand* fourteen

G I V E N under my hand and Seal in Belize City, Belize.

BELIZE

Santiago Gonzalez

DEPUTY REGISTRAR OF INTERNATIONAL
BUSINESS COMPANIES

प्रारुप 1

पंजीकरण प्रमाण–पत्र

कॉर्पोरेट पहचान संख्या : CIN Number 2008 - 2009

मैं एतदद्वारा सत्यापित करता हूँ कि मैसर्स

Name of the Company

का पंजीकरण, कम्पनी अधिनियम 1956 (1956 का 1) के अतंर्गत आज किया जाता है और यह कम्पनी प्राइवेट लिमिटेड है।

यह निगमन-पत्र आज दिनांक नौ जून दो हजार आठ को मेरे हस्ताक्षर से कानपुर में जारी किया जाता है।

Form 1

Certificate of Incorporation

Corporate Identity Number : CIN Number 2016-17

I hereby certify that Name of the Company is this day incorporated under the Companies Act, 1956 (No. 1 of 1956) and that the company is private limited.

Given under my hand at Kanpur this Nineth day of June Two Thousand

(SEHAR PONRAJ A)

सहायक कम्पनी रजिस्ट्रार / Assistant Registrar of Companies

उत्तर प्रदेश एवं उत्तरांचल

Uttar Pradesh and Uttranchal

कम्पनी रजिस्ट्रार के कार्यालय अभिलेख में उपलब्ध पत्राचार का पता :

Mailing Address as per record available in Registrar of Companies office:

Name of the Company & Address for mailing

3. Floatation/ Capital Subscription

- A Private company and a public company without share capital can commence business after obtaining the certificate of incorporation.
- A Private company cannot invite public to subscribe to its share capital. The capital is obtained from private sources, such as friends, relatives, banks etc.
- A public company without share capital may also arrange for capital from private sources.
- A public company with share capital, however, raises money by inviting public to subscribe to its share capital.

4. Commencement

- A private company is formed after obtaining the certificate of incorporation. It need not obtain the certificate of commencement. A Public company comes into existence after obtaining the certificate of commencement.
- A public company having share capital must obtain certificate of commencement from the Registrar of companies before it can commence its business, To obtain the certificate of commencement, a company is governed by the provisions of:

i. Section 149(1), if the company has issued the prospectus.

ii. Section 149(2), if the company has not issued the prospectus.

Examples of certificate of commencement

No. CB-1,130 TIN

COMPANIES CODE, 1963

REPUBLIC OF GHANA

CERTIFICATE TO COMMENCE BUSINESS

I hereby certify that

ROUTES TRANSPORT LIMITED

having complied with the provision of Sections 27 and 28 of the Companies Code, 1963 is entitled to commence business with effect from

29th March 2013

Given under my hand at Accra this 29 th day of March 20 13

Assistant Registrar of Companies

COMPANY NO.18-25555

Certificate For Commencement of Business

Pursuant of section 149 (3) of the Companies Act, 1956

I hereby certify that the TOWN BENEFIT FUND (KUMBAKONAM) LIMITED. *** *** ***

which was incorporated under the Companies Act, 1956, on the FIFTH day of AUGUST 19 93

and which has this day filed a duly verified declaration in the prescribed form that the conditions of section ~~149 (1) (a) to (d)~~/ 149 (2) (a) to (c) of the said Act, have been complied with, is entitled to commence business.

Given under my hand at MADRAS this TWENTYSIXTH day of AUGUST One thousand nine hundred and NINETYTHREE.

FOURTH BHADRA One thousand nine hundred and FIFTEEN (SAKA)

V. C. Dev

(V.C.DAVEY)

ADDL. Registrar of Companies.
Tamil Nadu

Registrar of Companies Tamilnadu

J. S. C. 10

MFP—1021 JS —12410—(C. 1068)—28-8-57—6,000


OMPANY NO.18-25555

Certificate For
Commencement of Business

Pursuant of section 149 (3) of the Companies Act, 1956

I hereby certify that the ***
***
***
was incorporated under the Companies Act, 1956.
day of AUGUST 19
declaration in

Documents for Formation of a company

Documents to be filed with Registrar of companies for formation of a company are:

I. Memorandum of Association
II. Articles of Association
III. Prospectus

I. Memorandum of Association

i. It Provides foundation to the company.
ii. It defines constitution of the company and lays down its objects, powers and limitations.
iii. It contains objects of the company amongst its clauses, and, therefore, defines the scope of its operations .
iv. Not only it define but also confines the powers of the company, that is, the limitations on the exercise of its powers.
v. Shareholders knows the area where there money will be invested.
vi. It also helps the outsiders (creditors, suppliers etc.) to know the company’s range of activities.

Definition

According to Section 2(28) of company Act:-

"Memorandum means the memorandum of association of a company as originally framed or as altered from time to time in pursuance of any previous company laws or of this act."

According to Lord Macmillan"-

"The purpose of the memorandum is to enable the shareholders, creditors and those who deal with the company, to know what it is permitted range of enterprise."

Contents of M/A

- Section 13 sets out the contents of the memorandum. The documents must contain the following clauses:

1) Name clause
2) Registered office clause
3) Objects clause
4) Liability clause
5) Capital clause
6) Subscription clause or Association clause

Example of M/A

II. Articles of Association

i. A/A is a document subordinate to M/A.
ii. The A/A are the bye-laws of the company that explains its rules and regulations and the way its internal affairs will be conducted.
iii. They define the rights and powers of the company and its management.
iv. They also maintain contact between the company and its members and amongst members themselves.
v. Matters related to administration of a company, transfer of shares, appointment and duties of auditors etc. are governed by it's A/A.
vi. This is also known *as doctrine of indoor management*.

Definitions

According to section 2(2) of the companies act 1956:-

"A/A of a company as originally framed or as altered from time to time in pursuance of any previous companies law or of this act. It also includes the regulations contained in table A in schedule I of the Act, in so far as they apply to the company."

According to Lord Cairns:-

"The articles play a part subsidiary to the M/A. They accept the memorandum as the charter of incorporation of the company and the powers of the governing body as between themselves and the company at large, and the modes and form in which charges in the internal regulations of the company may from time to time be made."

Contents of A/A

- **Articles usually contain rules and bye-laws on matters like:**

i. Number and value of shares
ii. Allotment of Shares
iii. Transfer of Shares
iv. Voting rights
v. Dividends
vi. Borrowing powers
vii. Winding up
viii. Accounts and audits
ix. Appointment, qualification, powers etc. of directors
x. Meeting & rules regarding committees

Example

Articles of Association

Featured Infineon Technologies Ag Articles of Incorporation

Version February 2008

Articles of Association
of
Infineon Technologies AG

I. General Provisions

§ 1
Company Name, Registered Place of Business, Fiscal Year, Announcements

(1) The business name of the company is Infineon Technologies AG.

(2) The company's registered place of business is Neubiberg.

(3) The fiscal year runs from October 1 of each year until September 30 of the following year.

(4) Company announcements are made in the electronic version of the German Federal Gazette (*elektronischer Bundesanzeiger*), unless mandatory statutory provisions require them to be made in the printed version of the German Federal Gazette or in other media.

(5) The Company may also communicate information to shareholders of the Company as permitted by law using electronic media.

More at agreements.org

III. Prospectus

i. A Public company limited by shares raises money from the public through issue of prospectus.

ii. According to section 2(36). Prospectus means any document described or issued as a prospectus and includes any notice, circular, advertisement or other document inviting deposits from the public or purchase of any shares , debentures etc.

iii. A prospectus is an invitation to public by means of a document in the form of advertisement, circular or notice to subscribe for company’s shares or debentures or accept its deposits.

Importance of Prospectus

1. It invites public to subscribe for company's shares and debentures.
2. It is a document of faith and authenticity about company's past and present performance.
3. It provides important information about the company such as name, address, capital structure, management, objects, products etc.

Contents of prospectus

- **A prospectus must contain at least the following particulars:-**

i. Company's name and address
ii. The name and address of company promoters and their background
iii. The main objects of the company, its history and present business
iv. The name, address, occupation of manager, managing director and other directors.
v. The name and address of company secretary, legal advisor, auditors, bankers, brokers etc.
vi. Consent of directors, auditors, solicitors, managers to the issue, bankers to the company.

vii. The procedure and time schedule for allotment and issue of certificates.

viii. The rights, privileges and restrictions attached to several classes of shares.

ix. The amount payable on application and allotment of each share, along with detail about availability of forms, prospectus and mode of payment.

x. The name of regional stock exchange and other stock exchanges where application has been made for listing of present issue.

xi. The particulars of outstanding litigation and criminal prosecution.

xii. Management perception of risk factors.

xiii. Any special tax benefits for company and its shareholders.

Need for issuing a prospectus

a) The public gets to know that a new company has been formed.

b) The general investors get detailed information about the company.

c) The prospectus outlines the terms and conditions of issue of shares and debentures.

d) It briefly defines the business policies and programmes of the company.

e) The present financial position and the future prospectus of the company are highlighted.

Business plant location

- Every entrepreneur is faced with the problem of deciding the best site for location of his plant or factory.
- What is plant location? Plant location refers to the choice of region and selection of a particular site for setting up of business or factory.
- But the choice is made only after considering cost and benefits of different alternative sites. It is strategic decision that cannot be changed once taken.
- Businessman should try to make an attempt for optimum or ideal location.

Factors affecting plant location

1. Raw Material
2. Markets
3. Transportation
4. Labour
5. Finance
6. Climate
7. Communication
8. Power
9. Personal factors
10. Political stability
11. Natural factors
12. Government policy

Plant Layout

- The efficiency of production depends on how well the various machines, production facilities and employees amenities are located in a plant.
- Only the properly laid out plant can ensure the smooth and rapid movement of material, from the raw material stage to the end product stage.
- Plant layout encompasses new layout as well as improvement in the existing layout.
- It may be defined as a technique of locating machines, processes and plant services within the factory so as to achieve the right quantity and quality of output at minimum cost.

