Business Organization

I-MBA 1st Semester

MODULE-1

What is Business?

- Business may be defined as an activity concerned with the production & exchange of goods and services with the objective of earning profit.
- Business literally means "state of being busy".
- An entrepreneur runs a factory, trader sells good, a banker lends money, a transporter carries goods etc are coming under business activities.
- These activities are undertaken to earn a profit or living out them.

A business is an organization or entity that sells goods or services for a profit. The important part of this definition is that a business is something that operates in order to make a profit. Not all businesses actually are successful enough make a profit, but their main purpose is to generate profits. According to the traditional concept, business exists only to earn profits by providing the goods and services to the customers. As per the modern concept, the underlying objective of every business is customer satisfaction as this is what results in most profits. If the customer is satisfied, business excels.

Definition

Business may be defined as human activities directed towards providing or acquiring wealth trough buying & selling goods." **L. H. Haney**

"An Institution organized & operated to provide goods &services to the society under the incentive of private gain". **Wheeler**

"Business is any enterprise which makes, distributes or provides any articles or service which the other members of the community need and are able and willing to pay for." **- Urwick & Hunt**

Nature of Business

- **Creation of utilities**: The goods or service must be such that it creates

1. **Form utility** – conversion of products in a consumable form,
2. **Time utility** – making the goods and services available when needed; and
3. **Place utility** – availability of goods or services wherever required, for the consumers.

- **Continuous Process**

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

- **Sale, transfer or exchange of goods/services**

The basic activity of any business is trading. The business involves buying of raw material, plants and machinery, stationary, property etc. On the other hand, it sells the finished products to the consumers, wholesaler, retailer etc. Business makes available various goods and services to the different sections of the society.

- **Profit motive**

Profit is an indicator of success and failure of business. It is the difference between income and expenses of the business. The primary goal of a business is usually to obtain the highest possible level of profit through the production and sale of goods and services. It is a return on investment. Profit acts as a driving force behind all business activities. Profit is required for survival, growth and expansion of the business. It is clear that every business operates to earn profit. Business has many goals but profit making is the primary goal of every business. It is required to create economic growth.

5. Risk and Uncertainties:

Risk is defined as the effect of uncertainty arising on the objectives of the business. Risk is associated with every business. Business is exposed to two types of risk, Insurable and Non-insurable. Insurable risk is predictable. You can insure certain type of risks such as theft, accident due to fire etc. business can't claim for non-insurable risk such as loss due to drop in customer demand, loss due to natural calamities, change in govt polices measures etc.

6. Economic activities

Business is an economic activity of production and distribution of goods and services. It provides employment opportunities in different sectors like banking, insurance, transport, industries, trade etc. it is an economic activity corned with creation of utilities for the satisfaction of human wants. It provides a source of income to the society. Business results into generation of employment opportunities thereby leading to growth of the economy. It brings about industrial and economic development of the country.

Objectives of Business

An objective is something you want to achieve. As a learner of NIOS, you may have many objectives in mind; one could be to perform well in the examination. Similarly, business objectives are something, which a business organization wants to achieve or accomplish over a specified period of time. These may be to earn profit for its growth and development, to provide quality goods to its customers, to protect the environment etc. These are the objectives of business. In the following section let us classify the objectives of business.

The objectives of business may be classified as

a. Economic Objectives

b. Social Objectives

c. Human Objectives

d. National Objectives

e. Global Objectives

Economic Objectives

Economic objectives of business refer to the objective of earning profit and also other objectives that are necessary to be pursued to achieve the profit objective, which include, creation of customers, regular innovations and best possible use of available resources. Let us learn about these. i. Profit earning Profit is the lifeblood of business, without which no business can survive in a competitive market. In fact, profit making is the primary objective for which a business unit is brought into existence. Profits must be earned to ensure the survival of business, its growth and expansion over time. Profits help businessmen not only to earn their living but also to expand their business activities by reinvesting a part of the profits. In order to achieve this primary objective, certain other objectives are also necessary to be pursued by business, which are as follows:

- **Creation of customers**

A business unit cannot survive unless there are customers to buy the products and services. Again, a businessman can earn profits only when he/she provides quality goods and services at a reasonable price. For this it needs to attract more customers for its existing as well as new products. This is achieved with the help of various marketing activities.

- **Regular innovations**

Innovation means changes, which bring about improvement in products, process of production and distribution of goods. Business units, through innovation, are able to reduce cost by adopting better methods of production and also increase their sales by attracting more customers because of improved products. Reduction in cost and increase in sales gives more profit to the businessman. Use of power-looms in place of handlooms, use of tractors in place of hand implements in farms etc. are all the results of innovation.

- **Best possible use of resources**

As you know, to run any business you must have sufficient capital or funds. The amount of capital may be used to buy machinery, raw materials, to employ manpower and have cash to meet day-to-day expenses. Thus, business activities require various resources like men, materials, money and machines. The availability of these resources is usually limited. Thus, every business should try to make the best possible use of these resources. This objective can be achieved by employing efficient workers, making full use of machines and minimizing wastage of raw materials.

Social Objectives

Social objectives are those objectives of business, which are desired to be achieved for the benefit of the society. Since business operates in a society by utilizing its scarce resources, the society expects something in return for its welfare. No activity of the business should be aimed at giving any kind of trouble to the society. If business activities lead to socially harmful effects, there is bound to be public reaction against the business sooner or later.

Social objectives of business include production and supply of quality goods and services, adoption of fair-trade practices and contribution to the general welfare of society and provision of welfare amenities.

i. Production and supply of quality goods and services

Since the business utilizes the various resources of the society, the society expects to get quality goods and services from the business. The objective of business should be to produce better quality goods and supply them at the right time and at a right price. It is not desirable on the part of the businessman to supply adulterated or inferior goods which cause injuries to the customers. They should charge the price according to the quality of the goods and services provided to the society. Again, the customers also expect timely supply of all their requirements. So, it is important for every business to supply those goods and services on a regular basis.

ii. Adoption of fair-trade practices

In every society, activities such as hoarding, black-marketing and over-charging are considered undesirable. Besides, misleading advertisements often give a false impression about the quality of products. Such advertisements deceive the customers and the businessmen use them for the sake of making large profits. This is an unfair trade practice. The business unit must not create artificial scarcity of essential goods or raise prices for the sake of earning more profits. All these activities earn a bad name and sometimes make the businessmen liable for penalty and even imprisonment under the law. Therefore, the objective of business should be to adopt fair trade practices for the welfare of the consumers as well as the society.

iii. Contribution to the general welfare of the society

Business units should work for the general welfare and up-liftment of the society. This is possible through running of schools and colleges for better education, opening of vocational training centers to train the people to earn their livelihood, establishing hospitals for medical facilities and providing recreational facilities for the general public like parks, sports complexes etc.

Human Objectives

Human objectives refer to the objectives aimed at the well-being as well as fulfillment of expectations of employees as also of people who are disabled, handicapped and deprived of proper education and training. The human objectives of business may thus include economic well-being of the employees, social and psychological satisfaction of employees and development of human resources.

i. **Economic well-being of the employees**

   In business employees must be provided with fair remuneration and incentives for performance, benefits of provident fund, pension and other amenities like medical facilities, housing facilities etc. By this they feel more satisfied at work and contribute more for the business.

ii. **Social and psychological satisfaction of employees**

It is the duty of business units to provide social and psychological satisfaction to their employees. This is possible by making the job interesting and challenging, putting the right person in the right job and reducing the monotony of work. Opportunities for promotion and advancement in career should also be provided to the employees. Further, grievances of employees should be given prompt attention and their suggestions should be considered seriously when decisions are made. If employees are happy and satisfied, they can put their best efforts in work.

iii. **Development of human resources**

Employees as human beings always want to grow. Their growth requires proper training as well as development. Business can prosper if the people employed can improve their skills and develop their abilities and competencies in course of time. Thus, it is important that business should arrange training and development programmes for its employees.

iv. **Well-being of socially and economically backward people**

Business units being inseparable parts of society should help backward classes and also people those are physically and mentally challenged. This can be done in many ways. For instance, vocational training programme may be arranged to improve the earning capacity of backward people in the community. While recruiting it staff, business should give preference to physically and mentally challenged persons. Business units can also help and encourage meritorious students by awarding scholarships for higher studies.

National Objectives

Being an important part of the country, every business must have the objective of fulfilling national goals and aspirations. The goal of the country may be to provide employment opportunity to its citizen, earn revenue for its exchequer, become self-sufficient in production of goods and services, promote social justice, etc. Business activities should be conducted keeping these goals of the country in mind, which may be called national objectives of business. The following are the national objectives of business.

i. Creation of employment

One of the important national objectives of business is to create opportunities for gainful employment of people. This can be achieved by establishing new business units, expanding markets, widening distribution channels, etc.

ii. Promotion of social justice

As a responsible citizen, a businessman is expected to provide equal opportunities to all persons with whom he/she deals. He/She is also expected to provide equal opportunities to all the employees to work and progress. Towards this objective special attention must be paid to weaker and backward sections of the society.

iii. Production according to national priority

Business units should produce and supply goods in accordance with the priorities laid down in the plans and policies of the Government. One of the national objectives of business in our country should be to increase the production and supply of essential goods at reasonable prices.

v. Contribute to the revenue of the country

The business owners should pay their taxes and dues honestly and regularly. This will increase the revenue of the government, which can be used for the development of the nation.

v. Self-sufficiency and Export Promotion

To help the country to become self-reliant, business units have the added responsibility of restricting import of goods. Besides, every business units should aim at increasing exports and adding to the foreign exchange reserves of the country.

<u>Global Objectives</u>

Earlier India had a very restricted business relationship with other nations. There was a very rigid policy for import and export of goods and services. But, now-a-days due to liberal economic and export–import policy, restrictions on foreign investments have been largely abolished and duties on imported goods have been substantially reduced. This change has brought about increased competition in the market. Today because of globalisation the entire world has become a big market. Goods produced in one country are readily available in other countries. So, to face the competition in the global market every business has certain objectives in mind, which may be called the global objectives.

Raise general standard of living

Growth of business activities across national borders makes available quality goods at reasonable prices all over the world. The people of one country get to use similar types of goods that people in other countries are using. This improves the standard of living of people.

ii. Reduce disparities among nations

Business should help to reduce disparities among the rich and poor nations of the world by expanding its operation. By way of capital investment in developing as well as underdeveloped countries it can foster their industrial and economic growth.

iii. Make available globally competitive goods and services

Business should produce goods and services which are globally competitive and have huge demand in foreign markets. This will improve the image of the exporting country and also earn more foreign exchange for the country.

Prerequisite of Successful Business

- **Setting Objectives**

  The setting up of business objectives is the first thing to be done by the management. One must know as to what is to be done. Only after deciding the objective, the ways and the means will be determined to achieve the objectives. If it is a producing business, the nature of product to be produced, whether to produce the whole product or part of it should be decided. In case of service business, the nature and type of service to be provided should be decided. It is not only the management which should be conversant with the business objectives but every person in the concern should know the aims and goals of the business.

- **Proper Planning**

  After determining, the objectives, the work should be planned in all its perspectives. Planning involves forecasting and laying down the course of action. It involves planning for both present and future. What is to be achieved and how it is to be achieved is of primary significance for the present. Future is always uncertain and the estimation of future happenings is very difficult. In planning for the future, an effort is made to estimate the future uncertainties and determine the possible course of action for the coming period. Thus, planning also helps the management to prepare itself for facing the uncertainties of tomorrow.

- **Sound Organization**

Organisation is an arrangement by which tasks are assigned to employees so that their individual efforts contribute effectively to the achievement of clearly defined purposes. The duties and responsibilities of all are defined and they should know what they are expected to do. An effective organisation system is essential for the success of a business. Firstly, a decision should be taken about the form of ownership, i.e., sole trade, partnership, Joint Stock Company. Then a suitable internal organisation should be developed. No work should be left unassigned. The supervisors and subordinates should know their roles in the business.

- **Proper Financial Planning**

- The requirements of finance and its possible sources should be decided at the time of starting the enterprise. The purpose of financial planning is to make sure that adequate funds are raised at the minimum of cost. The required capital should be made available at all times, otherwise, it will hamper the work. The scarcity of capital and too much of it both will be bad for the concern.
- The availability of excess capital may tempt the management to spend more money on inventory and on fixed assets. A proper plan is necessary for providing funds for the present needs and future developmental plans.

- **Location & Layout Plan**

- One of the important decisions to be made by the management at the time of starting a concern is regarding the location of the plant. The plant should be located at a place where all factors of production arc available at lowest costs. The aim of reaching an optimum point will be achieved only if the place of location of the businesses is suitable. Raw materials, labour, power and markets for the finished products should be available near the place of location.

- After deciding about location, a decision is made about layout of the plant. The setting up of the machinery and equipment should be systematic so that the flow of production should be smooth and uninterrupted. The office building and warehouse etc., should be located near the factory. Proper layout will enable the economical use of available space. Proper location and layout of the business are necessary for the success of a business.

➢ **Marketing System**

The marketing aspects of a business are more important than even production. There is no use of producing a thing if it cannot be sold. Marketing management is essential for earning profits. Management should decide about the channels of distribution. Whether to sell directly to consumers or to sell through wholesalers? It should be decided after taking into consideration various aspects of goods.

➢ **Research**

In the changing technological world, it is essential to use latest devices for production and marketing of goods. Change is the essence of business. Every day, new production methods are found. Consumers' needs and preferences should be taken into consideration in devising production and marketing policies. Research and development should be given due place in the business. One can compete with changing business world only through research programmes. If attention is not given to research work then it will become difficult to stay in business for a large period. So, research activities are necessary for the success of an enterprise.

➢ **Dynamic Leadership**

The success of an enterprise will depend upon the efficiency of its management. The task of management is to plan, organise, co-ordinate and direct various activities for achieving business objectives. This will be possible only if the leadership is dynamic. The operation managing the concern should have foresight, initiative, courage and aptitude for a change. These qualities are necessary in the leadership to take the concern on the road of progress.