Definitions

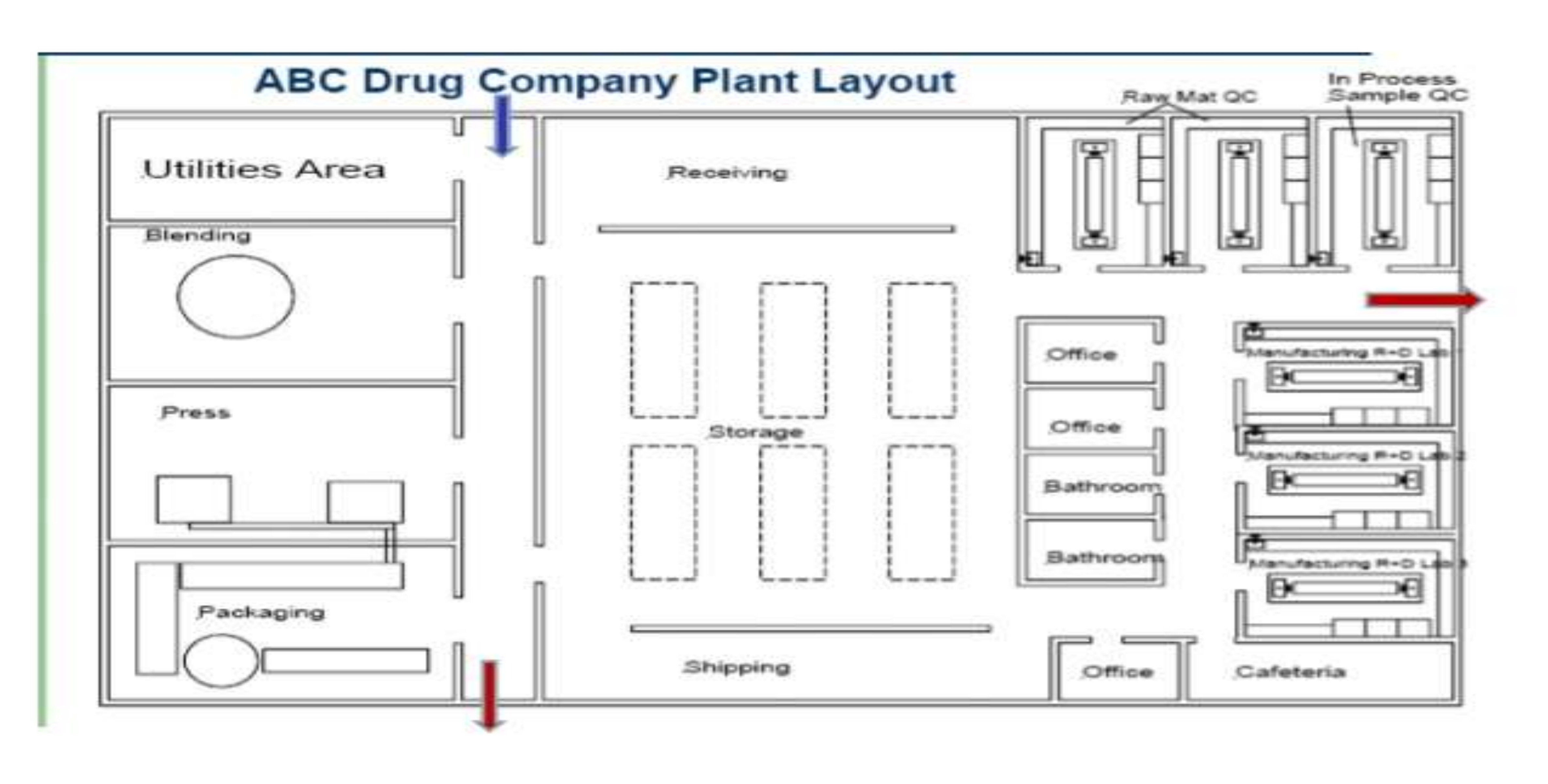
According to Prof. Riggs:-

"The overall objective of plant layout is to design a physical arrangement that most economically meets the required output- quantity and quality."

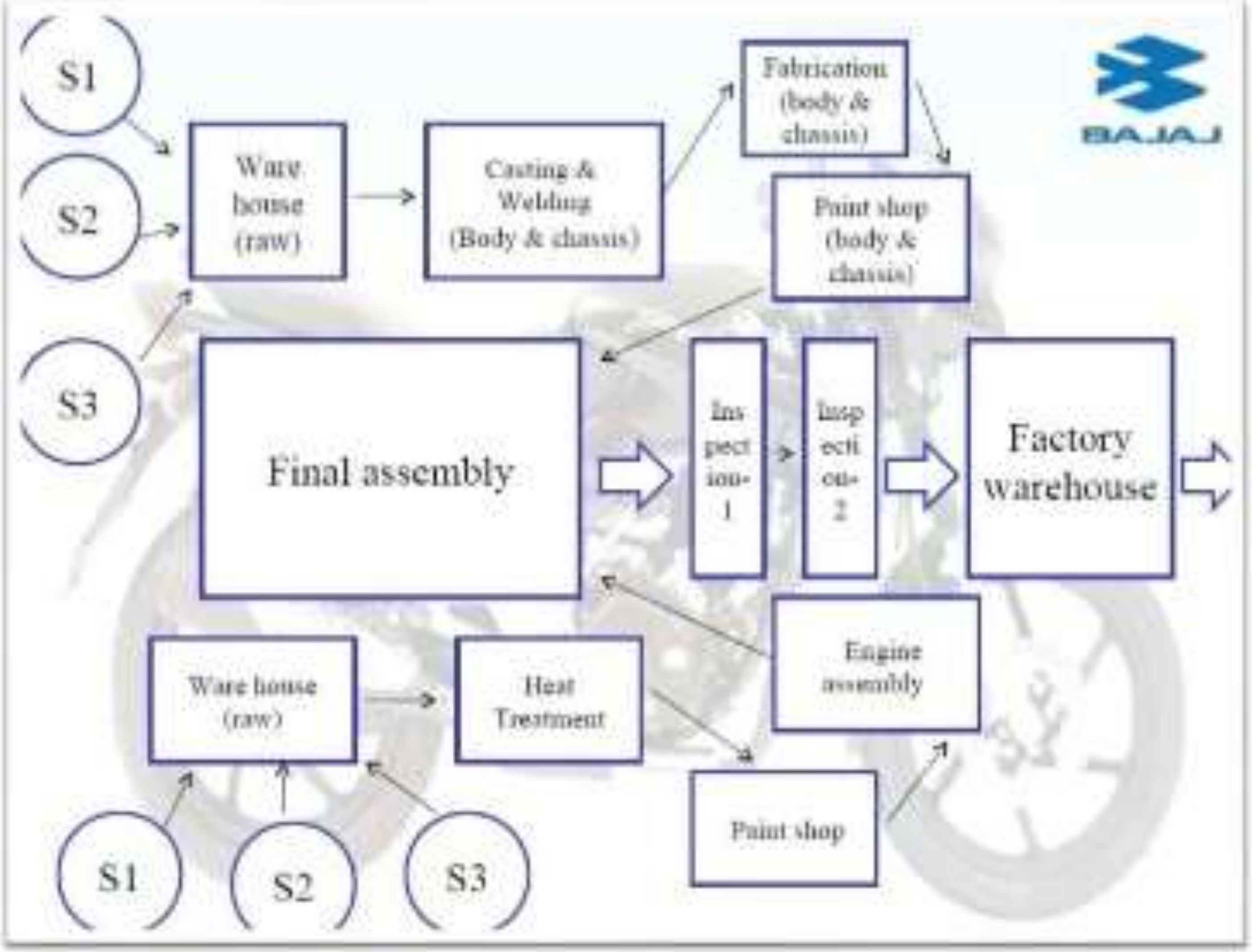
According to Prof. Haney:-

"Plant layout ideally involves allocation of space and arrangement of equipment in such a manner that overall operating costs are minimized.

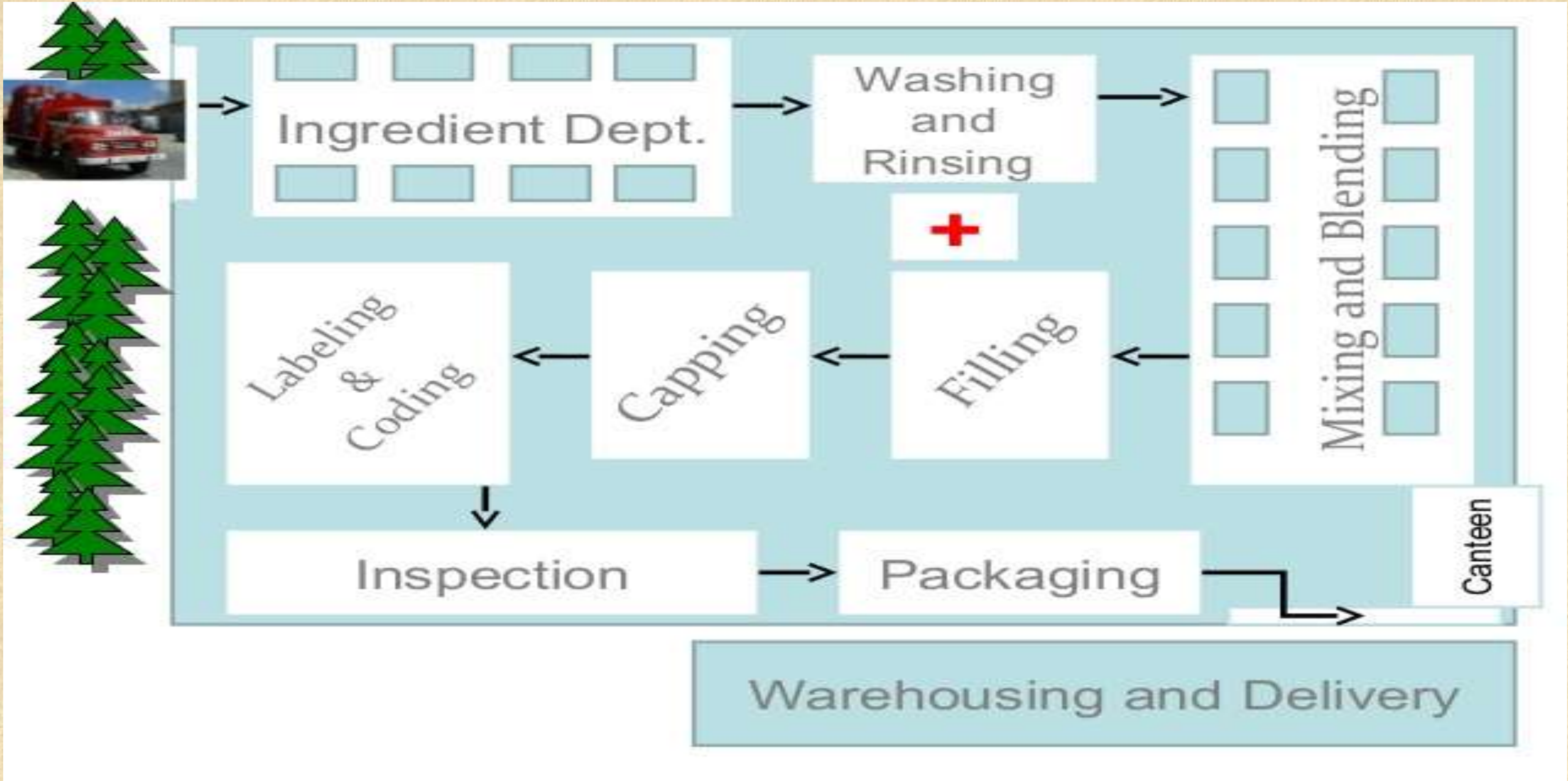
For example


ABC Drug Company Plant Layout
Utilities Area
Blending
Press
Packaging
Receiving
Storage
Shipping
Raw Mat QC
In Process
Sample QC
Office
Office
Bathroom
Bathroom
Office
Cafeteria

PLANT LAYOUT



Coke plant layout



Essentials for plant layout

An efficient plant layout is one that can be instrumental in achieving the following objectives:-

a) Proper and efficient utilization of available floor space

b) To ensure that work proceeds from one point to another point without delay

c) It Provide enough production capacity

d) Reduce material handling costs

e) It Utilize labour efficiently

f) It Increase employee morale
g) It Reduce accidents
h) It Provide ease for supervision and control
i) It Provide for employee safety and health
j) Allow high machine or equipment utilization
k) It Improve productivity
l) It improves quality of products
m) Good plant layout has a less movement of material

Types of Layout

Layout can be classified on the following basis:

I. Work-flow layouts

1) Product layouts/ Line layout
2) Process layout/ Functions layout
3) Fixed position layouts
4) Group layouts

II. Function Layouts

1) Storage layout
2) Marketing layouts
3) Projects layout

Factors Affecting Plant Layout

While designing a plant layout, the following factors should be kept in consideration:

1. Nature of the Product
2. Volume of products
3. Job design
4. Space requirements
5. Flexibility

6. Plant location
7. Manufacturing processes
8. Type of industry
9. Policies of the management
10. Basic amenities
11. Pollution free environment

Size of Business Unit

- Size of business means scale of business operations. Size determines the efficiency and profitability of business organisations.
- Business size may be large, medium or small.
- Ideal size optimizes entrepreneur's ability to raise funds, labour, raw material, manage the enterprise effectively and earn profits
- Though there is no exact standard for measuring size of the firm, general standards or criteria are as follows:-

1) Capital- It is an important standard to measure business size. Large firms usually need more capital. However, capital cannot be used as a suitable standard in labour intensive industries.

2) Labour- Size of a business can also be measured in terms of labour employed. This is a suitable standard where firms being compared are producing similar goods and are at the same growth level.

3) Power- Generally a firm that consumes more power is a large firm and the firm that consumes less power is a small firm. However this may not always be true as large sized labour intensive firm use less power.

4) Volume of output- A large sized firm generally produces more output than a small sized firm. However, small business units are expanding and growing at such fast rate that volume of output of some of the small firms is more than that of large firms.

5) Amount of material used- Amount of raw material used for producing goods is a good measure of size except where firms being compared are producing different varieties of goods.

6) Technology- Technological progress requires huge investment in research and development. Technological advancement can be used as a measure of size.

7) Utilisation of capacity - Plant utilisation capacity is a standard for measuring size when firms are producing similar products.

Factors affecting business size

1) Nature of the product
2) Nature of industry
3) Nature of demand
4) Economies of scale
5) Process of production
6) Financial requirements.
7) Managerial and organising ability

BUSINESS ORGANISATION

Forms of Business Organisation

FORMS OF BUSINESS ORGANISATION

1) SOLE PROPRIETORSHIP
2) PARTNERSHIP
3) JOINT STOCK COMPANIES
4) CO-OPERATIVES

1. Sole proprietorship

Meaning-

- It also called by the name sole trading concern.
- It may be defined as a form of business that is owned, managed and controlled by an individual.
- He arranges the capital for the business and has the sole responsibility of managing its affairs.
- All the profits and losses of the business are to be borne by him alone.

- A sole proprietorship form of business is the easiest and the simplest form of business organisation and it does not involve much legal formalities to be compiled with.
- The person who carries on sole proprietorship is known as sole proprietor,
- For example, to start a small shop or a small factory or a restaurant- only the permission of the local authorities is sufficient.

Definitions

- **According to J.L Hanson:-** *"Sole proprietorship is a type of business unit where one person is responsible for providing the capital, for bearing the risk of the enterprise and for the management of the business."*

- **According to Kimball and Kimball:-** *"Sole proprietorship is a form of business where the individual is the supreme judge of all matters pertaining to his business."*

Features/characteristics

i. ***Single ownership-*** The business is owned by a single owner. He provides the necessary capital and also manages it alone.

ii. ***One man control-*** The sole proprietor controls all the decisions with respect to products to be produced, the sources from where funds will be raised etc. He has the ultimate authority and responsibility for all the decisions that he takes. He may, however, appoint a manager to help him in the business.

iii. ***Risk-*** The sole proprietor bears the risk of his business alone. He is the sole owner of the profits of his business and also shoulders the losses alone.

iv. ***No legal formalities-*** No legal formalities are required to start, manage and dissolve sole proprietorship business. In certain cases, a license is required to be obtained for starting the business.

v. ***No separate entity-*** This form of business does not have any entity separate from the owner. The proprietor and the business are one and same.

vi. ***Unlimited liability-*** The liability of the proprietor is unlimited. He is liable for all debts and loans of the business. If the business assets are insufficient to pay his business debts , his personal assets can be used for repayment of the debt.

Unlike in joint stock companies where partners or owners are having limited liabilities which means they are not liable to sell out their personal assets, all the debts have to be paid by business or company only.

SOLE PROPRIETORSHIP

	Advantages	Disadvantages
1. Formation & Dissolution	Very easy to form/dissolve. It can be easily changed into partnership, ltd company etc.	If he/she dies then so does the business
2. Management & finance	Sole traders have full control of how business is run. Decision making is quick. Financial records do not have to be revealed to the public.	Long working hours are common and holidays are difficult to arrange due to the commitment needed to be a successful sole trader. Can be difficult to raise all start up finance and as a result loans are required. They can be expensive on the business start ups
3. Profit & risk	Keeps all profit. Takes all the risk.	Takes all risk. They have unlimited liability. They may lose assets in the event of a debt needing to be paid.

Suitability of sole proprietorship business

- Where the risk is not extensive ,i.e., automobiles repair shops, etc.
- Where the financial resources required are relatively small; i.e., retail shop, small bakery, etc.
- Where quick decisions are involved .
- Where personal attention to customers is of prime importance; i.e., tailoring shop, beauty parlour, etc.
- Where special attention is to be given to the personal tastes and preferences of the customers. i.e., job of stock broker, doctor, advocate etc.
- Where the demand of the product is seasonal, local and temporary, i.e., vegetable shop, fruit seller, dry cleaning, etc.
- Where fashion changes quickly, i.e., art goods, hair dressing, clothes etc.

2. Partnership

Meaning -

- When a sole proprietor expands his business, he may find it difficult to provide the necessary funds and managerial skills beyond his present capacity. He, thus prefers to convert his business into partnership. Partnership is thus an expansion of sole proprietary business.
- Two or more persons join together to carry on a business and share its profits and losses in a given ratio. They jointly contribute capital and managerial skills to run that business.
- Minimum 2 members and maximum 100 members are required to from partnership firms.
- They agree to share the capital, management, risk and profits of the business.
- The terms and conditions on which partners agree to work are contained in an written agreement known as **'partnership deed'**.

Definitions

- **According to section 4 of Indian partnership Act, 1932:-** "Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all."

- **According to Kimball:-** "A group of men who have joined capital or services for the prosecuting of some enterprise."

Features of Partnership

- **Membership :-** There must be at least two competent persons to form a partnership. As regards the maximum number of partners in a firm, section 11 of the companies Act, 1956 provides that the number of partners in a firm carrying on banking business should not exceed 10 and in any other business 20. But according to new Company's Act'2013 the maximum no. of members should not be more than 100 in case of other than banking business.

  If the number of partners exceeds this limit, the partnership becomes an illegal association and it ceases to be a partnership if the number gets reduced to one due to any reason.

- **Agreement between the partners :-** Partnership comes into existence through an agreement. There is an oral or written agreement amongst partners to start a business and share its profits or losses.

- **Profit sharing ratio :-** The agreement to enter into partnership is generally supported by a partnership deed. The deed specifies the ratio in which partners agree to share profits and losses of the partnership firm.
- **Unlimited liability :-** Partners of the partnership firm have unlimited liability. They are jointly liable for the debts of the firm. Their personal assets can be used to pay off firms debts.
- **Formation :-** Formation of a partnership is governed by the provisions of the Indian Partnership Act, 1932.
- **Control:-** The business is controlled by all the partners together. They are jointly liable for the management and control of the firms business.
- **Secrecy:-** Secrecy of accounts is maintained amongst all the partners. Accounts need not to be disclosed to outsiders.

Registration :- If the firm in not registered in any government office, then it may result in many consequences like in that case it will not be possible for any unregistered firm to file a suit against any other firm, third party or other partners. Due to these consequences, it is advisable to have the firm registered in the concerned authority.

As per the Indian Partnership Act'1932, the partners can register with the registrar of the firms of the state in which the firm is located. The registration can be done at the time of formation or at any time during its survival. The procedure for registering a firm is as follows:-

The application has to be submitted in the prescribed format to the registrar of the firms. The application should contain the following procedures:

- Name of the firm
- Location of the firm

- Name of other places where business is carried on by the firm.
- The date of joining each partner in the firm.
- Name and addresses of the partners.
- Duration of the partnership
- The application should be duly signed by all the partners.
- Deposit of necessary fees with the registrar of the firms.
- The registrar on approval will make entry in the register of the firms and will subsequently issue a certificate of registration.

Partnership

	Advantages	Disadvantages
1.Formation & Dissolution	Easy to form. You can start immediately, however if business name is different to that of partners you must register the company name.	If a partner leaves or a partnership ends a new partnership must be agreed.
2. Management & finance	Decision making is shared. Responsibility is shared. Financial details not open to be viewed by public	Disagreements can easily occur. If someone dies the business is discontinued.
3. Profit & risk	Extra capital available to finance the business	Unlimited liability, each partner is responsible for the debts of the business Profits must be shared between partners

Types of partnership firms

- **Partnership at will :-** This partnership firm is created at the will of its partners. It does not specify the period for which it is formed. Any one of the partners can give notice to the firm that he wants to withdraw from the firm and the firm, thus, dissolves. Partnership at will, therefore, is formed when the partners want to form it for any purpose and is dissolved when the partners want to dissolve it.
- **Particular Partnership:-** This partnership firm is formed for a particular period or a particular venture. When that period or venture comes to an end, the partnership firm automatically comes to and end.

- **Limited partnership:-** With at least one or more partners with unlimited liability, limited partnership is the one where rest of the partners have limited liability. Their liability is limited to the amount of capital contributed by them. Their personal assets cannot be used to pay the firm's debt. These partners cannot take part in the management of the firm and cannot be act on behalf of the firm or other partners. They can, however, inspect the books of account of the firm. He can withdraw or transfer his interest in the firm any time he wants with the consent of partners with unlimited liability.
- **General partnership:-** The liability of each of the partners is unlimited except that of the minor. Except the share of the minor partner whose share is limited to that of his capital contribution, personal assets of rest of the partners can be used to pay off the firm's debts.

3. Joint Stock Company

Meaning-

- Joint stock company evolved as a suitable form of business organisation to operate at large volume of business along with benefits of raising of capital, unlimited liability and pooling of managerial skills.
- Company is that form of business organisation which is willingly established by some persons for earning profit under the companies Act. Many persons jointly invest capital in a company and, therefore it is also called joint stock company.
- Company is a corporate body. It forms after it is registered under the companies Act, 1956.
- It is voluntary association of members who contribute capital which is divided into small units known as shares. Members who buys these shares are known as shareholders and collectively, the capital contributed by them is known as share capital.

- Huge amount of funds can be collected as members have limited liability. In the event of losses, the maximum amount they lose is their capital contribution.
- A company enjoys a status, distinct from its members. It has a name of its own and can enter into contracts in its own name. It operates through its seal. A seal serves the purpose of company’s signature.
- It has a perpetual life. Incoming and outgoing of members does not affect the existence of a company.
- It is the creation of law and can be dissolved only by law.