CLASSIFICATION OF INDUSTRY:

Industry is a group of productive enterprises or organizations that produce or supply goods, services, or sources of income. Industries are customarily classified as primary, secondary, and tertiary;

1. Primary industry

Primary industry is defined as an industry that is concerned with extracting the natural resources on the earth so that they can be converted into consumable products.

This sector of a nation's economy includes agriculture, forestry, fishing, mining, quarrying, and the extraction of minerals etc. It may be divided into two categories:

Genetic Industry, including the production of raw materials that may be increased by human intervention in the production process; and **extractive Industry**, including the production of exhaustible raw materials that cannot be augmented through cultivation.

The genetic industries include agriculture, forestry, and fishing—all of which are subject to scientific and technological improvement of renewable resources. The extractive industries include the mining of mineral ores, the quarrying of stone, and the extraction of mineral fuels.

Primary industry tends to dominate the economies of undeveloped and developing nations, but as secondary and tertiary industries are developed, its share of the economic output tends to decrease.

2. Secondary industry

This sector, also called manufacturing industry,

(1) It takes the raw materials supplied by primary industries and processes them into consumer goods, or

(2) It processes goods that other secondary industries have transformed into products, or

(3) It builds capital goods used to manufacture consumer and non-consumer goods. Secondary industry also includes energy-producing industries (*e.g.*, hydroelectric industries) as well as the construction industry.

Secondary industry may be divided into heavy, or large-scale, and light, or small-scale, industry.

Large-scale industry generally requires heavy capital investment in plants and machinery, serves a large and diverse market including other manufacturing industries, has a complex industrial organization and frequently a skilled specialized labour force, and generates a large volume of output. Examples would include petroleum refining, steel and iron manufacturing, motor vehicle and heavy machinery manufacture, cement production, nonferrous metal refining, meat-packing, and hydroelectric power generation.

Light, or small-scale, industry may be characterized by the non-durability of manufactured products and a smaller capital investment in plants and equipment, and it may involve nonstandard products, such as customized or craft work. The labour force may be either low skilled, as in textile work and clothing manufacture, food processing, and plastics manufacture, or highly skilled, as in electronics and computer hardware manufacture, precision instrument manufacture, gemstone cutting, and craft work.

3. Tertiary industry

This sector, also called service industry, includes industries that, while producing no tangible goods, provide services or intangible gains or generate wealth.

In free market and mixed economies this sector generally has a mix of private and government enterprise.

The industry includes sectors like banking, finance, insurance, investment, and real estate services; wholesale, retail, and resale trade; transportation, information, and communications services; professional, consulting, legal, and personal services; tourism, hotels, restaurants, and entertainment; repair and maintenance services; education and teaching; and health, social welfare, administrative, police, security, and defense services.

Modern Business Environment:

- The term 'business environment' implies external forces, factors and institutions that are beyond the control of the business and they affect the functioning of a business enterprise.
- These include customers, competitors, suppliers, government, and the social, political, legal and technological factors etc. While some of these factors or forces may have direct influence over the business firm, others may operate indirectly.
- Thus, business environment may be defined as the total surroundings, which have a direct or indirect bearing on the functioning of business.
- It may also be defined as the set of external factors, such as economic factors, social factors, political and legal factors, demographic factors, technical factors etc., which are uncontrollable in nature and affects the business decisions of a firm.

Features: On the basis of the above discussion the features of business environment can be summarized as follows.

(a) Business environment is the sum total of all factors external to the business firm and that greatly influences their functioning.

(b) It covers factors and forces like customers, competitors, suppliers, government, and the social, cultural, political, technological and legal conditions.

(c) The business environment is dynamic in nature, that means, it keeps on changing.

(d) The changes in business environment are unpredictable. It is very difficult to predict the exact nature of future happenings and the changes in economic and social environment.

(e) Business Environment differs from place to place, region to region and country to country. Political conditions in India differ from those in Pakistan. Taste and values cherished by people in India and China vary considerably.

Importance:

There is a close and continuous interaction between the business and its environment. This interaction helps in strengthening the business firm and using its resources more effectively. As stated above, the business environment is multifaceted, complex, and dynamic in nature and has a far-reaching impact on the survival and growth of the business. To be more specific, proper understanding of the social, political, legal and economic environment helps the business in the following ways:

(a) Determining Opportunities and Threats: The interaction between the business and its environment would identify opportunities for and threats to the business. It helps the business enterprises for meeting the challenges successfully.

(b) Giving Direction for Growth: The interaction with the environment leads to opening up new frontiers of growth for the business firms. It enables the business to identify the areas for growth and expansion of their activities.

(c) Continuous Learning: Environmental analysis makes the task of managers easier in dealing with business challenges. The managers are motivated to continuously update their knowledge, understanding and skills to meet the predicted changes in realm of business.

(d) Image Building: Environmental understanding helps the business organizations in improving their image by showing their sensitivity to the environment within which they are working. For example, in view of the shortage of power, many companies have set up Captive Power Plants (CPP) in their factories to meet their own requirement of power.

(e) Meeting Competition: It helps the firms to analyse the competitors' strategies and formulate their own strategies accordingly.

(f) Identifying Firm's Strength and Weakness: Business environment helps to identify the individual strengths and weaknesses in view of the technological and global developments.

Characteristics of Modern Business environment

- **Bulk Size of business**

  the mass production has been an integral part of modern environment. As volume with expected lower cost rises, it helps to attain higher rate of output at low unit cost.

- **Diversification**

  Presently every business invests its capital in diversified economic activities so that it can avoid negative effect of market fluctuation. Many firms invest their funds in different market location and foreign economies in order to avoid the impact of adverse business situations, such as recession, high inflation, lockout, strikes etc.

- **Change in consumer's taste & preference**

  Presently consumer's taste & preference of modern consumers have completely clanged because of change in standards of living, consumption pattern, technology advancement etc. now people spend more money on service. Modern consumers like to spent their income in quality product rather than cheap one.

- **Change in Distribution Channel**

The revolutionary change in technology has drastically changed the conventional distribution system. Introduction of e-commerce has taken important place in distribution channel. As per consumer preference most business organization offer their product and services at the doorstep of their consumers.

- **Globalization of business**

Modern business has now global. MNC's are dominating the global market. The government of different countries is also liberating the economies by allowing foreign countries to enter the domestic market. The mergers and acquisitions are across the national boundaries have also been increasing the presence of business firm in international market.

- **Emergence of International Organization**

With the increase in cross boarder trade, the role of various international institutions such as WTO, IMF, World Bank etc has also increased. These organizations set rules and regulations for international trade.

- **Intense Competition**

Globalization of economies has increased the competition in international as well as domestic markets. In present business scenario no firm wants to remain with the regional boundaries of a country. They enter international market to explore new business possibilities.

Challenges:

We live in rapidly changing times where everything is dynamic and change is the only constant. New technologies become obsolete in days, new business trends emerge every day, new issues and rules regarding labour laws, new managerial and HR policies, the uncertainty regarding the future, the management of resources and power etc keep taking place. The business environment is challenging and the business needs to take governance and risk issues seriously to adapt and prepare itself for these challenges.

Some of the various challenges that businesses have to face are as follows:

- The challenge of Globalization
- The challenge of Diversity
- The challenge of Ethics and Governance

The challenge of Globalization

Globalization is the interaction of companies and businesses on a world wide global scale. Understanding the basic overview of the global economy as it changes is extremely helpful for managerial and business level applications. The main challenge faced by businesses is that businesses are faced with the challenge of localizing products and services effectively and efficiently in a way that minimizes the adverse cultural and environmental effects caused by this rapid global expansion to maintain an ethical operation.

On the flipside, globalization presents enormous opportunities for businesses to grow. Intercultural marketplaces allow for differing demographics, larger market potential, a more diverse customer base, more diverse product offering and a highly valuable human resource potential.

The challenge of Diversity

With globalization comes and enormous percentage of cross-cultural relationships and domestic diversity. Globalization has created higher potential value in approaching diverse markets and demographics. Because of this, understanding how to manage a diverse community internally has now become a priority for management.

Businesses and managers must be not only be aware of diversity in the workplace but also be open-minded and empathetic to perspectives other than their own. The goal for management is to ensure everyone is working to assimilate to everyone else in a balanced and effective manner that harvests differences rather than smoothing them over.

The challenge of Ethics and Governance

Ethics is at the core of corporate governance, and management must reflect accountability for their actions on a global community scale. Business itself cannot be ethical: only the managers and corporate strategists can implement ethics within the framework of the business strategy. Corporate ethics and shareholder desires for profitability are not always aligned, and it is the responsibility of executive management to ensure ethics supersede profitability.

In its simplest form, corporate ethics is a legal matter. Corporate governance and ethics become more difficult with the indirect implications of particular practices, making it important to assess the way in which certain operations may adversely affect the community at large. Managers are the primary decision makers, and therefore must hold themselves accountable for the way in which a business operates and affects stakeholders, shareholders, employees, and the community at large.

Functioning in the business world is full of challenges. Businesses should adapt to it and adopt a proactive approach towards dealing with it. Apart from the challenges mentioned above, businesses also have to deal with the challenges and penalties of non-compliance, risks and governance.

Business Process

A business process is an activity or set of activities that can accomplish a specific organizational goal. Business processes should have purposeful goals, be as specific as possible and have consistent outcomes.

Every business should define its processes, analyse and measure the results to ensure that the process is meeting expectations and is getting better. Usually, these activities can be visualized as a workflow of connected stages that can be performed in parallel or sequentially depending on specific rules or decisions. That means that every person in the company should follow the exact same steps. If someone misses one step, it will probably lead to a disoriented employee and the productivity will be reduced.

Importance of Business Process

- Identify what tasks are important to your larger business goals
- Improve efficiency
- Streamline communication between people/functions/departments
- Set approvals to ensure accountability and an optimum use of resources
- Prevent chaos from doing the day-to-day operations
- Standardize a set of procedures to complete tasks that really matter to your business

Business Process Cycle

- **Step 1: Define your goals**
  What is the purpose of the process? Why was it created? How will you know if it is successful?

- **Step 2: Plan and map your process**
  What are the strategies needed to achieve the goals? This is the broad roadmap for the process.

- **Step 3: Set actions and assign stakeholders**

Identify the individual tasks your teams and machines need to do in order to execute the plan.

- **Step 4: Test the process**
  Run the process on a small scale to see how it performs. Observe any gaps and make adjustments.

- **Step 5: Implement the process**
  Start running the process in a live environment. Properly communicate and train all stakeholders.

- **Step 6: Monitor the results**
  Review the process and analyse its patterns. Document the process history.

- **Step 7: Repeat**
  If the process is able to achieve the goals set for it, replicate it for future processes.

Example of Business Process:

As an example, let's consider the hiring process of an HR department. Right from posting the job opening to onboarding the employee, there are multiple steps involved in the process. Although this can vary from organization to organization, a simple workflow might look like this:

- The HR executive posts the job update
- Multiple candidates apply in a portal
- The HR executive screens the candidates and filters the best-fits
- The selected candidates are called for the next stages of the recruitment
- The right candidate is chosen at the last stage of the recruitment
- Salary and policy negotiations take place
- The offer letter is sent and the candidate accepts

MODULE-II

FORMS OF BUSINESS ORGANIZATION

When plan to set up a new business, businessman has to decide which form of organization is more suitable for the proposed business. For this he or she has to critically analyze the suitability of each form of organizations in the light of the nature of the proposed business. This is a very crucial decision because it determines the power and responsibility of the entrepreneur and the division of profits and losses. Once it is chosen, it is very difficult and expensive to change it.

Characteristics of Ideal Form of Business Organization:

A decision for a particular form of organization is very difficult. The nature of business, the scale of operations, financial and managerial requirements are important consideration in selecting a form of organization. It will be appropriate if characteristics of an ideal form of organization are kept in mind while making a choice. Some of these characteristics are as follow:

1. Easy to Form:

A form of organization requiring minimum formalities in starting it will be an ideal form of organization. An organization requiring too much time in establishing a business will not be preferred. The passage of time will result in escalation of costs and loss of profit.

2. Scope for Raising Finances:

An ideal organization is one which helps the enterprise to raise funds as per its requirements. If more funds are required then outsiders will have to be approached. The cost of raising the funds should also be taken into account. The funds should not dilute the control of business from the owners. There should be a scope for raising funds for expansion and developmental purposes at a later time.

3. Extent of Risk and Liability:

An element of risk is present in every type of business. It is only the degree, which differs. In a competitive world every producer tries to capture market for his product. The rapid changes in technology are influencing the method of production. The consumer preferences are also changing every time.

Since production is undertaken in anticipation of demand, there may be a likelihood that goods may not be sold as planned earlier. The impact of various factors may be on the profitability of the concern. Even losses may have to be faced. The form of organization influences the limit to which a business can withstand the risks.

An entrepreneur will prefer a form of organization where his liability is limited to the pre-determined amount. He will not prefer an organization where his private property may also be accounted for business losses. An ideal form of organization will be one where liability of owners is limited and its capacity to bear the risks is large.

4. Scope for Control:

An entrepreneur will prefer that form of organization where he can have direct control over the affairs of the unit. If decision making is not entirely in the hands of the owners then they will not be able to run the concern as per their desires. It does not mean that everything is to be done by the owners. The policy making should be with the owners and the managerial personnel will do implementation. So an ideal form of organization is one where owner retains the controlling power but without adversely affecting the efficiency and growth of the unit.

5. Continuity:

An ideal form of organization should ensure the continuity of the business. A business can ensure profitability and growth only if it continues to work uninterruptedly. The change in managerial personnel or any other factor should not affect the working of the business.