Definitions

- **According to section 3 (i) of Indian Companies Act, 1956:-** *" Company means a company formed and registered under this Act or an existing company".*

- **According to Prof. Haney:-** *"A company is an artificial person, created by law having a separate entity with a perpetual succession and a common seal".*

Features/Characteristics

- **Incorporated association :-** A company comes into existence through legal compliance with the provisions of company Act. It has to be registered under the companies Act, 1956.Also, registration provides the status of domicile to the company.
- **Separate legal entity:-** A company has a separate legal entity, which is not affected by changes in the membership. Therefore, being a separate entity, a company can contract, sue and be used in its corporate name and capacity.
- **Limited liability:-** Every shareholder of a company has limited liability. His liability is limited to the extent of the unpaid value of the shares held by him. If such shares are fully paid up, he subject to no further liability.
- **Capital:-** Huge amount of capital can be raised by companies to spread their operations at a large scale.

- **Common seal:-** Company is not a natural person, hence it can sign the documents in the same manner as a natural person would do. In order to enable the company to sign its documents, it is provided with a legal arm called 'common seal'. The common seal is affixed on all documents by the person authorized to do so who in turn puts his signature for and on behalf of the company.
- **Perpetual Succession :-** A company has a continuous existence which the existence of a company. Its existence can be terminated only by law. Thus members may come and go but the company may go forever.
- **Share transferability:-** Shares of a public company are freely transferable. Share holders can transfer their shares whenever they want and to whosoever they want.

Merits of a company

- **Limited Liability:-** All members of the company have limited liability. They are not accountable for company's debt except to the extent of unpaid value on shares. Therefore, the risk is limited and known. Personal property of the shareholders can not be attached. This encourages the perspective shareholders to invest in the company.
- **Separate legal entity:-** Unlike a partnership firm- which has no existence apart form its members- a company is a distinct legal or juristic person independent of its members. Under the law, an incorporated company is a distinct entity.
- **Stability:-** Stability means continuity. The company shall continue to exist indefinitely till it is wound up in accordance with the provisions of the companies Act. "Members may come and members may go but the companies goes on forever." This feature attracts the investors, who plan their investment for a longer period.

- **Growth and expansion:-** company can organise business on large scale. As there is no shortage of funds, it can be build profits through large scale production economics. In other words, it offers good scope for self generating growth. It has good scope for expansion. Growth and expansion goes side by side. Availability of sufficient finance and managerial ability ensures expansion and growth.
- **Efficient management :-** The management of a company vests in the directors duly elected by the members. A company due to the nature of its operations requires the service of expert professional managers. Normally, experienced persons are elected as directors. Thus available skill is utilized for the benefit of the community.
- **Social advantage :-** It mobilises the savings of the society and invest in the company. Though the investment of the savings of the people company expands the business and provides employment to a large number of persons.

Limitations/ demerits of a company

- **Formalities and expenses :-** The formation of a company is very difficult and expensive. Various legal formalities are to be fulfilled. A number of documents are to be prepared and filed with the registrar. All this process is time consuming and expensive. In other words, this discourages the people from starting company.
- **Excessive government regulations:-** A company is subject to government regulations at every stage of its working. The internal working of the company is subject to legal restrictions regarding meeting, auditing etc. A company has to file regular returns and statements of its activities with the registrar of the companies. At every step, there is a penalty for illegal provisions.
- **Lack of personal interest :-** The day to day management of a company form of organisation is vested in the salaried persons or executives who do not have any personal interest in the company. This may lead to reduced employee motivation and result in inefficiency.

- **Delay in decision making and action :-** In large companies, decision making and its implementation are time consuming process. The most obvious reason for this being that the individual managers are unable to take decisions on their own. All important decisions are to be taken by the directors in their meetings. Further, after the decisions have been taken, they have to be communicated to people working at various levels of the organisation. This also delays the implementation of already delayed decisions.
- **Lack of secrecy :-** According to companies Act, a public company has to publish its accounts and deposit many important documents in the office of the registrar. Anybody can see these documents after paying the prescribed fee. In such a way nothing can remain a secret so far as the company is concerned whether it is vey important to keep some information as secret. This advantage is inherent in the sole traders and partnership business.

Type of Companies

- The companies may be classified into various types on the following basis-

(A) Classification on the basis of Incorporation

(i) Chartered Companies (ii) Statutory Companies (iii) Registered Companies

(B) Classification on the basis of Liability

(i) Companies limited by shares (ii) Companies limited by guarantee (iii) Unlimited Companies

(C) Classification on the basis of control

(i) Holding companies (ii) Subsidiary companies

(D) Classification on the basis of Ownership

(i) Government companied (ii) Non - government companies (iii) Foreign companies

(E) Classification on the basis of number of members

(i) Private company (ii) Public Company

Difference between private company and public company

S.No	Basis of distinction	Private company	Public company
1	Minimum Members	2	7
2	Maximum Members	200 (previously it was 50)	No limit
3	Shares transferability	Shares cannot be transferred	Shares are freely transferable
4	Prospectus	Cannot issue a prospectus	It can invite public to subscribe for shares or debentures through prospectus
5	Minimum directors	2	3
6	Commencement of business	After obtaining the certificate of incorporation	After obtaining the certificate of Incorporation and certificate of commencement
7	Use of word 'Limited'	It is compulsory to use the word 'private Limited' at the end of its name	Only the word 'Limited' is used at the end of its name
8	Invitation to the public	It cannot invite public to subscribe to its shares	It can invite the public to subscribe to its shares.
9	Paid up capital	It can be registered with a paid up capital of Rs 1 lakh	It can be registered with a paid up capital of Rs 5 lakh
10	Quorum	2	5

4. Co-operative Societies

Introduction-

- Cooperation means working collectively.
- Its first objective is social welfare.
- The basic principal of cooperation is inherent in the statement "Each for all and all for each."
- In other words, cooperative organisation is based on the principal that the small savings of different people should be collected, through a society to raise funds for purchasing goods in large quantity.
- It works on the principal to eliminate the middleman.

- A co-operative forms of business organisation is a voluntary association of persons for mutual benefits and it aims are accomplished through self help and collective effort
- A minimum of 10 persons are required to form a co-operative society. And maximum are unlimited.
- Co-operatives are registered under Co-operative Societies Act, 1912 or state co-operatives Act.
- The capital of a co-operative society is raised from its members by way of share capital. It can also obtain additional resources by way of loans from the state and central Co-operative banks.

Definition

- **According to section 4 of The Indian Co-operatives societies Act, 1912:-** *"A society which has its objectives – the promotion of economic interests of its members in accordance with co-operatives principles."*

- **According to Calvert-** *"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."*

Features/Characteristics

- **Voluntary association -** A cooperative organisation is totally based on voluntary membership. Persons having a common interest can join together to form an association. The members are also free to leave the association after giving a proper notice. After leaving membership the members gets back his capital according to the rules. Another important thing is that no member can transfer his share to another person.
- **Membership -** Anybody can join the co-operative society. There is no limit on the maximum number of members. There is no restriction on the basis of caste, religion etc.

- Capital - The co-operatives raise funds from members by issuing shares. However, the amount raised is not sufficient to meet their financial needs. They supplements their financial resources by raising loans from central and state co-operative banks. Government also provides grants to co-operative societies.
- Motive- Unlike other forms of business organisations, the primary objective of any co-operative society is to provide service to its members by earning fair profit.
- Democratic management - It is based on democratic system. Each member is entitled to a single vote. Here, the slogan is ‘one member, one vote’ irrespective of the number of shares held. Hence nobody can behave in an automatic manner in the management system simply by purchasing more shares. Members use their voting rights at the time of electing the board of management.

Merits

- **Easy to form-** A minimum of 10 members can voluntarily join together to form a co-operative society. Very few legal formalities are required for its registration.
- **Open Membership-** The membership of a co-operative society is open to all having a common interest. No body is debarred from joining on the basis of economic position, caste, colour or creed. A person can become a member at any time he likes and can leave the society by returning his shares without affecting its continuity.
- **Limited Liability-** Like company form of organisation, liability of members is limited to the extent of his capital contribution in co-operative societies also. They do not bear personal liability for the debts of the society.

- **Separate legal entity-** A Co-operative society has a separate legal entity. It is not affected by the death, insolvency, lunacy or otherwise of any of its members. It can sue and can be sued in its own name.
- **Economical operations-** Some of the expenses of management are saved by the voluntary services of its members and elimination of middleman. Therefore, the operation of a co=operative society is quite economical.
- **Assistance by government-** The co-operative societies receive full co-operation from the government in the form of lower rates of interest, subsidy, and tax reliefs.
- **Tax advantages-** A Co-operative society is exempt from income tax and surcharge on its earnings up to a certain limit. It is also exempt from stamp duty and registration fee.

Demerits/ Limitations

- **Limited funds-** The main disadvantage of this form of organisation is the shortage of funds. As we know that the members come from local areas, usually having limited means.
- **Excessive government control-** Co-operative societies are in control of government. This interferes the routine working of the society, political interference also effect the working of this form of organisation.
- **Lack of public confidence-** Generally the co-operative societies lack public confidence due to political interference. Many co-operatives are headed by political personalities.
- **Incompetent management-** Members normally do not have business experience. As a consequence, when they become the members of the board of directors, the society is not conducted efficiently.

Types of Co-Operative Societies

- **Co-operative societies are classified into different categories like-**

1) Consumers' Co-operative society
2) Producers' Co-operative society
3) Marketing Co-operative society
4) Credit Co-operative society
5) Farming Co-operative society
6) Housing Co-operative society

1. Consumers Co-operatives

- These co-operatives are formed by consumers who feel they are being overcharged by retailers. They make direct purchases from producers and sell them at reasonable prices to their members.
- Profits are distributed amongst members in proportion to capital contributed by them.
- Surplus profits are distributed in the form of bonus in proportion to purchases made by members.
- **For example-** *Apna Bazaar (started by some labors in 1948-Mumbai) , Kendriya bhandaar, Super Bazaar etc.*

2. Producers Co-operatives

- These co-operatives are formed to collect the inputs, producer outputs and sell them in the local markets. Profits are shared by the members or reinvested for further growth of these co-operatives.
- These co-operatives procure inputs (raw materials, tools, equipment's etc.) for their members and sell their outputs in the market.
- They help producers in improving the quality of their products and promote brand loyalty of their consumers.
- **For *example-*** *Handloom societies like APPCO, Haryana handloom etc.*

3. Marketing Co-operatives

- These co-operatives help in selling the produce of their members at lucrative prices in the market.
- Small producers who generally do not have attractive bargaining capacity in the market cannot fetch attractive prices for their products. They, therefore, become members of marketing co-operatives which sell their products at profitable prices and also provide a number of marketing facilities like transportation, warehousing, labelling, packaging etc.
- Elimination of middlemen and selling the goods of producers directly to consumers fetches attractive prices and profits.
- **For example-** *Gujarat cooperative milk society i.e. AMUL, Lizzat paapad, Indian Coffee house etc.*

4. Credits Co-operatives

- Members, who may be farmers or wage earners, with limited financial means form these co-operatives.
- Their capital contribution and deposits by members and outsiders constitute the financial resources of these co-operatives.
- The co-operatives use these resources to provide loans on easy terms to their members. Members are thus freed from being charged high rates of interests by other money lenders.
- These co-operatives also promote the habit of savings amongst their members. They operate in both rural and urban areas.