6. Maintaining Secrecy:

The secrets of a business should be closely guarded. It is essential for the success of the business. The form of organization should be such which can ensure the guarding of business secrets.

7. Tax Burden:

This is another factor, which is taken into account while selecting a form of organization. Business taxes like sales tax, excise duty, and customs duty are charged on certain products and services. Hence, such taxes affect all forms alike and they will not affect the choice. But the income tax liability is different from one form of organization to the other. Naturally, the form of organization, which attracts the minimum amount of this tax liability, is considered as an ideal form. From this point of view company form of organization is considered to be best because it enjoys a number of tax reliefs, which are not available in case of other forms of organization.

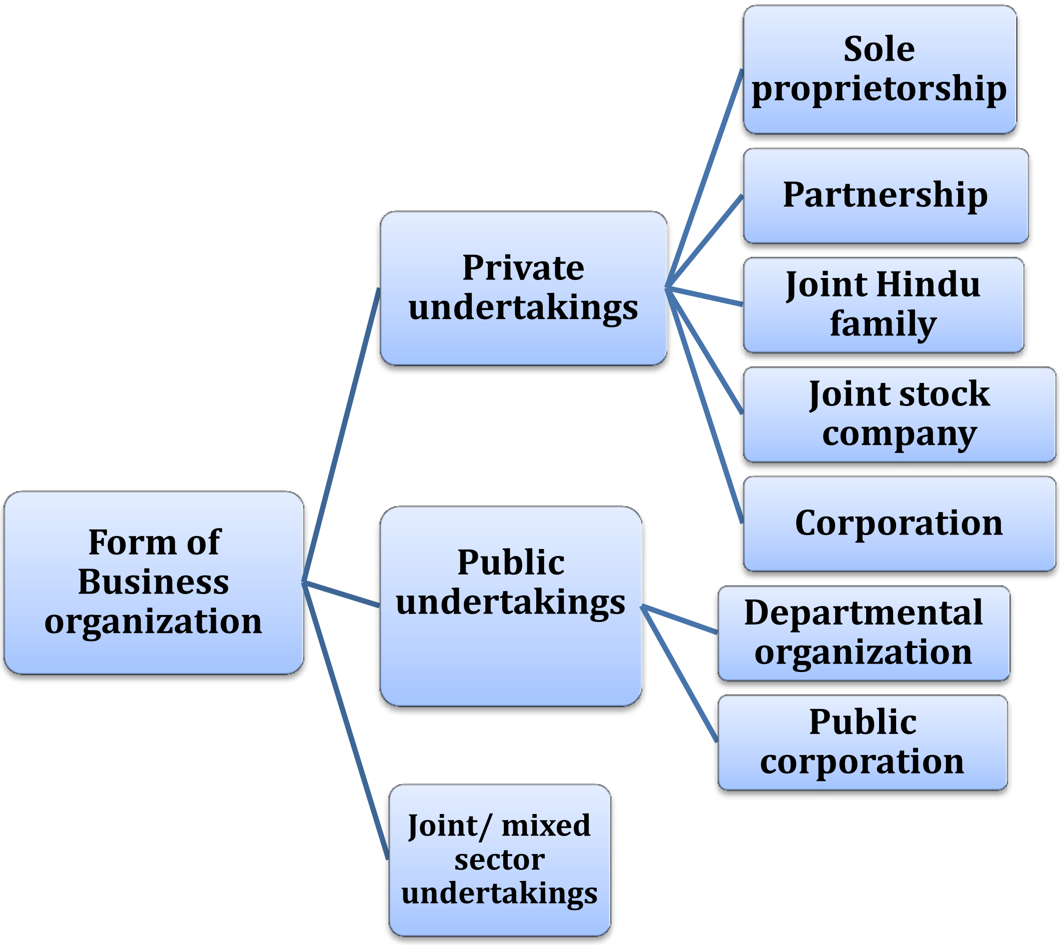
Ownership prerogatives

Some persons have a very strong desire to control the entire business activities themselves and place a great value upon their right of personal leadership. Some persons are desirous of sharing the responsibilities and risks of business. Some people may want to own a part of the capital without a strong desire to control the affairs of the business. You can also find some persons who are not ready to bear the business risk. An ideal form of organization takes care of such prerogatives of the owners.

Extent of government control and regulations:

If the governmental control and regulations are too many, the enterprise may have to divert a lot of time, money and energy for complying with legal formalities and instructions. In some cases there may be too much interference by the government officials in the day-to-day business of the firm. No doubt, the investors, creditors, and customers trust the business enterprises whose activities are properly regulated by the government. But the entrepreneurs do not favour too much government interference because it makes their initiative and disrupts the working of their business.

Different Form of Business Organization



1. Private Undertakings:

These organizations are also called non-government enterprises because these are neither established nor controlled by the government. These are managed and controlled by the nongovernment persons. Under this category, we include sole proprietorship, Hindu-undivided family, partnerships, cooperative society and joint stock companies which are further divided as private company and public company. Let's have brief discussion on these forms of business organizations.

i. Sole Proprietorship:

As the name signifies, it is a form of business organization which is managed and controlled by a single person to whom we call 'sole trader'. He is the person who invests the capital, responsible for running the business, enjoys the fruits of profit and also bears the loss and he himself is the owner and manager of the business.

such special legislation as may affect his particular business”.

ii. Partnership:

As the business progresses, the sole trader-ship form of business organization becomes small. This is simply because to produce at large scale, invest in a huge manner, to be efficient enough to control larger sort of operation, seems very difficult for a single person. In the growing business the need for more and more capital, limited managerial skill of an entrepreneur, ever increasing risk and limited goodwill are some of the constraints of sole trader-ship which necessitated the need for partnership. partnership is an agreement between two or more persons who will share profit and loss on the predetermined basis of a specific business and this business either is carried out by all of them or by any one of them on behalf of others.

iii. Joint Stock Company:

The world could witness two bigger evolutions. One of them was advent of industrial revolution and another was large-scale production. And due to these changes, the whole structure of the world changed in terms of trade, industry, and politics and at social levels. At earlier times, the structure of markets used to be locals and

Nationals but now these markets are shaping up into global markets. The people are exposed to diversified media and are able to access any part of the world either physically or in form of products.

So, there was a strong feeling of an institution which could meet the growing demand of the people. Therefore, this situation gave birth to a new form of business organization which was named as Joint Stock Company. In India as per the Companies Act. In 1913, new companies act was formed.

iv. Joint Hindu Family Business:

It is yet another form of business organization in private sector. Before knowing joint Hindu family business, we must know something about joint Hindu family. Joint Hindu Family means the family which is joint, the family which is undivided and all the members live together. In other words, all the members of a family live and work together. Therefore, we can say that a business is run by a Hindu un-divided family and controlled by the senior most member of the family.

“When all the members of joint Hindu family carry a business under the control of Karta or Mukhiya of that family, such business is known as Joint Hindu Family Business”. This type of business can only be found in India. This type of business is directed under ‘Hindu Law’.

v. Cooperative Organization:

In the chain of private sector organization yet another form of business organization exists named as cooperative organization. Although it is one of the oldest kind of organization yet it has gained popularity recently in India. It has evolved through two words cooperation meaning thereby to work together. It is that kind of organization where men associate themselves voluntarily for a particular task for their financial well-being and development.

Join sector/Mixed sector Undertakings

- Invested not only by the government but also by the private hands. Business enterprises which are neither private nor public or the organizations which are established by both government and the private entrepreneurs are called joint sector or mixed organizations.
- The capital is may be through inviting money from the public in the form of shares or debentures.
- The main feature of this kind of organization is that both government sector and private sector work together for the development of the economy.
- Maruti-Suzuki India Ltd. is the hottest example of the mixed sector where Maruti represents the government of India and Suzuki is a private Japanese company.

Public Undertakings:

- Public enterprise should not be confused with public company which falls in the category of private sector. The government enterprises are also known as state enterprises.
- Prior to independence, the government of India used to look after only few departments like postage and telegram, rail transport and radio, etc.
- But seeing the scenario of poverty, unequal distribution of wealth and the problem of unemployment led the government to think to adopt socialistic pattern of society.

- Therefore, the government of India announced its industrial policy in 1956 where it was decided that some industries should be kept by the government so as to provide basic infrastructural facilities to the private sector and to keep the social welfare industry intact in the hands of the government.
- To attain the socialistic pattern of society, the government thought and planned that for the better development, basic industries and the industries, where huge investment is required, should be kept under the government control.

i) Departmental Organization:

It is that kind of organization which is fully owned by the government and it is run by any of the departments of the state. Because it is directed by a department that is why it is known as 'Departmental undertaking'. For example, postage or telegram and Indian Railways are such organizations of the central government.

These kinds of organizations are privileged in a manner that without the prior permission of the government, nobody can sue to these departments. These are directly controlled by the parliament and their budget is also approved by the parliament only.

(ii) Public Corporation:

The public corporation is a body with a separate existence which can sue and be sued and is responsible for its own finances. Public corporation is operated with the power of the government but possesses the flexibility and initiative of private enterprise. These are established with the special act of parliament.

General Insurance Corporation (GIC), Life Insurance Corporation (LIC) and Indian Oil Corporation (IOC) are some of the examples of these kinds of establishments. These are run and managed by the board of directors. These organizations are exempted from the budgetary regulations unlike the departmental organizations.

Sole Proprietorship Form of Business

According to Louis Henny “The individual proprietorship form of business organization is an organization at the head of which stands an individual as the one who is responsible, who directs its operation and who alone runs the risk of failure”.

James Stephenson says “A sole trader is a person who carries on business exclusively by and for himself”.

On the basis of above definitions, we can conclude that sole trader-ship is that form of business where a single person invests capital, establishes, directs and manages single-handedly to bear all kinds of profits and losses. So, the business which is run by a single person is known as ‘sole trade’ and the person who runs it called as ‘sole trader’. He is also known as individual entrepreneur, individual owner, individual organizer and sole proprietor.

The sole trader organisation (also called proprietorship) is the oldest form of organisation and the most common form of organisation for small business even today. It is the simplest and easiest to form. What is required is that an individual decides about the type of business to be started and arranges the necessary capital. Required capital may be mobilised from his own savings, or may be borrowed from friends and relatives. The business may be carried either in a portion of his own residence or in a rented building. The person generally manages the business on his own. He may also take the help of his family members or employ some persons, if necessary. He can take the advice from others in running the business, but his own will bk the final decision. Thus, the sole trader enjoys full control over the affairs of the firm. He enjoys all the profits earned by the business. So, in case of loss, naturally, he has to bear the full brunt of it.

Thus, we can now define sole trader organisation as "one man's business in which an individual produces independently with his own capital, skill and intelligence and is entitled to receive all the profits and assumes all the risks of ownership". As per J.L. Hanson “it is a type of business unit where one person is solely responsible for providing the capital for bearing the risk of the enterprise and for the management of the business". Under this form of business organisation, no distinction is made between the business concern and the proprietor. Likewise, the management rests with the same person.

Main Features

Based on the above discussion, we can list the main features of sole trader organisation as follows.

1. **One man ownership**

The ownership lies with one person only. There are no associates I or partners. He invests his own money or borrows from the friends and relatives.

2. No separation of ownership and management

The owner himself manages the business. Therefore, the separation of ownership and management which is quite common in big business is not present in this form of organisation. Since the proprietor himself manages the business, he exercises a high degree of supervision and control in the working of his business.

3. No separate entity

The business does not have an entity separate from the owner. The proprietor and the business enterprise are one and the same.

4. All profits to proprietor

Since there are no partners, all the profits are enjoyed by the sole proprietor.

5. Individual risk

All losses in the business are borne by the proprietor himself.

6. Unlimited liability

The proprietor has an unlimited liability. This means that in case of loss even the personal property of the owner can be utilised for clearing the business obligations and debts.

7. Less legal formalities

To set up sole proprietorship, no legal formalities are required. Of course, there are some legal restrictions for the setting up of a particular type of business. For example, an individual cannot start a bank or an insurance company. But one can start a fruit stall or a cycle shop without much legal formalities. However, in some cases a licence may be required. For example, to start a restaurant, you need licence from municipal

Merits and Limitations

You have learnt about the main features of the sole trade business. In view of these features. this form of organisation has the following merits and limitations.

Merits

1 Easy formation

There are no legal formalities to be observed while starting this form of organisation. Therefore, its formation is very easy and simple. The expenditure involved in the process of formation is also negligible.

2 Direct motivation

As you know, all the profits and gains of the business are solely and exclusively pocketed by the sole proprietor. This motivates the proprietor to work hard and develop the business to get more and more profits. His involvement in the business is, therefore, complete and free.

3 Full control

The proprietor is the monarch of the business he owns. He manages the whole business and takes all decisions himself. In other words, proprietor exercises full control over the functioning and working of the business.

4 Quick decision

The proprietor does not depend on others for decision making. Since there are no partners, he is not required to consult others. This enables the proprietor to take quick decisions on numerous matters concerning his business.

5 Flexibility in operations

Being a small organisation, it is easy to bring changes if situation so demands. In a large sized organisation to bring changes is difficult.

6 Secrecy

Since the whole business is handled by the proprietor his business secrets are known to him only. He is not bound to publish his accounts. Therefore, the degree of secrecy is the highest in this form of organisation.

7 Personal Touch

When the proprietor handles everything relating to the business himself, it is easy to maintain a personal rapport with the customers. He can easily know their tastes, likes and dislikes and adjust his operations accordingly. Similarly, in this form of organisation, employees, if any, work directly under the proprietor. So, it gives scope for the proprietor to maintain harmonious relations with the employees.

8 Dissolution easy

Since there are no co-owners or partners, there is no scope for the difference of opinion in the case of dissolution of business. The proprietor is free to withdraw from the business or to sell it at any time he wants. Because of ease in formation and withdrawal, proprietorship form is often used to test business ideas.