- These societies sometimes gives loan to the non members also.
- **For example-** *Rural co-operative banks, Urban co-operative banks, state co-operative banks etc.*

  Like- ***NCDC***- National Co-operative Development cooperation

  IFFCO- Indian Farmer's Fertilizers Cooperative limited

  KRIBHCO- Krishak Bharti Cooperative limited

  NABARD- National Bank for Agriculture and Rural Development

5. Farming Co-operatives

- These co-operatives are formed in rural areas where farmers own small pieces of land because of their division and sub-division.
- Small farmers pool their lands and jointly conduct their agricultural operations.
- Their objective is scientific organisation of agriculture on large scale so as to maximise agricultural output and improve the economic position of cultivators.
- Co-operative farming makes it possible for members to use modern tools and equipment's, goods, seeds, fertiliser and irrigation facilities in order to achieve higher production.
- These societies play a significant role in getting the members rid of the drawbacks of small scale farming.

<u>6. Housing Co-operatives</u>

- In cities where buying land and constructing houses is becoming too costly to be afforded by middle class families, housing co-operatives help them in acquiring residential accommodation at reasonable prices.
- These co-operatives buy land or houses from the municipal authority, construct houses on them and provide them to their members at reasonable prices.
- They may also provide land to members who can construct houses on their own. They provide land or houses on instalments also.
- These societies are gaining popularity in cities these days.
- **For example-** *Army welfare cooperative housing society, etc.*

co-operatives

	Advantages	Disadvantages
1.Formation	Must have a minimum of 10 members. They register with the REGISTRAR OF FRIENDLY SOCIETIES.	Can be quite difficult to form, time consuming and expensive.
2. Ownership	Co-ops mainly exist in the agricultural industry. Equal voting system exists regardless of the shares held. They file an annual financial return (report)	Conflict may exist between members in the need for business expansion.

3. Management & finance	Management of co-ops are inspired by a spirit of democracy and mutual co-operation.	In some situations finance can be difficult to raise. This can hinder growth.
4. Profit & risk	Members have limited liability. Large membership of co-ops make sure that there is high demand for goods	Profits must be shared amongst members. There may be reluctance to share profits with new members. Risk is quite minimal.

BUSINESS ORGANISATION

Business Combination

Meaning of Business Combination

- Combination means to combine or joining together.
- Business combination means combining two or more business units, producing different products or same products at different stages of production.
- A business combination occurs when two or more business firms co-operate with one another formally or informally for the purpose of attaining some common objective for example to stabilise prices and increase profits.

- Thus, business combination means two or more than two business units doing business collectively by securing their identity and earning maximum profit by collective strength.
- It is “a method of economic organisation by which a common control of greater or lesser completeness is exercised over a number of firms which either have operated or could operate independently. This control may be either temporary or permanent, for all or only for some purposes.”

Definition

- **According to L.H. Haney:-** “ *To combine is simply to become one of the parts of a whole, and a combination is merely a union of persons to make a whole or group for the prosecution of some common purpose.*”

Objectives of Business Combination

- **To avoid inter-firm competition :** In order to avoid inter-firm rivalry in the environment of competition and threat, business combinations overcome the threats and convert them into opportunities.
- **To seek avenues for growth:** Combining two or more firms has synergical effect of producing greater output at lower costs. Firms seek better business opportunities, invest larger sum of money and achieve higher growth rate than could have been achieved by them individually. Wasteful expenditure is avoided and converted into constructive investments.

- **Goodwill:** Combinations increase the size of operations, turnover and profits. Firms become large in size. Large firms with high turnover enjoy goodwill in the market.
- **Promotes cooperation:** Business combinations promotes cooperation instead of competition and group effort instead of individual effort. Unhealthy competition is reduces and coordinated effort increases productivity and profitability.
- **Financing:** Higher goodwill and better security resulting in more economical financing, ploughing back of profits, internal adjustments of funds, proper utilisation of capital, greater strength and stability during economic crisis etc.

Causes of Business Combinations

- To reduce competition
- Concentration of power
- Cut throat competition in market
- To face business cycle
- To desire to control market
- Economies of scale
- Managerial Ability

- Diversification
- Expansion
- Profit
- Craze to be a big businessman
- Formation of joint stock companies

Types of Business Combinations

1. **Horizontal Combination**
2. **Vertical Combination-** Forward and Backward
3. **Lateral Combination-** Convergent and Divergent
4. **Diagonal Combination**
5. **Circular Combination-**

(i) Simple Association- Trade Association and Chamber of commerce

(ii) Federation- Pools and Cartels

(iii) Consolidations- Partial and complete (Merger or Amalgamation & Acquisition or Takeove

Mergers or Amalgamation

- A merger is a combination of two or more businesses into one business. In India, we use the term amalgamation for merger.
- A merger is an agreement that unites two existing companies into one new company.
- A merger is a corporate strategy of combining different companies into a single company in order to enhance the financial and operational strengths of both organisations.
- The combination of two companies involves a transfer of ownership, either through a stock swap or a cash payment between the two companies. In practice, both companies surrender their stock and issue new stock as a new company.

Definition

- **According to section 2(1A) of Income Tax Act, 1961 :** "Defines amalgamation as the merger of one or more companies to form a new company, in such a way that all assets and liabilities of the amalgamating companies becomes assets and liabilities of the amalgamated company and shareholders not less than nine-tenths in value of the shares in the amalgamating company or companies become shareholders of the amalgamated company."

Techniques of mergers

- **Friendly merger-** When two or more firms decide to merge through mutual consent, it is called a friendly merger. It takes place through negotiation and cooperation.
- **Hostile merger-** Hostile merger occurs when one company acquires another company against its wishes. One firm takes over the other usually by purchasing a major portion of its share capital in the open market. This is also known as takeover.

Benefits/Advantages of Mergers

- It provides the benefits of synergy. Firms combine their operations to attain higher degree of efficiency and profitability.
- It increases earning capacity of the firms and market value of shares.
- It enables the firms to diversify their operations and increase their market share.
- It provides opportunities to merged firm to take advantage of R&D and technological developments of other firms.

- When two or more competing firms merge their operations, it reduces unhealthy competition.
- It provides economies of scale by enlarging the scale of operations.
- It results in optimum utilisation of resources.
- It prevents loss making units from being declared as sick units, if they merge with the profit making units.
- It provides plant, machinery and other capital equipment to firms more easily and economically than acquiring them from the market.

Limitations of mergers

- A study have shown that growth rate of the merged companies is generally less than that of merged companies.
- If executives of the merged companies are not placed at senior ranks in the company, it will lower their morale and decrease productivity.
- Merge can results in social ills like monopoly, concentration of economic and social power, restricted supply, high prices etc.

Types of mergers

1. Horizontal merger
2. Concentric merger
3. Vertical merger
4. Conglomerate merger

Acquisitions and Takeovers

- Acquisition is an act of acquiring effective control by one company over assets or management of another company without any combination of companies.
- Thus in an acquisition, two or more companies may remain independent with separate legal entities, but there may be a change in control of the companies.
- When an acquisition is forced or unwilling, it is called a takeover.
- In an unwilling acquisition, the management of target company would oppose a move of being takeover. But, when managements of acquiring and target companies mutually and willingly agree for the takeover, it is called acquisition or friendly takeover.

DEFINITION

- **According to sec 372 of companies act, 1956:** "A company's investment in the shares of another company in excess of 10 percent of the subscribed capital can result in takeovers does not necessarily require full legal control. A company can also have effective control over another company by holding a minority partnership."

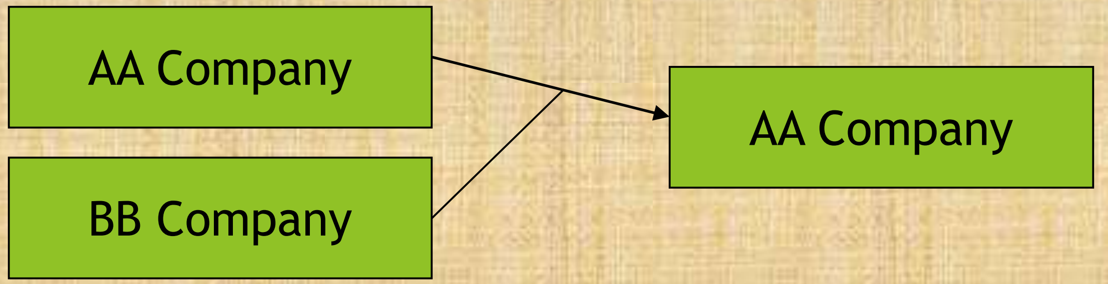
Types of takeovers

- **Friendly takeover-** In the friendly takeover, the bidder first make an offer for another company, it informs the company's board of directors and if the board feels that accepting the offer serves shareholders better than rejecting it, it recommends that the offer is accepted by the shareholders.

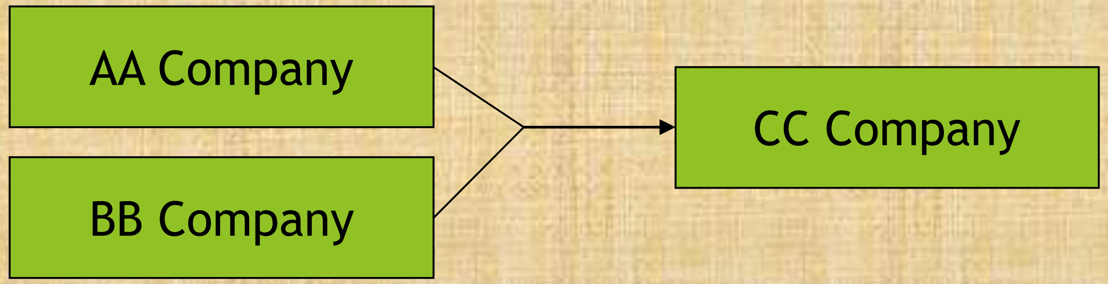
In private company, because the shareholders and the boards are usually the same people or closely connected with one another, private acquisitions are usually friendly. If the share holders agree to sell the company, then the board is usually of the same opinion and, thus, the take over takes place.

- **Hostile takeover-** In a hostile takeover, the acquiring company intends to takeover a target company whose management is unwilling to agree to a merger or takeover. The target company’s board rejects the offer, but the bidder still continues to pursue it, or he makes the offer directly to the target company after having announced its firm intention to make an offer.

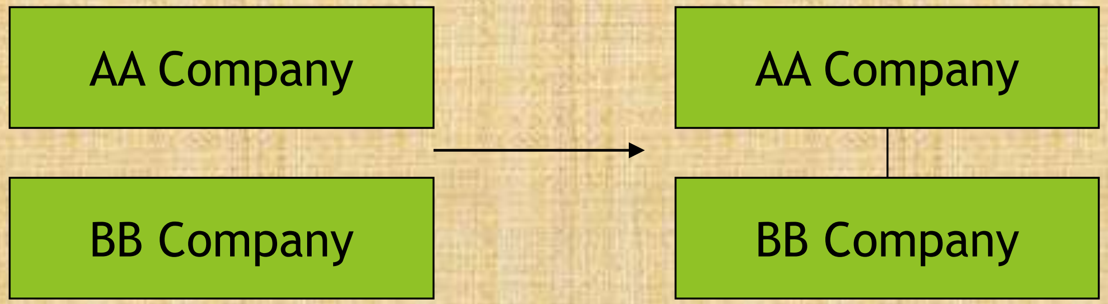
Forms of Business Combinations



(*a*) Statutory Merger

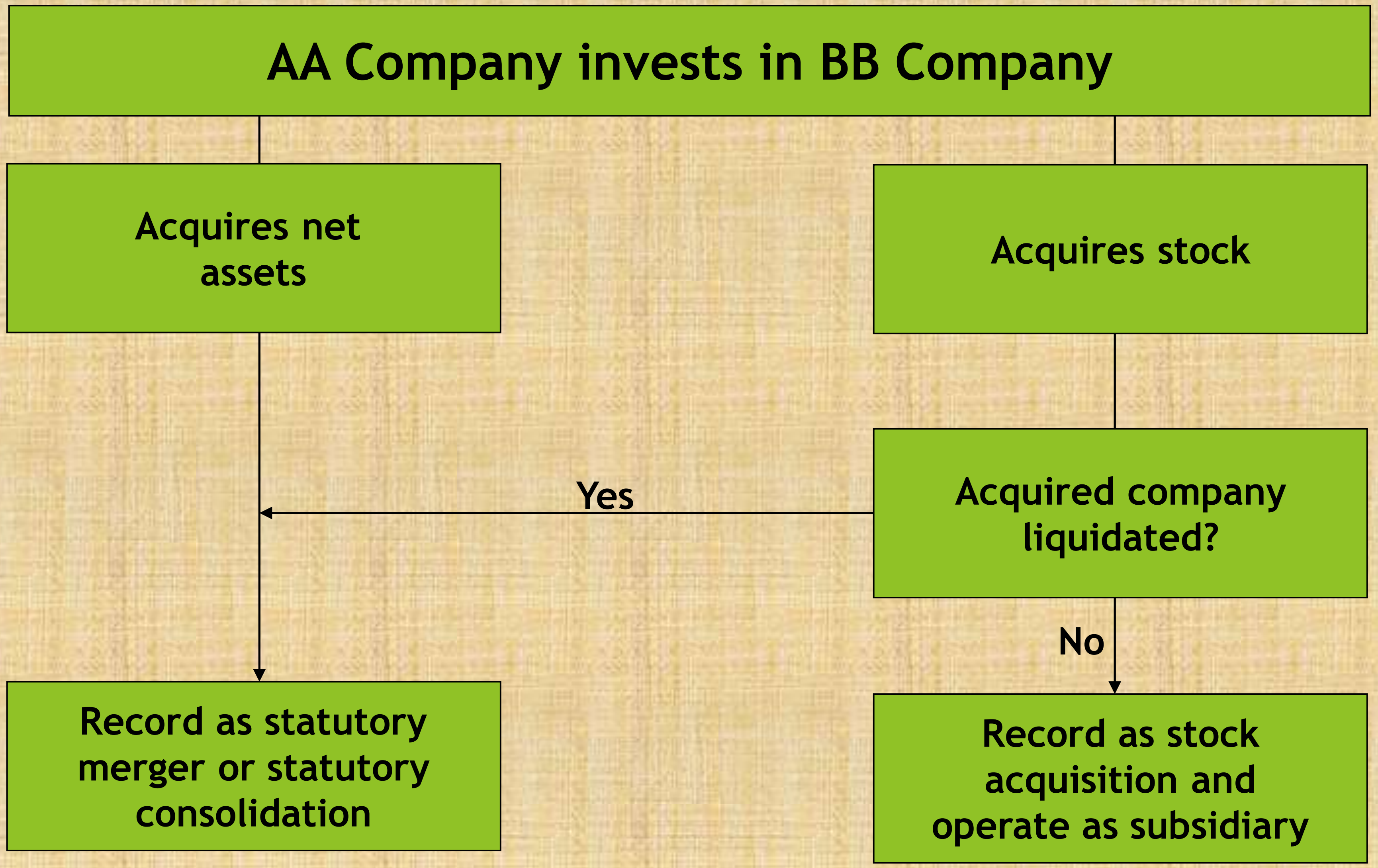


(*b*) Statutory Consolidation



(*c*) Stock Acquisition

Determining the Type of Business Combination



BUSINESS ORGANISATION

Business Finance

Meaning of Business Finance

- Money required for any economic activity is known as finance.
- So the term 'business finance' refers to the money required for business purposes and the ways by which it is raised.
- Thus it involves procurement and utilization of funds so that business firms will be able to carry out their operations effectively and efficiently.
- Business cannot move a single step without sufficient amount of finance. So it is like the life blood for business.
- The production and marketing plans framed according to financial position of the organization.
- Success of business enterprise is largely affected by optimum raising and utilization of funds.

Definition

- **According to B.O Wheeler -**

  " Business finance is that business activity which is concerned with the acquisition and conservation of capital funds in meeting financial needs and overall objectives of a business enterprise".

- **According to Guthmann and Dougall-**

  " Business finance can broadly be defined as the activity concerned with planning, raising, controlling and administering of the funds used in the business".

Financial Need of Business

- **Life line of the business-** Finance is the most important requirement of every business and it is considered as lifeline of the business. Inadequate finance causes many problems and may bring an end to the life of the business. In today's modern business world the importance of finance has increased rapidly.
- **Need for large scale operations-** Now a days business activities are generally undertaken on a large scale. The products of any country are now freely and easily available in other countries. The entire world has become a big market. So to survive in the business world the business man has to expand the area of his activities and functions on large scale. This expansion of business always demands more funds.

- **It helps in promotion of sales-** In this era of competition lot of money is to be spent on activities for promoting sales. This involves advertisement, personal selling, use of sales promotional schemes, providing after sales service and free home delivery, etc. which need huge amount of funds.
- **Use of modern technology-** Use of latest technology in the process of production as well as distribution has become crucial for every business now a days. To meet the competition, production process now demands use of modern machinery, equipment and tools. Hence, there is a greater need for finance to meet the challenge of the world's market successfully.

Purposes of Finance

- **To purchase Fixed Assets-** Every type of business requires some fixed assets like land, building, furniture, machinery etc. A large amount of capital is required for purchase of these assets.
- **To meet regular expenses-** After establishment of a business, capital are needed to carry out day-to-day operations e.g., purchase of raw materials, payment of rent and taxes, telephone and electricity bills, wages and salaries, etc.

- **To help in business growth-** Growth of business may include expansion of existing line of business as well as adding new lines. To finance such growth, one needs more funds.
- **To bridge the time gap between production and sales-** The amount spent on production is realized only when sales are made. Normally, there is a time gap between production and sales and also between sales and realization of cash. Hence during this interval, expenses continue to be incurred, for which funds are required.
- **To meet contingencies-** Funds are always required to meet the up and downs of business and for some unseen problems. Suppose, a manufacturer anticipates shortage of raw materials after a period, then he would like to stock the raw materials in large quantity. But he will be able to do so only if sufficient money is available with him.

Characteristics of good financial planning

- Availability of adequate funds
- It should be easy and simple to understand
- It provides Economy financial structure
- It ensures balance between profitability and liquidity
- It should ensures the survival and creditworthiness of business
- It ensures optimum utilization of funds

Importance of Financial Planning

- It helps the firms in achieving its objectives through optimum utilisation of resources.
- It helps in coordinating the efforts of the firm.
- It helps in predicting their financial requirements.
- It helps in regulating the flow of funds. It avoids excess or shortage of funds.
- It helps in determining the optimum capital structure by raising funds from various sources at minimum cost.
- It helps in maintaining liquidity in the firms and ensures balance between profitability and liquidity.
- It facilitates financial controls and keeps them tuned to financial plans.

Sources/Methods of Finance

Basically there are two types of sources of finance-

1) **Sources of long term finance**

2) **Sources of short term finance**

I. Long term methods to raise the finance

1) Issue of shares –

a) Preference shares

b) Equity shares

2) Debentures

3) Underwriting

4) Ploughing back of profits (self financing)

5) Institutional financing

6) Public deposits

1. Issue of shares

- The capital of company is divided into large number of small equal parts. Each such part is known as shares. A company can issue two types of securities i.e. (a) Preference shares, and (b) Equity shares.
- **(a) Preference shares-** These are the shares which carry certain preferential rights both regarding the dividend and return of capital. First, dividend at a fixed rate must be paid on preference shares before any dividend is paid on equity shares. Secondly, in the event of winding up of a company preference share holders must be paid back their capital before any other class of shareholders. They have no voting rights in management decisions.

(b) Equity shares- Equity share represents share in the company's assets and profits after the claim of preference share holders and debenture holders have been met. Shares which carry no preference rights on priority in the payment of dividend and in the repayment of capital are called equity shares or ordinary shares. These shares are issued prior to other securities and repaid in the last. Dividends on such shares is payable only when there are profits. It does not carry a fixed rate of dividends. They are the owners of the company. They have right to vote in the company's meetings.

2. Debentures

- They denote borrowing by a company and represents its loan capital.
- Debenture holders are the creditors of the company.
- A debenture is a certificate or document issued by a company as a proof of the money.
- It contains terms and conditions of loan with respect to payment of interest, repayment of loan.
- The rate of interest on debentures is fixed.
- Debenture holders do not have voting rights.
- It is a movable property.

3. Underwriting

- When a company makes an issue of shares and debentures it is not quite sure that public will subscribe for the entire issue.
- In order to ensure that entire issue is sold out, it makes an arrangement of underwriting with an agency.
- An underwriter is generally an intermediary who assumes the risk in a financial transactions.
- An underwriter is any party that evaluates and assumes another party's risk for a fee, such as a commission, premium, interest.
- Underwriters operates in many aspects of the financial world, including mortgage industry, insurance industry, equity markets, and common types of debt securities.

4. Retention of profits (self financing)

- The 'retention of profits' is a management policy under which all profits are not distributed amongst the shareholders, but a part of profit is retained back in the company.
- These retained earnings are utilised in future for financing modernization and expansion programmes and for meeting the fixed or working capital need of the company.
- Since it means dependence on internal sources for meeting the financial needs of the company. It is also called 'Internal financing' or 'self financing'.
- It creates no legal formalities as do borrowing either from the public or from the banks.

5. Institutional Financing

- It is a form of financing where loans are provided by financial institutions, also popularly known as development banks.
- Financial institutions are set up by the central and state governments. They, thus operate at national and state level.
- These institutions were set up to meet the financial needs of the companies and speed up the industrialisation in the country.
- **Examples-** Industrial development bank of India (IDBI), Small industries development bank of India (SIDBI), Industrial credit & investment corporation of India (ICICI), Life Insurance corporation of India (LIC), Unit trust of India (UTI), State financial corporations (SFC's)

6. Public deposits

- Public deposits is a popular form of financing for non-banking, non-financial firms, engaged in trading, manufacturing, mining, transportation etc.
- It is a source of finance where companies raise funds directly from the public by offering them interest rates higher than banks.
- Companies prefer raising money through public deposits because the interest rates payable on deposits is lower than interest payable on loans taken from banks and financial institutions.
- It is the simple form of financing. Company has to inform the public through advertisement in the newspaper.
- It is a less costly source of finance as interest paid on deposits is less than what companies have to pay on loans raised from banks and financial institutions.
- It is an important source of finance to meet the working capital requirements. They are issued for a period of 6 months to 3 years.

II. Short term methods to raise the finance

1) Trade credit

2) Bank credit- Loans & advances; cash credit; bank over draft; discounting bills

3) Factoring

4) Customer Advances

5) Loans from unorganized sectors

1. Trade credit

- Trade credit is a short-term source of finance where suppliers of raw materials, services, and other components or products sell goods to business buyers on credit.
- Usually business enterprises buy goods on 30 to 90 days credit. This means that goods are delivered but payments are not made until the expiry of the period of credit.
- This type of credit does not make the funds available in cash but it facilitates purchases without making immediate payment.
- The suppliers do not charge interest from buyers and, therefore, trade credit does not have any explicit cost, though implicit cost or opportunity costs are associated with it.
- The seller or supplier also does not create any charge on the assets of the buyer.
- Though it is popular for both small and big firms, small firms use it more often to avoid taking costly loans from banks.
- This is a very popular source of short term finance.