Limitations

1 Limited resources

The capital and other resources of an individual are always limited. The sole trader has to mainly rely on his own money and earnings, or he can borrow, if necessary, from relatives and friends. Thus, the proprietor has a limited capacity to raise funds. This makes it difficult to plan any large-scale expansion.

2. Limited managerial capability

In the modern business, knowledge and skills in various fields like production, finance, marketing, etc., are required. It is not possible for a single individual to possess expertise in all these areas. So, his decisions may not be balanced.

3 Not suitable for large scale operation

Since the resources of the sole trader are limited, it is suitable only for small business and not for large scale operations.

4 Unlimited liability

You know that the proprietor has an unlimited liability. In case of a loss, even his personal property and belongings can be utilised for clearing business obligations. Therefore, he cannot take much risk and is discouraged from expansion of his business.

5 Less stability

The continuity and stability of the business depends solely on one person. When the man dies, there is a likelihood of closure of the business.

6 No check and control

As the sole trader is the monarch of the business, no outsider can question him on his acts and deals. There are no checks and controls on the sole trader.

7 Less scope for economies of scale

Sole trader usually operates on small scale only. So, he cannot enjoy the bene of large-scale production or buying or selling. This may Business Organisation raise the cost of business operations.

Partnership Form of Business

Necessity is the mother of invention seems to be the true saying in case of evolution of partnership, means to remove the maladies of sole trader-ship, partnership form was evolved. In India, this form of business is directed and controlled through Partnership Act, 1932.

In the simple words, if two or more persons run a business, it together is known as 'partnership'.

According to Prof. Henny "The relation existing between persons competent to make contracts who agree to carry on a lawful business in common with a view to private gain".

According to Indian Partnership Act, 1932 (Sec. 4) "Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any one of them acting for all."

On the basis of above definitions, it can be concluded that partnership is an agreement between two or more persons who will share profit and loss on the predetermined basis of a specific business and this business either is carried out by all of them or by any one of them on behalf of others.

It is important to mention here that as per Section 6 of Indian Partnership Act, if two or more persons possess a common property and share profits, they cannot be treated as partners. In that circumstances, these people are called co-owners. In partnership, individual members are called partners and collectively their business is known as 'firm' under whose name they run their partnership business.

Main Features From the above discussion, we can list the main features of partnership form of organization as follows:

1 Plurality of persons: To form a partnership firm, there should-be at least two persons. The maximum limit on the number of persons is ten for banking business and twenty for other types of business.

2 Contractual relationship: Partnership is created by an agreement between persons called 'partners'. In other words, a person can become a partner only on the basis of a contract. This contract could be oral, written or implied.

3 Profit sharing: There must be an agreement along the partners to share the profits and losses of the business of the partnership firm. This is one of the basic elements of partnership. If two or more persons jointly own some property and share its income, it is not regarded as partnership.

4 Existence of business: The purpose of the agreement among the partners is to do some lawful business and share profits. If the purpose is something other than business, it should not be treated as partnership. For example, if the purpose is to carry some charitable work, it will not be treated as partnership.

5 Principal-agent relationship: The business of the firm may be carried on by all or one or more partners acting for all the partners. Every partner is entitled to take part in the operations of the firm. In dealing with other parties, each partner is entitled to represent the firm and other partners in respect of the business of the firm. All partners are bound by his acts done in the ordinary course of business and in firm's name. In this sense a partner is agent of the firm and the other partners.

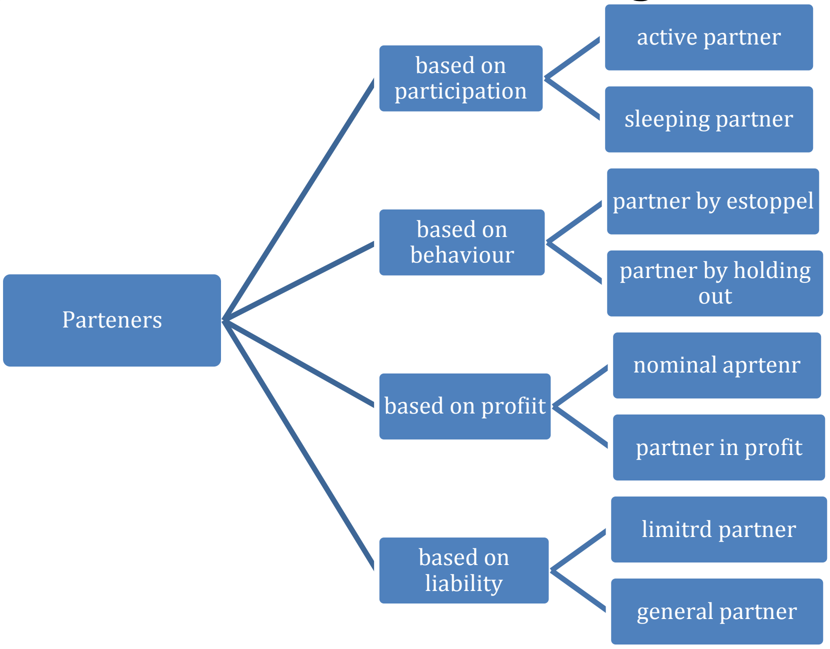
6 Unlimited liability: In respect of business debts, each partner has unlimited liability. This means that if the assets of the firms are not sufficient to meet the obligations of the firm, the partners have to pay from their private assets. The creditors can even release the whole of their dues from one of the partners. Thus, all the partners are jointly and severally liable for all business debts and obligations.

7 Good faith and honesty: A partnership agreement rests on good faith among the partners. The partners must be honest to each other and trust each other. They must disclose every information about the business and present true accounts to one another.

8 Restriction on transfer of share: A partner cannot transfer his share to an outsider without the consent of all the other partners.

Classification of Partners

You have learnt that different partners play different roles in the operations of the firm. One partner may contribute more capital while another partner may spend more time in managing it. Depending on the role played, we can classify the partners into various categories. Look at following figure for the classification of partners.



Based on the extent of participation in the functioning of the business, we can classify partners into:
a) active partners, and (b) sleeping partners.

a) Active partner: If a partner takes an active part in the management of the business, we call him as active partner. He is otherwise known as a 'working partner'.
b) Sleeping partner: If the partner is not actively associated with the working of the partnership firm, we call him a sleeping partner. A sleeping business partner simply invests his capital. He does not participate in the functioning of the firm. Such a partner is also known as a 'dormant partner'.

Based on the sharing of profits, partners may be classified into: (a) nominal partners, and - (b) partner in profits.

a) Nominal partner: A partner who just lends his name to the partnership is known as a nominal partner. He neither invests his capital nor participates in the day-to-day working Business Organization and management of the firm. Such partners are not entitled to a share of profits, but they are liable to other parties for all the acts of the firm.
b) Partner in profits: A partner who shares the profits of the business without being liable for losses is called a partner in profits. As a rule, he will not take any part in the management of the business. This is applicable to a minor who is admitted to the benefits of the firm.

Based on the behavior and conduct exhibited, the partners may be divided into: (a) partner by estoppel, and (b) partner by holding out.

a) Partner by estoppel: A person who behaves in the public in such a manner, as to give an impression that he is one of the partners in a partnership firm is called a partner by estoppel. Such partners are not entitled to profits but are fully liable as regard to the firm’s obligations.

b) Partners by holding out: If a particular partner of a firm represents that another person is also a partner of the firm, and if such a person does not disclaim the partnership relationship even after coming to know about it, such person is called a 'partner by holding out'. Such partners are not entitled to profits but are liable as regards the obligations of the firm.

You should note the difference between these two types clearly. In the case of a partner by estoppel, the person's own behavior and conduct have created a mistaken impression in the third parties mind that he is a partner of the firm. Whereas in the case of a partner by holding out, the other partners have represented the person as a partner, though he is not one, and he does not contradict it.

Based on liabilities also, partners may be classified into two categories: (a) limited partners. and (b) general partners.

a) Limited partner: The liability of such a partner is limited to the extent of the capital contributed by him. He is not entitled to take part in the management of the business, but he can advise the other general members. His acts do not bind the firm. He has right to inspect the

books of the firm for his information. Such partners are also called 'special partners'.

b) General partner: He is also called 'unlimited partner'. HIS liability is unlimited and he is entitled to participate in the management of the business. Every partner who is not a limited partner is treated as a general partner.
As you know in partnership the liability of the partners is unlimited. The limited partners are found only in limited partnership form of organization which is found only in some European countries and the USA. This is not allowed in India.

Partnership Deed

You know that a partnership is formed by an agreement. Such agreement may be either written or oral. To avoid misunderstanding and unnecessary litigations, it is always desirable to have a written agreement. When the written agreement is duly signed and registered, it is known as 'Partnership Deed'.
After registration, each partner is given a copy of the partnership deed. A partnership deed, generally contains the following particulars.

1. Name of the firm.
2. Nature of the business to be carried out.

3. Name of the partners.
4. The town and the place where business will be carried on.
5. The amount of capital to be contributed by each partner.
6. The profit and loss sharing ratio of each partner.
7. Loans and advances by partners and the interest payable on them.
8. The amount of withdrawal by each partner and the rate of interest allowed thereon.
9. The rate of interest on capital.
10. Duties, powers, and obligations of partners.
11. Remuneration, if any, payable to the active partner.
12. Maintenance of accounts and arrangements for audit.
13. Settlement in the case of dissolution of partnership.
14. The methods of evaluation of goodwill on admission or death or retirement of a partner.
15. The method of revaluation of assets and liabilities on admission or death or retirement of a partner.
16. The method of retirement of a partner, and the arrangement for the payment of the dues of a retired or deceased partner.
17. Arbitration in case of disputes among partners.
18. Arrangements in case a partner becomes insolvent.

This is not an exhaustive list. Any other clauses, as desired by the partners. could be included in the partnership deed. In fact, the Partnership Act defines certain, rights and duties of partner. But the provisions of the Act does not come into operation only when there is no agreement amongst the partners.

Registration of the firm

Under the Indian Partnership Act 1932, it is not compulsory to register the firm. But there are certain limitations for an unregistered firm. So, it is better to register it. Registration can be done at any time. To register the firm, an application with all particulars about the firm with registration fee have to be sent to the Registrar of Firms.

Merits and Limitations of Partnership Form of Business

Merits

1 Easy formation: Although the formation of a partnership firm is not as easy as the sole proprietorship, but it is much less difficult as compared to a company. The partners agree to do business together and draw up and sign the partnership agreement. After that there are no complex government laws regulating the establishment of the partnership.

2 More capital available: Unlike sole proprietorship, there are two or more partners in partnership firms. So. In partnership, firm does not have to rely on a single individual as the source of its funds. The added financial strength of the partners increases the borrowing capacity of the firm.

3 More diverse-skills and expertise: The partnership involves more people in decision making because there are more owners. An ideal partnership brings together partners who complement each other, not partners who have the same background and experience. One partner might be a specialist in manufacturing, another in marketing, and the third partner might be an accountant. Combined judgment of all these partners often leads to better decisions than otherwise.

4 Flexibility: Like Sole proprietorship, the partnership business is not owned by owners but also run by the partners themselves. They can easily appreciate and quickly respond to the title changing conditions.

5 Secrecy: In partnership firms, some secrecy can be maintained because there is no obligation to publish accounts of the firm.

6 Keen interest: Since partners are liable to losses and risks of the business, they take keen interest in the affairs of' the business.

7 Protection: Due to the rule of unanimity in fundamental matters, the rights of all partners are fully protected. If the partner is dissatisfied with the working of the firm, he can ask for dissolution of the firm and withdraw from the business.

8 Checks and controls over careless decisions: Since the partnership is full on collective basis and all partners participate in major decisions. there is lesser scope for reckless and hasty decisions.

9 Diffusion of risk: The losses of the firm will be shared by all the partners. Hence, the share of loss in the case of each partner will be less than that sustained in sole proprietorship.

Limitations

1 Limited capital: Since there is a limit of' maximum partners (20 in non-banking firms and 10 in banking firms), the capital raising

capacity of the partnership firms is limited as compared to a joint stock company.

2 Unlimited liability: The most important drawback of a partnership firm is that the liability of the partners is unlimited.

3 No public confidence: Since the accounts are not published and publicized, the firm may not be able to command confidence of the public.

4 Non-transferability of interest: No partner can transfer his interest in a firm without the consent of other partners.

5 Uncertainty: The sudden death, lunacy or insolvency of a partner leads to the dissolution of partnership. This breeds uncertainty in the continuity of a partnership firm. However, this could be partly avoided if such matters are specified in the partnership agreement.

6 Conflicts among partners: There is scope for misunderstanding and conflicts among the partners. This may cause delays in decision making and may lead even to dissolution of the firm. To some extent, this problem could be avoided if the partnership agreement is clear and detailed.

7 Risk of implied authority: Since each partner acts as an agent of the firm, acts of one partner would bind the firm and all the remaining partners. A dishonest or incompetent partner may lend the firm into difficulties and the other partners may have to pay for it.

Dissolution of Partnership

- A dissolution of a partnership generally occurs when one of the partners ceases to be a partner in the firm.
- Dissolution is distinct from the termination of a partnership and the "winding up" of partnership business.
- Although the term *dissolution* implies termination, dissolution is actually the beginning of the process that ultimately terminates a partnership. It is, in essence, a change in the relationship between the partners.
- Accordingly, if a partner resigns or if a partnership expels a partner, the partnership is considered legally dissolved.
- Other causes of dissolution are the bankruptcy or death of a partner, an agreement of all partners to dissolve, or an event that makes the partnership business illegal. For instance, if a partnership operates a gambling casino and gambling subsequently becomes illegal, the partnership will be considered legally dissolved.
- In addition, a partner may withdraw from the partnership and thereby cause a dissolution. If, however, the partner withdraws in violation of a partnership agreement, the partner may be liable for damages as a result of the untimely or unauthorized withdrawal.

Cooperatives

Cooperatives are people-centred enterprises owned, controlled and run by and for their members to realise their common economic, social, and cultural needs and aspirations.

Cooperatives bring people together in a democratic and equal way. Whether the members are the customers, employees, users or residents, cooperatives are democratically managed by the *'one member, one vote'* rule. Members share equal voting rights regardless of the amount of capital they put into the enterprise.

As businesses driven by values, not just profit, cooperatives hare internationally agreed principles and act together to build a better world through cooperation. Putting fairness, equality and social justice at the heart of the enterprise, cooperatives around the world are allowing people to work together to create sustainable enterprises that generate long-term jobs and prosperity.

Cooperatives allow people to take control of their economic future and, because they are not owned by shareholders**,** the economic and social benefits of their activity stay in the communities where they are established. Profits generated are either reinvested in the enterprise or returned to the members.

Characteristics of Cooperative Organization

1. **Voluntary Association**

A cooperative society is a voluntary association of persons and not of capital. Any person can join a cooperative society of his free will and can leave it at any time. When he leaves, he can withdraw his capital from the society. He cannot transfer his share to another person.

2. Spirit of Cooperation:

The spirit of cooperation works under the motto, 'each for all and all for each.' This means that every member of a cooperative organization shall work in the general interest of the organization as a whole and not for his self-interest. Under cooperation, service is of supreme importance and self-interest is of secondary importance.

3. Democratic Management:

An individual member is considered not as a capitalist but as a human being and under cooperation, economic equality is fully ensured by a general rule-one man one vote. Whether one contributes 50 rupees or 100 rupees as share capital, all enjoy equal rights and equal duties. A person having only one share can even become the president of cooperative society.

4. Capital:

Capital of a cooperative society is raised from members through share capital. Cooperatives are formed by relatively poorer sections of society; share capital is usually very limited. Since it is a part of govt. policy to encourage cooperatives, a cooperative society can increase its capital by taking loans from the State and Central Cooperative Banks.

5. Moral Emphasis:

A cooperative organization generally originates in the poorer section of population; hence more emphasis is laid on the development of moral character of the individual member. The absence of capital is compensated by honesty, integrity and loyalty. Under cooperation, honesty is regarded as the best security. Thus, cooperatives prepares a band of honest and selfless workers for the good of humanity.

6. Corporate Status:

A cooperative association has to be registered under the separate legislation—Cooperative Societies Act. Every society must have at least 10 members. Registration is desirable. It gives a separate legal status to all cooperative organizations—just like a company. It also gives exemptions and privileges under the Act.

Types of Cooperatives:

Cooperatives may be formed in all walks of life. Some of them are concerned with the moral and social uplift of a weak section of the people, while many of them combine some business activity with service to members.

1. Cooperative Credit Societies:

Cooperative Credit Societies are voluntary associations of people with moderate means formed with the object of extending short-term financial accommodation with a reasonable rate of interest. These credit society may be classified into agricultural credit societies and non-agricultural credit societies. The first ones are started to provide loans to farmers to meet the expense in cultivation.

Non-agricultural credit societies are formed by the employees of industrial units and various institutions. They can also be organized by small traders, artisans and people of low -income groups in towns and cities to meet their credit requirements.   Ex urban cooperative bank.

2. Consumers' Cooperative Societies:

these cooperatives help the people to obtain their day-to-day household good at reasonable price. The main objective is to protect the members from the evil of unfair trade practices. These societies purchase their goods in bulk sizes from wholesalers and producers and sell them to its members. Sometimes also nonmembers.

3. Producers' Cooperatives:

Producers' Cooperatives, also known as industrial cooperatives, are voluntary associations of small producers formed with the object of eliminating the capitalist class from the system of industrial production. These societies produce goods for meeting the requirements of consumers. Sometimes their production may be sold to outsiders at a profit.

There are two types of producers' cooperatives. In the first type, producer-members produce individually and not as employees of the society. The society supplies raw materials, chemicals, tools and equipment's to the members. The members are supposed to sell their individual products to the society.

In the second type of such societies, the member-producers are treated as employees of the society and are paid wages for their work.

4. Housing Cooperatives:

Housing cooperatives are formed by persons who are interested in making houses of their own. Such societies are formed mostly in urban areas. Through these societies persons who want to have their own houses secure financial assistance.

5. Cooperative Farming Societies:

The cooperative farming societies are basically agricultural cooperatives formed for the purpose of achieving the benefits of large-scale farming and maximizing agricultural output. Such societies are encouraged in India to overcome the difficulties of subdivision and fragmentation of holdings in the country.

MODULE-III

You have learnt that sole proprietorships and partnerships have the disadvantages of limited resources, unlimited liability, limited managerial skills, etc. The life and stability of these organisations also depend on the life and stability of the proprietors & partners. Hence, they are not considered suitable for large scale business,

For large scale business, you require large investment and specialised managerial skills. The element of risk is also very high. This situation led to the emergence of company form of business organisation. In case of joint stock company, capital is contributed by not one or two persons but by a number of persons called shareholders. Thus, it is possible to raise large amount of capital. A joint stock company is an association of persons registered under Companies Act for carrying on some business. It is called an artificial person as it is created by law, with a distinctive name, a common seal and perpetual succession of members. It can sue and be sued in its own name. The most widely quoted definition of a company (called Corporation in USA) is the one given by Chief Justice Marshal. According to him "a corporation is an artificial Bing, invisible, intangible and existing only in contemplation of law. Being the mere creature of law, it possesses only those properties which the charter of its creation confers upon it, either expressly or an incidental to its very existence."

Lord Justice Lindley has defined it as "an association of many persons, who contribute money or money's worth to a common stock and employ it for a common purpose. The common stock so contributed is denoted in money and is the capital of the company. The persons who contribute or to whom it belongs to, are members. The proportion of capital to which each member is entitled is his share."

The Indian Companies Act (1956) defines joint stock company as "a company limited by shares having a permanent paid up or nominal share capital of fixed amount divided into shares, also of fixed amount, held and transferable as stock and formed on the principles of having in its members only the holders of those shares or stocks and no other persons."

Main Features

Based on the above definitions, we can list out the features of the company form of organisation as follows:

1 Incorporation: A company is an incorporated association. It comes into existence only after registration under the Companies Act.

2 Artificial Person: A company is regarded as an artificial person as it is created by law and can be effaced only by law. It has no body, no soul, no conscience, still it is in a position to exist. Like any other person it can own property, conduct a lawful business, enter into contracts with others, buy, sell and hold property, all under its own name and its own seal.

3 Separate legal entity: A company has a distinct entity separate from its members. A shareholder of a company can enters into contract with the company and can sue the company and be sued by it. You know that in the case of partnership, every partner is an agent of the firm and also that of the other partners. But the shareholder is not the agent of the company or its shareholders. He cannot bind them with his acts.

4 Common seal: As the company is not a natural person, it cannot sign the documents. It has a device in the form of common seal on which its name is engraved. This common seal is a substitute of its signatures. It is affixed on all important legal documents and contracts. It is used at the direction of the board of directors and two directors have to sign as witnesses wherever it is affixed on any document.

5 Perpetual succession: A joint stock company has a continuous existence. Its life is not affected by the death, lunacy, insolvency or retirement of its shareholders or directors. Members may come and go, but the company continues its operations until it is legally dissolved. Thus, a company has perpetual succession irrespective of its membership. This feature provides stability to this form of organisation.

6 Separation of ownership and management: The shareholders of a company are widely scattered throughout the country. For the conduct of the business and its management, shareholders elect another set of persons known as directors. The right to manage the company affairs is vested in the directors who are elected representatives of the shareholders. Thus, ownership is separated from management.

7 Number of members: In the case of a public limited company: the minimum number is seven and there is no maximum limit. In the case of a private limited company, minimum number is two and the maximum is fifty.

8 Limited liability: The liability of the members of a company is normally limited by guarantee or by the shares. Member's liability is limited to the amount of shares held. Members are not personally liable for the debts of the company. So, personal properties of the members are not liable to be attached for the payment of the company's debts.

For example, the face value of the share of a company is Rs. 10 which the member has already paid. At the time of winding up of the company, the member cannot be asked to pay any money. But if the member had paid only Rs.7, he can at the most be asked to pay the balance of Rs. 3 (face value Rs.10 company's money, already paid Rs. 7), and no more.

9 Transferability of shares: The member of a public limited company enjoys a statutory right to sell his shares to others without the consent of other shareholders. But for transferring the shares he has to follow the procedure laid down in the Companies Act. However, there are restrictions for transferring shares in case of a private limited company.

10 Rigidity of objects: The scope of the business of a company is limited. The type of business in which the company would participate is mentioned in the 'object clause' of its Memorandum of Association. The company cannot take up any new business without changing the object clause. To change the object clause, the company has to comply with the provisions of the Companies Act,

11 Statutory regulations: A company is governed by the Companies Act and it has to follow various provisions of the Act. It has to submit a number of returns to the Government. Accounts of a company must be audited by a Chartered Accountant. Thus, the company form of organisation has to comply with numerous and varied statutory requirements.

Merits and Limitations The company form of organisation

It has been popular and successful in almost all the countries. This form is suitable where large resources are required and the 'production has to be carried out on a large scale. The number of joint stock companies has shown a phenomenal increase in the twentieth century. Let us now discuss the merits and limitations of the company form of organisation.

Merits

1 Large capital: Since company form of organisations are allowed to have a large number of shareholders, it is possible to raise capital in large amounts. Whenever new capital is required, it can issue shares and debentures. For this reason, only the company form of organisation is best suited.

2 Limited liability: The liability of shareholders, unless and otherwise stated, is limited to the face value of the shares held by them or guarantee given by them. Their private property is not attachable to recover the dues of the company. Thus, this form of organisation is a great attraction to persons who are not willing to take risk as is inherent in sole proprietorship and partnership.

3 Stability of existence: A company has a separate legal entity with perpetual succession. The corporation is not affected by lunacy or insolvency of a shareholder, director or officer. The continuity of the company is desirable in the interest of not only its members but also the society.

4 Economies of scale: As companies operate on a large scale, they can take advantage of large scale buying, selling, production, etc. As a result of these economies of largescale operations, companies can provide goods to consumers at a cheaper price.

5 Scope for expansion: As there is no limit to the maximum number of shareholders in a public limited company, expansion of business is easy by issuing new shares and debentures. Companies normally keep part of their profits as reserve and use them for expansion.

6 Public confidence: Companies are subject to Government controls and regulations. Their accounts are audited by a chartered accountant and are to be published. This creates confidence in the public about the functioning of the company.

7 Transferability of shares: The shares of the public limited company can be sold at any time in the stock exchange. Shareholders can sell their shares whenever they want. There is no need to take the consent of other shareholders. Thus, shareholders can convert their shares into cash at any time without much difficulty.

8 Professional management: You know that the management of a company is in the hands of the directors who are elected by shareholders. Normally, experienced persons are elected as directors. You also know that day-to-day activities are managed by salaried managers. These managers are the experts in their respective fields. As companies have large scale operations and profits, attracting good professional managers is easy by paying attractive salaries. Thus, company form of organisation gets the services of professionals on the Board of Directors and in various management positions.

9 Tax benefits: Companies pay income tax at flat rates. There is no provision for slab system in the taxation of companies. As a result, companies pay lower taxes on higher incomes compared to other forms of organisations. Companies also get some tax concessions if they are established in backward areas.

10 Risk diffused: As the membership is very large, the business risk is divided among the several members of the company. This is an advantage for small investors.

Limitations

1 Difficulty in formation: Promotion of a company is not as simple as proprietorships and partnerships. A number of persons known as promoters should be ready to associate themselves with it for getting a company incorporated. A lot of legal formalities are to be performed at the time of registration. Promotion of a company is expensive as well as complicated.

2 Lack of secrecy: The management of companies is usually in the hands of many persons. Everything is discussed in the meetings of Board of Directors. Therefore, compared to sole trader and partnership concerns, maintaining business secrets is relatively difficult in a company form of organisation.

3 Delay in decision making: In company form of organisation all important decisions are taken by either the Board of Directors or shareholders in their meetings. Hence. decision making process is time consuming. If a quick decision is needed it will be difficult to arrange meetings all of a sudden. So, some business opportunities may be lost because of delay in decision making.

4 Neglect of minority interest: The representatives of the majority group of shareholders become the members in the Board of Directors. The shareholders who are in minority never get representation on the Board of Directors. As a consequence, the interests of the minority members may be neglected and oppressed at the hands of the majority group.

5 Concentration of economic power: The company form of organisation gives scope for concentration of economic power in a few hands. Some persons become directors in a number of companies and formulate policies to promote their personal interests. The shares of a number of other companies are purchased to create subsidiary companies. attachable to recover the dues of the company. Thus, this form of organisation is a great attraction to persons who are not willing to take risk as is inherent in sole proprietorship and partnership.

Classification of Companies

We can classify companies on the basis of I) Mode of incorporation, 2) Extent of liability, 3) Category of shareholders, and 4) Jurisdiction of functioning,

Look at Figure 2.3 for the: classification of companies.

1 On the basis of the mode of incorporation, we can classify companies into three categories:

Statutory Company: A company established by a special Act of the Parliament or State Legislature is called 'Statutory Company. Such companies are established in special cases when it is necessary to regulate the working of the company for some specific purposes. Examples of such corporations are Reserve Bank of India, Life Insurance Corporation of India, Air India Corporation, Food Corporation of India, etc. These are mostly public sector enterprises.

Registered Company: A company which is incorporated through registration with the Registrar of Companies under the Companies Act, 1956, is called a 'Registered Company. This is also called incorporated Company. All companies established under the private sector belong to this category.

Chartered Company: A company which is incorporated under a special Royal Charter granted by the Monarch is called a 'Chartered Company'. It is regulated by the provisions of that charter. Examples are: British East India Company, Bank of England, Hudson's Bay Company, etc. In India this type of companies does not exist now because there is no monarchy.