2. Bank Credit

- Commercial banks usually provide short term finance to business firms, which is known as bank credit. Bank credit may be granted in any of the following ways:-

1. **Loans & advances-** When a certain amount of money is advanced by a bank repayable after a specified period, it is known as bank loan. Usually loans are granted against security of assets.
2. **Cash credit-** It is an arrangement whereby banks allow the borrower to withdraw money up to a specified limit. This limit is known as cash credit limit. This facility is granted against security of goods in stock or promissory notes or government bonds etc. Under this arrangement, the borrower can draw, repay and again draw the amount within the sanctioned limit. Interest is charged only on the amount actually withdrawn and not on the amount of entire limit. It is used to meet day to day expenses in short run.

3. **Bank overdraft-** when a bank allows its depositors or accountholders to withdraw money in excess of the balance in his current account up to a specified limit, it is known as bank over draft. This limit is granted purely on the basis of credit worthiness of the borrower. Interest is charged only on the overdrawn money. Rate of interest is also low as compare normal loan.
4. **Discounting bills-** Banks also give advance money by discounting bills of exchange. When a bill of exchange is presented before the bank for encashment, bank credits the amount to customer's account after deducting some discount. The amount of discount is charged on the basis of the interest for the period of bill. On maturity of the bill, the payment is received by the bank from the drawee.

3. Factoring

- Factoring is a method of raising short-term finance for the business in which the business can take advance money from the bank against the amount to be realised from the debtors.
- By this method, the firm shifts the responsibility of collecting the outstanding amount from the debtors on payment of a specified charge.
- Here the business gets the money in advance without waiting for due date. Also it saves the efforts of collecting the debts.

4. Customer Advances

- Some times businessman insist to their customers to make some advance payment. It is generally asked when the value of order is quite large or goods ordered are very costly.
- Customers advance represents a part of the payment towards sale price of the product, which will be delivered at a later date.
- Customers generally agree to make advance payment when such goods are not easily available in the market or there is an urgent need of any goods.
- A firm can meet its short term requirements with the help of customers advances.

5. Loans from unorganized sector

- In addition to the above methods of raising funds, the businessman always have the option to take the money from the unorganized sector like loans from the money lender (called indigenous bankers), friends and relatives.
- To meet the short term and urgent need of business , money can be obtained from the either on personal security or on security of tangible assets and personal properties.
- Since the interest charged on loans from unorganized sector is normally very high, the businessman are not very keen to avail of loan from this source.

Financial Market

- The financial markets act as a link between investors and borrowers.
- It facilitates this function by acting as an intermediary between the borrowers and lenders of money.
- So, financial market may be defined as 'a transmission mechanism between investors (lenders) and the borrowers (users) through which transfer of funds is facilitated'.
- **Basically, financial market is of two types, i.e.**

  (i) Money Market, and (ii) Capital Market
- While the money market deals in short term credit, whereas capital market deals in medium and long term credit.
- Money market instruments are Call money, Treasury bill, commercial paper, certificate of deposit, trade bill etc. Whereas, capital market deals in shares, debentures, bonds and government securities.

- The participants in money market are RBI, commercial banks, non-banking financial companies, etc. whereas, the participants in capital market are stockbrokers, underwriters, mutual funds, financial institutions, and individual investors.
- Money market is regulated by RBI, whereas Capital market is regulated by SEBI
- Capital Market consists of two different segments i.e.

  (i) Primary Market, and **(ii) Secondary market**

- ***Let's discuss in detail about types of financial markets i.e.-***

  (1) Money Market ***(2) Capital Market***

(1) Money Market

- The money market is a market for short term funds, which deals in financial assets whose period of maturity is up to one year.
- It should be noted that money market does not deal in cash or money as such but simply provides a market for credit instruments such as bills of exchange, promissory notes, commercial paper, treasury bills, etc.
- These financial instruments are close substitutes of money. These instruments help the business units, other organisations and the government to borrow the funds to meet their short-term requirement.
- Money market does not imply to any specific market place. Rather it refers to the whole networks of financial institutions dealing in short-term funds.
- Most of the money market transactions are taken place on telephone, fax or internet.

- The Indian market consists of Reserve Bank of India, commercial banks, co-operative banks, and other specialized financial institutions.
- The Reserve Bank of India (RBI) is the leader and regulator of the money market in India.
- Some non-banking financial companies (NBFC’s) and financial institutions like Life Insurance Corporation of India (LIC), General Insurance Corporation of India (GIC), Unit Trust of India (UTI)- now it is renamed as Axis Bank, etc. also operate in the Indian money market.

Money Market Instruments

i. **Call Money-** Call money is mainly used by banks to banks to meet their temporary requirement of cash. They borrow and lend money from each other and normally on a daily basis. It is repayable on demand and its maturity period varies in between one day to a fortnight. The rate of interest paid on call money loan is known as call rate. It is usually for 1 to 14 days. It is required to maintain Cash Reserve Ratio (CRR).

ii. **Treasury Bills-** A treasury bill is a promissory note issued by the RBI to financial institutions, companies, or individuals to meet the short-term requirement of funds. Treasury bills are highly liquid instruments, that means, at any time the holder of treasury bills can transfer of or get it discounted from RBI. These bills are normally issued at a price less than their face value; and redeemed at face value. So the difference between the issue price and face value of the treasury bills represents the interest on the investment. These bills are secured instruments and are issued for a period of not exceeding 364 days. Banks, financial institutions and corporations normally play major role in the treasury bill market.

iii. **Commercial Paper-** Commercial paper (CP) is a popular instrument for financial working capital requirement of companies to companies. It is a short-term unsecured promissory note issued by the companies. This instrument was introduced in 1990 to enable the corporate borrowers to raise short-term funds. It can be issued for period ranging from 15 days to one year. The highly reputed companies (blue chip companies) are the major player of commercial paper market.

iv. **Certificate of deposit-** Certificate of deposits (CD's) are short-term instruments issued by commercial banks and special financial institutions (SFI's), which are freely transferable from one party to another. The maturity period of CD's ranges from 91 days to one year. These can be issued to companies, co-operatives and individuals.

v. **Trade Bill-** Normally the traders buy goods from the wholesalers or manufacturers on credit. The sellers get payment after the end of the credit period. But if any seller does not want to wait or in immediate need of money he/she can draw a bill of exchange in favour of the buyer. When buyer accepts the bill it becomes the negotiable instrument and is termed as bill of exchange or trade bill. This trade bill can now be discounted with a bank before its maturity. On maturity the bank gets the payment from the drawee i.e., the buyer of goods. When trade bills are accepted by commercial banks it is known as commercial bills. So trade bill is an instrument, which enables the drawer of the bill to get funds for short period to meet the working capital needs.

2. Capital Market/ Security Market

- Capital market may be defined as a market dealing in medium and long-term funds.
- It is an institutional arrangement for borrowing medium and long-term funds and which provides facilities for marketing and trading of securities.
- So it constitutes all long-term borrowings from banks and financial institutions, borrowings from foreign markets and raising of capital by issue various securities such as shares, debentures, bonds etc.
- The market where securities are traded known as securities market.
- *It consists of two different segments namely **'Primary Market'** and **'Secondary Market'** :-*

- ***'Primary Market'*** deals with new or fresh issue of securities and is, therefore, also known as new issue market. Thus, primary market deals in new issues and further issues, that is, securities which are issued to the public for the first time by government or non-government companies and securities which are issued by existing companies (further issues) to raise additional capital.
- ***'Secondary Market'*** provides a place for purchase and sale of existing securities and is often termed as 'stock market' or 'stock exchange'. It deals in outstanding issues, that is, securities which are already sold to the public. These are traded not between companies and public but between present and potential owners of securities. For example, if A wants to sell his shares to B, he will sell in the primary market.

Therefore, new issues are dealt in the primary market whereas existing issues are dealt in the secondary market. While one can only buy in the primary market, on the other hand, he can both buy and sell in the secondary market. As secondary market deals in securities already sold in the primary market, it provides liquidity to investors who have acquired securities in the primary market.

Distinction between Primary market and Secondary market

	Primary Market	Secondary Market
1. Function	To raise long-term funds through fresh issue of securities.	To provide continuous and ready market for the existing long-term securities.
2. Participants	Major players are financial institutions, mutual funds, underwriters and individual investors.	Major players are all of these and the stockbrokers who are members of the stock exchange.
3. Listing Requirement	There is no such requirement in case of this market.	Only those securities can be dealt within this market, which have been approved for the purpose (listed)
4. Determination of Prices	The prices are determined by the management with due compliance with SEBI requirement for new issue of securities.	But in case of this market, the prices of the securities is determined by forces of demand and supply of the market and keeps on fluctuating.

Functions of Financial market

- It provides facilities for interaction between the investors and borrowers.
- It provides pricing information resulting from the interaction between buyers and sellers in the market when they trade the financial assets.
- It provides security to dealings in financial assets.
- It ensures liquidity by providing a mechanism for an investor to sell the financial assets.
- It ensures low cost of transactions and information.

STOCK EXCHANGE

- **Introduction-**

1) As we have already learnt that a company can raise capital from the public by issuing shares and debentures. A natural question that arises here is that how and where does one trade in these shares and debentures.
2) So 'Stock Exchange' is the place where the buying and selling of shares and debentures takes place in an organised manner.
3) It is also called shares and debentures market.
4) Stock Exchange is just like cloth market, anaj mandi, fish market etc.
5) Thus, stock exchange is the market where stocks, shares, and other securities issued by companies, government organisations and semi-government organisations bought and sold.

6) Stock exchange is also called stock market or securities market. It deals in securities like shares, debentures or bonds.

7) The purpose of establishing a stock exchange is to assist, to regulate and to control the business in securities.

8) Stock markets are economic indicators of the economy. They influence the economy by promoting savings and investments. They bring together corporate enterprises and individual savers.

9) The first stock exchange were set up in Mumbai and Ahmedabad in 1875 and 1894 respectively as voluntary non-profit making associations.

10) The segment of stock market that deals in securities of maturity period of less than equal to one year is called ***Money market*** while that dealing in securities of maturity period of more than one year is called ***Capital Market***.

11) Stock markets can also be categorised as primary market and secondary market.

Features of Stock Exchange

1) A Stock Exchange can operate after obtaining permission from the government. The permission is granted under the *"Securities Contract Regulations, 1957"*.
2) Its activities are governed and regulated by ***'Securities and Exchange Board of India' (SEBI)***.
3) It provides a platform to buy and sell corporate securities.
4) It is an association of member brokers who provide a link between buyers and sellers.
5) It provide timely and accurate information on the price and volume of financial transactions traded on it.
6) It provides liquidity to investors who want to sell their securities.
7) It absorbs economic, political and international information which is reflected in the prices of securities.
8) It is an effective indicator of economic growth of a country.