2.**Based on the type of liability,** companies may be classified into three categories:

a) Unlimited company: A company in which the liability of the members is unlimited, is called 'Unlimited Company'. At the time of winding up of the company shareholders have to pay, if necessary, from their personal assets to clear the company's debts. From this point of view, it is very much like sole proprietorship .and partnership. However, such companies are very rare.

b) Companies Limited by Guarantee: In the case of some companies, members give guarantee for the debts of the company up to a certain limit in addition to the amount of shares held by them. The additional amount guaranteed by the members is, generally, laid down in the Memorandum of Association. Such companies are not formed for the purpose of profit. They are formed to promote art, culture, religion. trade, sports, etc. Clubs, Charitable organisations, trade association, etc. come under this category.

C) Companies Limited by Shares: In this case the liability of the members is limited to the amount of the shares held by them. A shareholder can be called upon to pay only the unpaid amount of shares held by him and nothing more. Most of the companies come under this category.

3 On the basis of the ownership, companies may be classified into three categories:

a) Private Limited Company: A private limited company means a company which by its article i) restricts the right to transfer its shares; ii) limits the number of its members to fifty; and iii) prohibits any invitation to the public to subscribe for any shares or debentures of the company.

b) Public Limited Company: A public limited company is one which is not a private limited company. A company having the following characteristics should be called a public limited company.

i) The right of the shareholder to transfer his shares is not restricted.

ii) The minimum number of shareholders is 7 but there is no limit to the maximum number of members.

iii) It can invite public to subscribe for its shares and debentures.

The minimum number of members in the case of a private limited company is two and can be formed more easily as compared to a public company. It is exempted from various regulations of the Companies Act and thus combines the advantages of limited liability and the facilities of a partnership organisation. It is considered suitable for a medium sized business.

C) Government Company: A company in which not less than 5 1 per cent of the paid-up share capital is held by the Central Government, or by any State Government or jointly by Central and/or State Governments.

4 On the basis of the jurisdiction of the functioning, we can classify companies into two categories:

a) National Company: When the operations of a company are confined within the boundaries of the country in which it is registered, such a company is called a national company.

b) Multinational Company: When the operations of a company are extended beyond the boundaries of the country in which it is registered, such a company is called a multinational company. It is also called 'transnational company'.

Difference between Public Limited Company and Private Limited Company

Public Company:

1. Ownership – Owned by the State Government or Central Government or both.

2. Objective/Motive – To promote public welfare.

3. Social Objectives – They are launched to achieve social objectives like development of backward regions, creation of employment opportunities, etc.

4. Forms of Organisation – Departmental undertakings, Statutory Corporation and Government Companies.

5. Management – Managed by bureaucrats; hence efficient.

6. Financial Resources – Huge financial resources; no problem in expansion and growth.

7. Accountability – Accountable to the public through Parliament.

8. Political Interference – Comparatively more Political Interference.

9. Government Control – They are subject to strict financial control by the government.

10. Distribution of Income – Equitable distribution of income.

Private Company:

1. Ownership – Owned by private individuals.

2. Objective/Motive – To maximize profits.

3. Social Objectives – Social objectives are not very important.

4. Forms of Organisation – Sole proprietorship, partnership, joint Hindu family business, cooperative societies and joint stock company

5. Management – Managed by professional managers; hence efficient.

6. Financial Resources – Limited financial resources; less scope for expansion.

7. Accountability – Accountable to the owners.

8. Political Interference – Less political interference

9. Government Control – They are not subject to strict financial control by the government.

10. Distribution of Income – Concentration of wealth in few hands.

The major differences between a Public and Private company are highlighted as under:

1. Meaning:

The public company refers to a company that is listed on a recognized stock exchange and its securities are traded publicly. A private company is one that is not listed on a stock exchange and its securities are held privately by its members.

2. Name:

A public company need not include the word "private" in its name. But for a private company, it is mandatory to write the words "private limited" at the end of its name.

3. Number of Members:

There must be at least seven members to start a public company. But on the contrary, the private company can be started with a minimum of two members. There is no ceiling on the maximum number of members in a public company. Conversely, a private company can have a maximum of 50 members, including its past and present employees.

4. Number of Directors:

A public company should have at least three directors , whereas a private company can have a minimum of 2 directors.

5. Quorum:

It is compulsory to call a statutory general meeting of members, in the case of a public company. Presence of two members is an adequate quorum for the general meeting in case of a private company. On the other hand, there must be at least five members, personally present at the annual general meeting for constituting the requisite quorum in case of a public company.

6. Capital:

A public company must have a paid-up capital of rupees five lakh. Conversely, a private company must have a paid-up capital of rupees one lakh.

7. Commencement of Business:

To start a business, the public company needs a certificate of commencement of business after it is incorporated. On the contrary, a private company can start its business just after receiving a certificate of incorporation.

8. Articles of Association:

A public company can adopt the model Articles of Association given in the Companies Act. On the other hand, a private company must prepare and file its own Articles of Association.

9. Transferability of Shares:

The transferability of shares of a private company is completely restricted. On the contrary, the shareholders of a public company can freely transfer their shares.

10. Restrictions on the Appointment of Directors:

A director of a public company shall file with the registrar consent to act as such. He/she shall sign the memorandum and enter into a contact for qualification shares. He/she cannot vote or take part in the discussion on a contract in which he/she is interested. Two-thirds of the directors of a public company must retire by rotation. These restrictions do not apply to a private company.

Formation of a company

The whole process of company formation can be divided into four stages as given below.

Promotion of a Company

Registration of a Company

Certificate of Incorporation; and

Commencement of the Business.

1. Promotion of a Company:

A business enterprise does not come into existence on its own. It comes into existence as a result of the efforts of an individual or group of people or an institution. That is, it has to be promoted by some person or persons. The process of business promotion begins with the conceiving of an idea and ends when that idea is translated into action i.e., the establishment of the business enterprise and commencement of its business.

Who is a Promoter in a Company?

A successful promoter is a creator of wealth and an economic prophet. The person who is concerned with the promotion of business enterprise is known as the Promoter. He conceives the idea of starting a business and takes all the measures required for bringing the enterprise into existence.

For example, Dhirubhai Ambani is the promoter of Reliance Industries.

The promoters find out the ways to collect money, investigate business ideas arranges for finance, assembles resources and establishes a going concern.

The company law has not given any legal status to promoters. He stands in a fiduciary position.

Types of Promoters

Promoters are different types such as professional promoters, occasional promoters, promoter companies, financial promoters, entrepreneurs, lawyers and engineers.

2. Registration of a Company

It is registration that brings a company into existence. A company is properly formed only when it is duly registered under the Companies Act.

Procedure of Registration

In order to get the company registered, the important documents required to be filed with the Registrar of Companies are as follows.

Memorandum of Association: The memorandum of association of a company is an important corporate document in India. It is often simply referred to as the memorandum. In the India, it has to be filed with the Registrar of Companies during the process of incorporating a company. It is the document that regulates the company’s external affairs, and complements the articles of association which cover the company’s internal constitution. It contains the fundamental conditions under which the company is allowed to operate. Until recently it had to include the “objects clause” which let the shareholders, creditors and those dealing with the company know what is its permitted range of operation, although this was usually drafted very broadly. It also shows the company’s Authorised capital. It is to be signed by a minimum of 7 persons for a public company and by 2, in case of a private company. It must be properly stamped.

Articles of Association: Articles of association form a document that specifies the regulations for a company's operations and defines the company's purpose. The document lays out how tasks are to be accomplished within the organization, including the process for appointing directors and the handling of financial records. This document is signed by all those persons who have signed the Memorandum of Association.

List of Directors: A list of directors with their names, address and occupation is to be prepared and filed with the Registrar of Companies.

Written consent of the Directors: A written consent of the directors that they have agreed to act as directors has to be filed with the Registrar along with a written undertaking to the effect that they will take qualification shares and will pay for them.

Notice of the Address of the Registered Office: It is also customary to file the notice of the address of the company’s registered office at the time of incorporation. It is to be given within 30 days after the date of incorporation.

Statutory Declaration: A statutory declaration by any advocate of the Supreme Court or of a High Court, or

an attorney or pleader entitled to appear before a High Court or

a practicing-chartered accountant in India, who engages in the Company formation or

by a person indicated in the articles as director, managing director, Secretary or manager of the company, mentioning that the requisites of the Act and the rules there under have been complied with. It is to be filed with the Registrar of Companies.

When the required documents have been filed with the Registrar along with the prescribed fee, the Registrar scrutinizes the documents. If the Registrar is satisfied, the name of the company is entered in the register. Then the Registrar issues a certificate known as Certificate of Incorporation.

3. Certificate of Incorporation

On the registration of Memorandum of Association, Articles of Association and other documents, the Registrar will issue a certificate known as the '**Certificate of Incorporation** '. The issue of certificate is the evidence of the fact that the company is incorporated and the requirements of the Companies Act have been complied with.

4. Certificate of Commencement of Business

As soon as a private company gets the certification of incorporation, it can commence its business. A public company can commence its business only after getting the '**certificate of commencement of business'**. After the company gets the certificate of incorporation, a public company issues a prospectus for inviting the public to subscribe to its share capital. It fixes the minimum subscription. Then it is required to sell the minimum number of shares mentioned in the prospectus.

After completing the sale of the required number of shares, a certificate is sent to the Registrar along with a letter from the bank stating that all the money is received.

The Registrar then scrutinizes the documents. If he is satisfied, he issues a certificate known as 'Certificate of Commencement of Business'. This is the conclusive evidence for the Commencement of Business.

Statutory Corporations

A statutory corporation is an autonomous corporate body created by a Special Act of Parliament or state legislature with defined functions, powers, duties, immunities etc. It is also called 'public corporation'. State helps the statutory corporations by subscribing the full capital and it is fully owned by the state. Government nominates the Board of Directors and they manage and operate such corporations. It enjoys financial autonomy and is answerable to legislature only which creates it.

Features of Statutory Corporations:

It is a corporate body: It is an artificial person created by law and is a legal entity. Such corporations are managed by Board of Directors constituted by Government. A corporation has a right to enter into contracts and can undertake any kind of business under its own name.

Owned by state: State provides help to such corporations by subscribing the capital fully or wholly. It is fully owned by the state.

Own staffing system: here the employees are not government servants, even though government owns and manages a corporation. Employees of various corporations receive balanced or uniform pay and benefits by the government. They are recruited, remunerated and governed as per the rules laid down by the corporation.

Answerable to legislature: A statutory corporation is answerable either to Parliament Legislature or State Assembly whosoever creates it. Parliament

Financial independence: A statutory corporation enjoys financial autonomy or independence. It is not subject to the budget, accounting and audit controls. After getting the prior permission from the government, it can even borrow money within and outside the country.

Merits of Statutory Corporations:

Initiative and flexibility: A statutory corporation manages and operates its affairs independently, without any government's interference, with its own initiative and flexibility.

Avoids red-tapism: Red-tapsim and bureaucracy are such evils that hamper the working of organizations. Such evils are not found in statutory corporations. It can take quick decisions. The government has no right to interfere in the working of statutory corporations. It can only discuss policy matters and overall performance of corporation and prompt actions on any matter that affects its business.

Easy to raise capital: As such corporations are fully owned by government, they can easily raise required capital by floating bonds at low rate of interest. Since these bonds are safe, public also feels comfortable in subscribing such bonds.

Works with service motive: They work with the aim to render services and profit earning is not the first priority. The profits that such corporations earn are utilized for the benefit of consumers and community. Defects of exploitation, speculation and profiteering etc are avoided in case of statutory corporations.

Secures working efficiency: Such corporations provide better amenities and more attractive terms of service to its employees which helps in reducing the labour problems. It, thus, helps in securing greater working efficiency.

Limitations of Statutory Corporations:

Less autonomy: In practice, autonomy of statutory corporations are in a closed and systematic way controlled by the government even in matters which allow them to enjoy freedom. FCI and Electricity Boards are statutory corporations important to government and public both. But central and state governments curtail their freedom which as per the Acts they are entitled to.

Clash amongst divergent interests: Government appoints the Board of Directors and their work is to manage and operate corporations. As there are many members, it is quite possible that their interests may clash. Because of this reason, the smooth functioning of corporation may be hampered.

Ignores commercial principles: Statutory corporations may ignore the commercial principles in their working because they do not work to earn profit and do not have any fear of loss. Without these principles, inefficiency and losses can take place in a corporation.

Excessive public accountability: Such corporations work with the motive to render services and not profit motive. This public accountability of corporation act as a stumbling block in operational efficiency of the enterprise.

Module-IV

FORMAL ORGANIZATION:

Formal organisation is a planned structure, which represents the officially established pattern of relationships among individuals, groups, sections, units, departments and divisions so as to accomplish the goals of the enterprise.

Typically, it is represented by a chart and set forth in organisation manuals, position descriptions, and other formalised documents.

The formal organisation provides a broad framework and delineates certain prescribed functions and the relationships between them. Formal organisation may be defined as a system of consciously coordinated activities of two or more persons towards a given objective.

It is a group working together cooperatively under authority toward goals that mutually benefit the participants and the organisation. Moreover, stable and consistent relationships promote order and facilitate planning and controlling functions.

Formal organisation may also be defined as

(i) The pattern of formal relationships and duties, the organisation charts, job descriptions and positions guides; and

(ii) Formal rules, policies, work procedures and similar devices adopted by management to guide employee behaviour in certain ways within the structure of formal relationships.

INFORMAL ORGANIZATION

Informal organisation refers to relationships between individuals in the organisation based on interest, personal attitudes, emotions, prejudices, likes, dislikes, physical location, similarity of work, etc.

The informal organisation comes into existence because of the limitations of the formal structure. It represents natural grouping of people in working situation. The birth of small groups in an organisation is a natural phenomenon.

The informal groups may also overlap because an individual may be a member of more than one informal group in many cases. Informal groups came into being to support and supplement the formal organisation indeed.
The formal and informal organisations are inextricably interlinked. The difference between the two aspects of organisational life is only analytical and it should not be given undue emphasis.

DIFFERENCE BETWEEN FORMAL& INFOMAL ORGANIZATION:

The formal and informal organisations differ from each other in the following respects:

1) Origin: Formal organisations are created by conscious managerial decisions. But informal organisations arise spontaneously within the formal organisation because of the natural tendency of the individuals to associate and interact. Management has no hand either in the emergence or abolition of informal groups.

2) Purpose: Formal organisations are created for realising certain well-defined objectives. But informal organisations are created by organisational members for their social and psychological satisfaction.

3) Activities: Activities in case of formal organisation are differentiated and integrated around the objectives of the enterprise and are formalised into work-units or departments on a horizontal basis. In case of informal organisation, there are no specific activities. They arise from time to time as a result of interactions and sentiments of the individuals. Informal groups may be based on common values, language, culture or any other factor.

4) Structure: Formal organisation is hierarchical, pyramid shaped in structure with well-defined positions, roles and superior-subordinate relationships. It involves enforcement of organisational order through a set of policies, procedures and rules, emphasises on status differentiation based on authority, upward and downward oriented communication system, etc. On the other hand, informal organisation is non-hierarchical; it looks like a complicated social network of interpersonal relationships. Informal organisation is loosely structured, with only unwritten norms of behaviour enforced by consent. Communication is informal and multidimensional. There are no rigid status differentials.

5) Membership: In a formal organisation every individual belongs to one work group only and works under one superior. But in case of an informal organisation, a person can be a member of more than one group, according to his choice. He may be a leader in one group and a follower in another. There is no rigidity about group membership.

6) Orientation: In case of formal organisation, values, goals and tasks are dominantly economic and technical, and they concern productivity, profitability, efficiency, survival and growth. But in case of informal organisation values, goals, and tasks are predominantly psycho-social, centered around individual and group satisfaction, affiliation cohesiveness and friendship.

7) Norms of behaviour: In a formal organisation, individuals are required to behave in the prescribed manner in their work situation. They are expected 45 to behave in a rational manner. Deviations from the standard are dealt with Organising according to the organisational rules and regulations. There is also a system of rewards and punishments. But in case of informal organisation, individual behaviour and group behaviour influence each other. Moreover, behaviour is more natural and socialised. Informal groups develop their own norms of behaviour and system of rewards and punishments.

Line Organisation

Line Organisation It represents a direct vertical relationship through which activity flows. It is also known as scalar or military organisation. The line of authority flows from top to bottom throughout the organisation. The quantum of authority is highest at the top and reduces at each successive level down the hierarchy. Every person in the organisation is in the direct chain of command as shown below. The line of authority consists of an uninterrupted series of authority steps and forms a hierarchical arrangement. The line of authority not only becomes the avenue of command to operating personnel, but also provides the channel of communication, coordination and accountability in the enterprise.

Merits of line organisation:

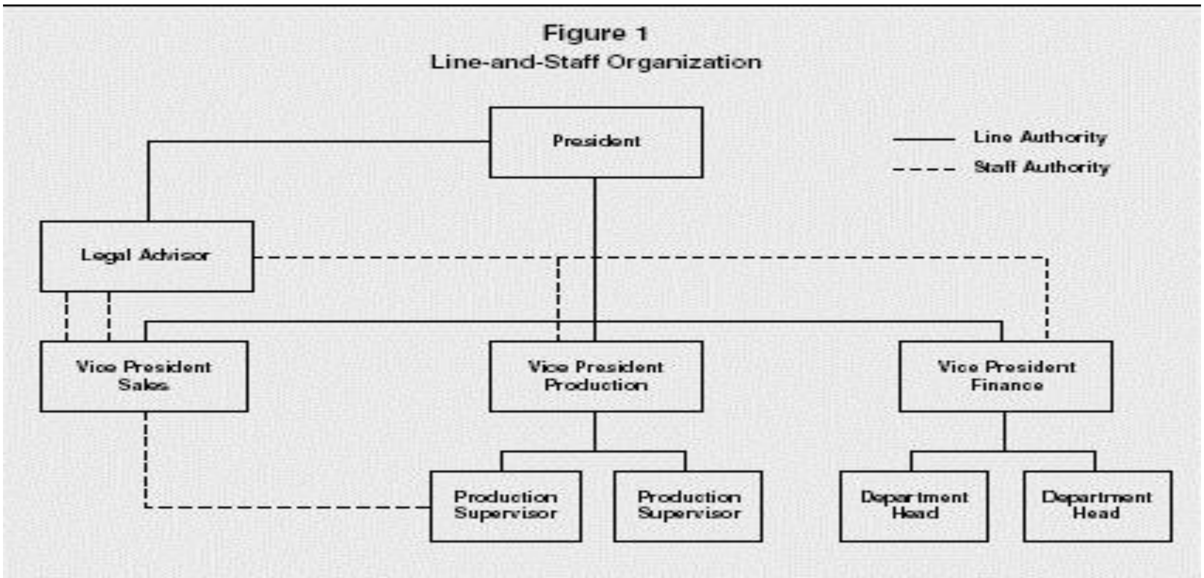
i) It is very simple to establish and can be easily understood by the employees.
ii) There is a clear-cut identification of authority and responsibility relationship.
iii) It ensures better discipline in the enterprise because every individual knows to whom he is responsible.
iv) It facilitates prompt decision making because there is definite authority at every level. An executive cannot shift his decision-making to others nor can the blame be shifted.
v) It facilitates unity of command and thus conforms to the scalar principle of organisation.

Demerits of line organisation:

i) There is concentration of authority at the top. If the top-level executives are not capable persons, the enterprise will not be successful.
ii) With growth, the line organisation makes the top executive overloaded with work.
iii) There is practically no communication from bottom upward because of concentration of authority at the higher levels. If superiors take wrong decision, it would be carried out without anybody having the courage to point out its deficiencies.
iv) Line organisation is not suitable in a big organisation because there is lack of specialisation. Many jobs create problems of their own which may not be within the competence of the superior and require handling by specialists.

LINE & STAFF ORGANIZATION:

Line and Staff Organisation In line and staff organisation, line authority moves down in the same manner as in the line organisation, but in addition, specialists (known as 'staff') are attached to line managers to advise them on important matters. Those specialists stand ready to advise and assist line-men as and when required, which enable the line officials to carry out their activities better. The staff officers do not have any power of command in the organisation as they are employed only to provide advice to the line officers. Staff means a supporting function intended to help the line managers. In most organisations, the use of staff can be traced to the need for helping handling details, gathering data for decisions and offering advice on specific managerial problems. Staff investigates, supplies information and makes recommendations to managers who take decisions. Line and staff structure is shown below



Merits of line and staff organisation: The line and staff organisation have all the benefits of line organisations. In addition, it has the following advantages.

i) Line managers get the benefit of specialised knowledge of staff specialists.

ii) Many problems that are ignored or poorly handled in line organisation can be properly resolved in the line and staff organisation with the help of staff specialists.

iii) Staff specialists relieve the line managers from the botheration of concentrating on the specialised functions like budgeting selection and training, public relations, etc.

iv) Staff specialists help the line executives in taking better decisions by providing them with adequate information of the right type at the right moment and render expert advice.

v) Line and staff organisation is more flexible as compared to the line organisation. General staff can be employed to help line managers at the various levels.

Demerits of line and staff organisation: The biggest drawback from which this form of organisation suffers is the conflict between line and staff. The major source of line owned staff conflict is the difference in their viewpoints and perception. Conflict arises when any of them fails to appreciate the viewpoint of the other. When a conflict between line and staff arises both the parties try to explain the causes of conflict in terms of behaviour of the others. The important causes of line and staff conflict as reported by line-men are as follows:

i) Staff officers encroach upon the line authority. They interfere in the work of line managers and try to tell them how to do their work.

ii) Staff specialists may be professionals and may not be well acquainted with the practical problems of the enterprise.

iii) Since staff men are not directly accountable for any result, they are generally overzealous and recommend a course of action, which is not practical.

iv) Staff men generally fail to view the whole organisation objectively as they are specialists in particular areas.

v) Staff men have the tendency to take credit for the decisions, which prove successful and lay the blame on line men in case the decisions do not prove successful.

ORGANIZATION STRUCTURE

Organisation structure may be defined as the established pattern of relationships among the component parts of the organisation. Organisation structure in this sense refers to the network of relationships among individuals and positions in an organisation. It describes the organisation framework. Just as human beings have skeletons that define their parameters, organisations have structures that define their parameters. It is like the architectural plan of a building. Just as the architect considers various factors like cost, space, special features needed etc. While designing a good structure, the managers too must look into factors like benefits of specialisation, communication problems, problems in creating authority levels etc., before designing the organisation structure. The manager determines the work activities to get the job done, writes job descriptions, and organises people into groups and assigns them to superiors. He then fixes goals and deadlines and establishes standards of performance. Operations are controlled through a reporting system. The whole structure takes the shape of a pyramid.

The structural organisation implies the following activities;

i) The formal relationships with well-defined duties and responsibilities

ii) he hierarchical relationships between superior and subordinates within the organisation.

iii) The tasks or activities assigned to different persons and the departments.

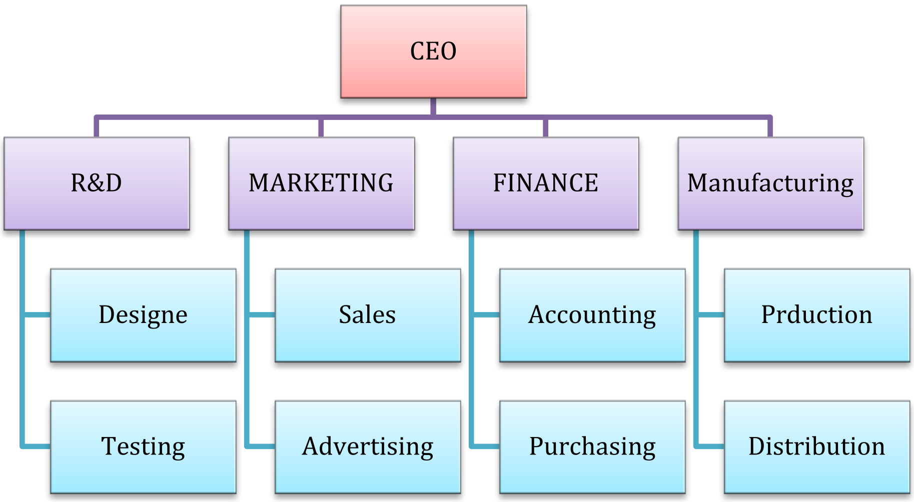
iv) iv) Coordination of the various tasks and activities; v) A set of policies, procedures, standards and methods of evaluation of performance which are formulated to guide the people and their activities.

Types of Organisation Structure
Different types of Organisation structure can be distinguished on the basis of arrangement of activities.

Functional structure
When units and sub-units of activities are created in an organisation on the basis of functions, it is known as functional structure. Thus, in any industrial organisation, specialised functions like manufacturing, marketing, finance and personnel are constituted as separate units of the organisation. All activities connected with each such function are placed in the same unit.

The main advantage of the functional structure of organisation is that there is functional specialisation in each unit, which leads to operational efficiency of people engaged, and the organisation as a whole derives the benefit of specialised operations.

The heads of the functional units are in direct touch with the chief executive who can sort out inter-functional problems, if any, and also coordinate the interrelated functions. The chief executive is also able to be in direct touch with lower-level subordinates and thereby have full knowledge of the state of affairs in the organisation.



the functional arrangement may be well suited to small and medium size organisations, it is incapable of handling the problems of an organisation as it grows in size and complexity.

Advantages of a Functional Structure

When employees who have similar skills and experiences are grouped together, it makes production more efficient and of a higher quality.

Roles and tasks do not change very much so there is little time spent learning, and accountability is clear. Since the hierarchy is simple, employees know the one manager they are to answer to, instead of multiple people. This streamlines communication and reduces confusion among employees.

Employees can feel confident about what they're doing because it is standardized. They are more likely to feel a loyalty to their department and the organization as a whole. This increases morale and work ethic, as there is more job security.

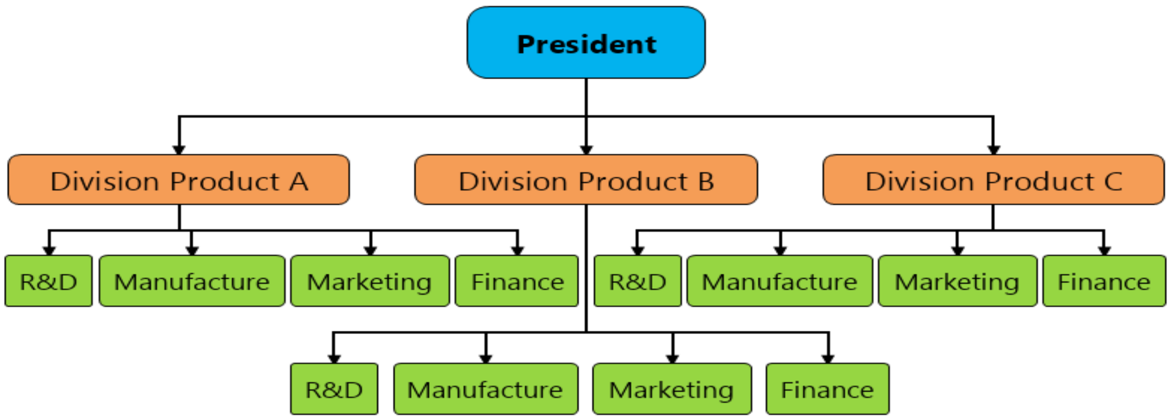
There is a clear path of growth for employees which provides motivation, and they are more likely to be corporative with people in their department. A functional organizational structure provides a perfect environment for learning for new employees to be taught the real-world application of theoretical information.