Stock Market in India

- Because of its size, India has numerous stock exchanges in the country, most regional in nature with allocated areas. The main ones are in Mumbai, New Delhi, Kolkata, and Gandhi Nagar. The biggest of these is in Mumbai namely Bombay Stock Exchange (BSE), Asia's oldest stock exchange.
- With a view to achieve economic growth, the first stock exchange was set up in Bombay (BSE) in 1875 and then, in Ahmedabad in 1894. These stock exchanges became recognised in the years 1927 and 1937 respectively.
- Ever Since, the stock exchange position of India is being strengthened by increase in the number of recognised stock exchanges.
- Economic reforms starting in 1991 led to the opening of new exchanges i.e. National Stock Exchanges of India (NSEI), Over The Counter Exchange of India (OTCEI), and Interconnected Stock Exchange of India (ISEI). All three were created to offer nationwide trading, using a screen based trading system accessible to investors across the subcontinent.
- In line with the reforms, the government of India in 1992 also opened the securities market for Foreign Institutional Investors (FII's), previously restricted to off shore mutual funds. This helped speed up the development of India's capital markets.
- Thus, stock market provides provide an organised market for transactions in equities and other securities.

- Earlier there were in total 23 Stock Exchanges in India. But, at present there are only 5 stock exchanges in India which are in working status, rest 19 are closed or de-functioned. Here is the list of ***"operating stock exchanges"*** and "***former stock exchanges***" in India:-
- Operating Stock Exchanges - (BSE & NSE are major stock exchanges of India)

S.No.	Stock Exchange	Location	Founded
1.	Bombay Stock Exchange (BSE)- Oldest SE in India	Mumbai, Maharashtra	1875
2.	Calcutta Stock Exchange (CSE)	Kolkata, West Bengal	1908
3.	National Stock Exchange (NSE)	Mumbai, Maharashtra	1992
4.	Metropolitan Stock Exchange (MSE)	Mumbai, Maharashtra	2008
5.	India International Exchange (INX)	Gandhinagar, Gujarat	2017

Former Stock Exchanges-

S.No.	Stock Exchange	Location	Founded	Defunct
1.	Ahmedabad Stock Exchange (ASE)- 2nd oldest in India	Ahmedabad, Gujarat	1894	2018
2.	Delhi Stock Exchange (DSE)	New Delhi	1947	2017
3.	Guwahati Stock Exchange (GSE)	Guwahati, Assam	1984	2015
4.	Jaipur Stock Exchange (JSE)	Jaipur, Rajasthan	1989	2015
5.	Madhya Pradesh Stock Exchange (MPSE)- 3rd oldest in India	Indore, Madhya Pradesh	1919	2015
6.	Madras Stock Exchange (MSE)- 1st SE in South India	Chennai, Tamil Nadu	1937	2015
7.	Over The Counter Stock Exchange (OTCEI)- 1st SE for small companies as well as the 1st screen based nationwide SE in India	Mumbai, Maharashtra	1992	2015
8.	Pune Stock Exchange (PSE)	Pune, Maharashtra	1982	2015
9.	UP Stock Exchange (UPSE)	Kanpur, Uttar Pradesh	1982	2015
10.	Vadodara Stock Exchange (VSE)	Vadodara, Gujarat	1990	2015

S.No.	Stock Exchange	Location	Founded	Defunct
11.	Bangalore Stock Exchange (BgSE)	Bengaluru, Karnataka	1963	2014
12.	Cochin Stock Exchange (CSE)	Kochi, Kerala	1978	2014
13.	Inter-connected Stock Exchange of India (ISEI)	Mumbai, Maharashtra	1998	2014
14.	Ludhiana Stock Exchange (LSE)	Ludhiana, Punjab	1983	2014
15	Bhubaneswar Stock Exchange (BhSE)	Bhubaneswar, Odisha	1989	2009
16	Coimbatore Stock Exchange (CSE)	Coimbatore, Tamil Nadu	1991	2009
17	Hyderabad Stock Exchange (HSE)	Hyderabad, Telangana	1941	2007
18	Magadha Stock Exchange Association (MSEA)	Patna, Bihar	1986	2007
19	Mangalore Stock Exchange (MgSE)	Mangalore, Karnataka	1984	2004

Major Stock Exchanges in the World

Rank	Country	Stock Exchange
1	US & EUROPE	New York Stock Exchange (NYSE)
2	Us & Europe (North)	NASDAQ
3	Japan	Tokyo Stock Exchange
4	United Kingdom	London Stock Exchange
5	Europe	Euronext
6	China	Shanghai Stock Exchange
7	Hong Kong	Hong Kong Stock Exchange
8	Canada	Toronto Stock Exchange
9	Brazil	BOVESPA

Rank	Country	Stock Exchange
10	Australia	Australian Securities Exchange
11	Germany	Deutsche Borse
12	Switzerland	Six Swiss Exchange
13	China	Shenzhen Stock Exchange
14	Spain	BME Spanish Exchanges
15	**India**	**Bombay Stock Exchange**
16	South Korea	Korea Exchange
17	India	National Stock Exchange
18	Russia	Micex – RTS
19	South Africa	JSE Limited

Two Major Stock Exchanges in India

- There are mainly two major stock exchanges in India i.e.- ***(1) Bombay Stock Exchange (BSE), (2) National Stock Exchange (NSE).***
- BSE is the oldest & largest stock exchange in the country and is biggest in the world in terms of number of listed companies.
- Whereas, NSE is the virtual exchange where one can only trade online.
- Both these exchanges are in Mumbai and have their own benefits and limitations.
- Let's discuss them in detail:-

BOMBAY STOCK EXCHANGE, MUMBAI.

BOMBAY STOCK EXCHANGE

- BSE Limited formerly known as Bombay Stock Exchange (BSE),is the first & oldest stock exchange in Asia founded on 9 July 1875.
- It is a stock exchange located at Dalal Street, Mumbai.
- The equity market capitalization of the companies listed on the BSE was US$ 2.2 trillion (or Rs : 151,970.87 billion) as on March 2019.
- It the 5th largest stock exchange in Asia and the 10th largest in the world.

- The BSE has the largest number of listed companies in the world.
- As of March 2019, there are over 5,439 listed Indian companies, the Bombay Stock Exchange has a significant trading volume.
- The BSE SENSEX, also called "BSE 30", is a widely used market index in India and Asia.
- Though many other exchanges exist, BSE and the National Stock Exchange of India account for the majority of the equity trading in India.
- Chairman of BSE is Shri Vikramajit sen and MD & CEO is Mr. Ashish kumar Chauhan.
- Its index is called “SENSEX”.

NATIONAL STOCK EXCHANGE , MUMBAI.

NATIONAL STOCK EXCHANGE

- The National Stock Exchange (NSE) is stock exchange located at Mumbai, India.
- It was founded in year 1992.
- Its index is called “NIFTY”.
- It is the 11th largest stock exchange in the world by market capitalization and largest in India by daily turnover and number of trades, for both equities and derivative trading.
- NSE has a market capitalization of around US $ 2.27 trillion and over 1,952 listings as of April 2018.
- NSE and BSE are the two most significant stock exchanges in India, and both are responsible for the vast majority of share transactions.

- The NSE's key index is the S&P CNX Nifty, known as the NSE NIFTY (National Stock Exchange Fifty), an index of fifty major stocks weighted by market capitalisation.
- NSE is mutually owned by a set of leading financial institutions, banks, insurance companies and other financial intermediaries in India but its ownership and management operate as separate entities.
- There are at least 2 foreign investors NYSE Euro next and Goldman Sachs who have taken a stake in the NSE.
- It is the second fastest growing stock exchange in the world with a recorded growth of 16.6%.
- Chairman is Mr. Ashok Chawla, MD & CEO is Mr. Vikram Limaye

Securities And Exchange Board of India (SEBI)

1) SEBI is the regulator for the Securities Market in India.

2) In 1988 SEBI was established by the Government of India through an executive resolution, and was subsequently upgraded as a fully autonomous body (a statutory Board) in the year 1992 with the passing of the Securities and Exchange Board of India Act (SEBI Act) on 30th January 1992.

3) The SEBI was established on April 12, 1992.

4) In place of Government Control, a statutory and autonomous regulatory board with defined responsibilities, to cover both development & regulation of the market, and independent powers have been set up.

5) Paradoxically this is a positive outcome of the Securities Scam of 1990-91.

6) **Chaired by Ajay Tyagi, SEBI is headquartered in the popular business district of BKC in Mumbai, and has Northern, Eastern, Southern and Western regional offices in New Delhi, Kolkata. Chennai, and Ahmadabad.**

7) **643+ employees work in SEBI**

SEBI- PREAMBLE

- The Preamble of the SEBI describes the basic functions of the Securities and Exchange Board of India as -

  " To protect the interests of investors in securities and to promote the development of, and to regulate the securities market and for matters connected therewith or incidental thereto".

SEBI- Basic objectives

- To protect the interests of investors in securities.
- To promote the development of Securities Market.
- To regulate the securities market.
- To promote fair dealings by the companies issuing securities.
- To regulate the functioning of various stock exchanges in the country.
- To enforce a code of conduct and fair practices for intermediaries like brokers, merchant bankers, underwriters, etc.

SEBI- Major Contributions

- Since its inception, SEBI has been working targeting the securities and is attending to the fulfillment of its objectives with commendable zeal and enthusiasm.
- The improvements in the securities markets like capitalization requirements, margining, establishment of clearing corporations, De-mat account, etc. reduced the risk of credit and also reduced the market risk.
- SEBI has introduced the comprehensive regulatory measures, prescribed registration norms, the eligibility criteria, the code of obligations and the code of conduct for different intermediaries like, bankers to issue, merchant bankers, brokers and sub-brokers, registrars, portfolio managers, credit rating agencies, underwriters and others.

- It has framed bye-laws, risk identification and risk management systems for Clearing houses of stock exchanges, surveillance system etc. which has made dealing in securities both safe and transparent to the end investor.
- Another significant event is the approval of trading in stock indices (like S&P CNX NIFTY & SENSEX) in 2000.
- A market Index is a convenient and effective product because of the following reasons:
  - It acts as a barometer for market behavior;
  - It is used to benchmark portfolio performance;
  - It is used in derivative instruments like index futures and

    Index options

Powers and Functions of SEBI

- It regulates stocks markets and the business in stock exchanges and any other securities markets.
- Registering and regulating the working of stock brokers, sub-brokers, share transfer agents, bankers to an issue, trustees of trust deeds, registrars to an issue, merchant bankers, underwriters, portfolio managers, investment advisers and such other intermediaries who may be associated with securities markets in any manner.
- Registering and regulating the working of the depositories, custodians of securities, foreign institutional investors, credit rating agencies and such other intermediaries as the Board may, by notification, specify in this behalf.

- Registering and regulating the working of venture capital funds and including mutual funds.
- Promoting and regulating self-regulatory organizations.
- Prohibiting fraudulent and unfair trade practices relating to securities markets.
- Promoting investors' education and training of intermediaries of securities markets.
- Prohibiting insider trading in securities.
- Regulating substantial acquisition of shares and take-over of companies.
- Calling for information from, undertaking inspection, conducting inquiries and audits of the stock exchanges, mutual funds, other persons associated with the securities market intermediaries and self- regulatory organizations in the securities market.

SEBI- Conclusion

- For the development of any economy, Capital Market, which is one of the main organ to mobilize funds of huge order, shall evolve all steps to develop the market, simultaneously bringing in the credibility in the financial market, which is watched world wide, through effective and speedy implementable regulations, ultimately, protecting the interest of the Investors and the Country.