Disadvantages of the Functional Organizational Structure

Employees may find it boring to repeat the same task over and over, and become less enthusiastic over time. If promotions are not handled well, an employee may be discouraged if a lower-performing peer is promoted over them.

Problems may arise among management if department heads are only focused on their department and do not communicate effectively with other departments. This can cause poor communication and "silos" that are too independent from one another. If employees and management are only loyal to their teams, there will be a lack of teamwork and coordination.

Divisional structure:



The divisional organisation structure is more suited to very large enterprise particularly those, which deal in multiple products to serve more than one distinctive market. The divisional organizational structure organizes the activities of a business around geographical, market, or product and service groups. Thus, a company organized on divisional lines could have operating groups for the United States or Europe, or for commercial customers, or for the green widget product line. Each such division contains a complete set of functions. Thus, the green widget division would handle its own accounting activities, sales and marketing, engineering, production, and so forth.

Advantages of the Divisional Organization Structure

- **Accountability:** This approach makes it much easier to assign responsibility for actions and results. In particular, a division is run by its own management group, which looks out for the best interests of the division.
- **Competition:** The divisional structure works well in markets where there is a great deal of competition, where local managers can quickly shift the direction of their businesses to respond to changes in local conditions.
- **Culture:** You can use this structure to create a culture at the divisional level that most closely meets the needs of the local market. For example, a retail division could have a culture specifically designed to increase the level of service to customers.
- **Local decisions:** The divisional structure allows decision-making to be shifted downward in the organization, which may improve the company's ability to respond to local market conditions.
- **Multiple offerings:** When a company has a large number of product offerings, or different markets that it services, and they are not similar, it makes more sense to adopt the divisional structure.

Disadvantages of the Divisional Organization Structure

The key points against the divisional structure involve the cost of duplicating functions and a reduced focus on the overall direction of the company. The disadvantages are:

- **Cost:** When you set up a complete set of functions within each division, there are likely to be more employees in total than would be the case if the business had instead been organized under a purely functional structure. Also, there must still be a corporate organization, which adds more overhead cost to the business.
- **Economies of scale:** The company as a whole may not be able to take advantage of economies of scale, unless purchases are integrated across the entire organization.
- **Inefficiencies**: When there are a number of functional areas spread among many divisions, no one functional area will be as efficient as would have been the case if there had instead been one central organization for each function.

- **Rivalries**: The various divisions may have no incentive to work together, and may even work at cross-purposes, as some managers undercut the actions of other divisions in order to gain localized advantages.
- **Silos**: All skills are compartmentalized by division, so it can be difficult to transfer skills or best practices across the organization. It is also more difficult to cross-sell products and services between the divisions.
- **Strategic focus**: Each division will tend to have its own strategic direction, which may differ from the strategic direction of the company as a whole.

Matrix Organization

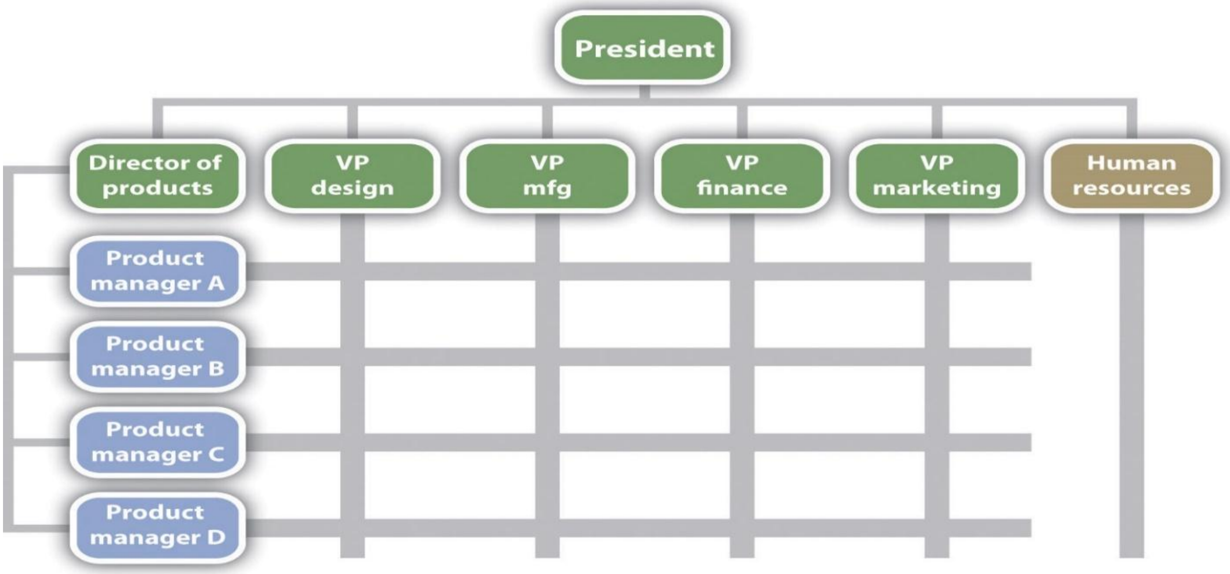
A matrix organization is more complex and complicated than these three. In a matrix organization, the structure of the company represents a grid-like structure or a matrix.

This is a fairly new and evolving organizational structure, which was first developed in the West. It is somewhat a combination of functional organization and project management structure.

In a modern matrix organization, there is a grid structure rather than the traditional hierarchy structure. There are still departments according to functions like IT department, finance department etc.

These are the vertical structures of the grid. Then there is also a project division, which forms the horizontal chain of command in the grid. So in this structure, an employee will have two reporting authorities – his functional (departmental) manager and his project manager.

So in this structure, a group of employees from various departments comes together to form another group assigned to a particular project or a particular product. And they are headed by a project manager who then directly reports to the CEO or COO. At the same time, these employees also report to the departmental managers or department heads.



Advantages:

1.Collaboration between different departments

Perhaps the biggest advantage of a matrix structure is that is brings together highly skilled team members from different departments, allowing the organization to capitalize on the resources it already has rather than seeking expertise and recruiting project team members from outside of the organization.

3. Allows interdepartmental communication

The matrix structure also allows for better interdepartmental communication and collaboration. By allowing different departments to work together, the matrix structure fosters a more open work environment, ultimately making the organization more dynamic.

4. Employees can develop new skill sets

The matrix structure can offer employees the opportunity to strengthen their interpersonal skills, communication skills and new skill sets due to the nature of utilizing more than one manager. Working outside of a traditional or hierarchal structure can benefit employees by helping them develop new skill sets and gain valuable experience from working with different departments.

5. Team members and managers keep their functional roles

Projects will always continue to come to an end, but project team members and managers may keep their functional roles throughout the project. When a project ends, both managers and team members can avoid misconceptions about their job security or searching for new projects as a contractor, as they may simply assume their functional roles. Additionally, team members may also participate in future projects.

Disadvantages

1. Managerial roles may not be clearly defined

One common disadvantage of the matrix structure can appear as confusion between managers who are involved with projects that are outlined by the matrix. Since the power dynamics between the functional manager and the project manager may not be as clearly defined within the matrix, confusion about the specific managerial roles may arise.

2. Team roles may not be clearly defined

Another issue is when team members' roles aren't clearly defined in the project or the division of responsibilities between employees' functional roles and project roles isn't clear.

3. The decision-making process can be slowed down

Because of the nature of the matrix involving more than one manager, decisions that may be required to pass through both managers can sometimes take longer to process than a traditional structure. Furthermore, with the integration of multiple managers and team members, decisions that require multiple steps, for instance, in quality assurance, can be slowed down when guided by the matrix.

4. Too much work can cause overload.

The matrix organization structure can also sometimes lead to work overload on team members, since their project workload is often in addition to their regular functional duties. Employees might suffer burnout or overlook or fail to complete tasks or have their quality of work suffer due to time constraints.

5. Measuring employee performance might become difficult.

Oftentimes, when implementing a matrix structure, it may be difficult to gauge employee performance when working on a project. This is in part because team members may be essentially performing more than one role, both functionally and the tasks within the project.

Network Organizational Structure:

The network structure is a newer type of organizational structure often viewed as less hierarchical, more decentralized, and more flexible than other structures. In this structure, managers coordinate and control relations that are both internal and external to the firm.

The concept underlying the network structure is the social network—a social structure of interactions. At the organizational level, social networks can include intra-organizational or inter-organizational ties representing either formal or informal relationships. At the industry level, complex networks can include technological and innovation networks that may span several geographic areas and organizations. From a management perspective, the network structure is unique among other organizational structures that focus on the internal dynamics within the firm.

A network organization sounds complex, but it is at its core a simple concept. Take, for example, a T-shirt design company. Because the company leaders are mainly interested in design, they may not want to get too heavily involved in either manufacturing or retail; however, both aspects of the business are necessary to complete their operations. To maintain control of their product, they may rent retail space through their network and purchase product from a variety of partner organizations that have their own manufacturing facilities

Advantages of a Network Structure

- Communication is less siloed and flows freely
- It facilitates opening up more opportunities for innovation
- As the network structure is decentralized, it has fewer tiers in its organizational makeup, a wider span of control, and a bottom-up flow of decision making and ideas.

Disadvantages of a Network Structure

- More flexible structure sometime can lead to a more complex set of relationships in the organization.

- lines of accountability may be less clear, and reliance on external vendors can be sometime costly affair.

Virtual Organisation?

A virtual organisation is referred to as a flexible network of entities that are linked by computing technologies to share knowledge and skills. This electronic network goes beyond organisational and geographical boundaries. It is often considered a boundary-less organisation in which vertical and horizontal barriers are removed.

It takes the help of information and communication technologies to reach common or shared interest. In a virtual organisation, members accept the help of telecommuting by using internet, phone, and e-mails to undertake their work. These types of organisations exist through information technology tools as they do not have a base or geographical location.

In a virtual organisation, the vast majority of the employees work entirely online from dispersed geographical locations. It uses informatics tool to sustain, maintain and enable the sharing of resources in distributed work environments.

In today's modern and competitive world, you will find more than enough new start-ups that are operating as virtual organisations. Even established companies are integrating them into their organisational design and also in hiring processes. As per a recent survey, virtual organisations are some of the biggest drivers of transformation, and there are considerable benefits in its formation.

Advantages:

1. Higher employee satisfaction

The traditional employee used to work from a physical set-up office space. They were happy to do a nine-to-five job and leave the office work behind afterwards. The new concept of the modern world is quite different. Employees do not want to be bound in the constraints of time. They are happy working from home with adjusted timings so that they can complete other urgent work in the meantime.

2. Boost in employee efficiency

An essential advantage of virtual organisation is an increase in employee efficiency. It has been proved through surveys that the amount of work done in a virtual organisation is considerably more than what one could accomplish in a physical organisation at the same time.

3. Broader talent pool

Virtual organisation does not need its employees to come and work from a specific address. This proves beneficial for such companies as they can hire employees from any part of the world very quickly without worrying about simple facts like how to raise visa or how to manage transportation to reach the office on time.

4. Improved scalability

Physical office space needs overhead costs, but a virtual organisation does not require any such expenses. The company has enough free capital to improve its growth potential and scalability. It is a proven fact that virtual organisation teams are more agile and willing to work for more hours than the employees in a typical traditional workplace

5.Balance in life

A virtual organisation offers the employees a golden chance to accommodate and balance their professional and personal life

Disadvantages:

1. Lack of solidarity

In a physical space you will feel the team bonding that nudges employees to work harder for the team. This type of warmth and bonding is absent in employees working for a virtual organisation.

2. Reputational risks

People are still not comfortable in dealing with companies that do not have a physical presence. They vary from remote employees, and this is why they do not take such companies seriously.

3. Less communication

Virtual organisation has the best possible means to have an open channel that will facilitate increased communication between all the members. The fact is quite different from the assumption as the remote teams are simply not interested in passing any information as they are still unknown for each other.

Learning Organization:

Learning organisation is the one that has developed the capacity to continuously learn, adapt, and change. Organisations operate in the dynamic environment. There are continuous innovations in information and computer technologies. Markets are global and customers are spread worldwide. Though the world has become global, customers all over the world are not the same. They are guided by their country's culture, attitudes and beliefs.

In order to be successful, organisations should learn and respond to changes quickly. They learn about effectively challenging conventional wisdom, manage the organisation's knowledge base and make the desired changes. All organisational members take active part in identifying and resolving work- related issues. In a learning organisation, employees practice knowledge management.

They continuously acquire, share and apply new knowledge in making decisions. In today's world of competition, organisations that learn and apply new concepts have edge over competitors. "All organisations learn, whether they consciously choose to or not — it is a fundamental requirement for their sustained existence".

Merits:

1. The organisation experiments, tries and permits more failures. This provides extensive information to make decisions.

2. The organisation interacts with customers and maintains a rich and informal environment conducive to growth and success. Knowledge of customer requirement is important for company's fortunes.
3. Learning enhances company's speed, innovativeness and adaptability.

4. The organisation can anticipate and adapt changing market conditions. It reaches the market with innovative products faster than competitors.
5. The organisation maximises responsiveness to customers' needs. This provides competitive advantage to the company

Principles underlying designing of a structure

The best organizational structure for a business arranges jobs in a way that helps a company accomplish its strategic goals. The right arrangement allows for the best use of resources and establishes fruitful working relationships throughout a company. Some structures are more mechanistic in nature, with hierarchical management levels and top-down leadership. Others tend to be more organic. These have fewer rules, less centralized authority and less bureaucracy. To determine which is appropriate, management must consider several factors.

Step 1

Review the company strategy. A company focusing on quality control, for instance, might be more likely to favour a more mechanistic approach since it allows for greater oversight. Structure must always follow from a company's strategy.

Step 2

Consider how dynamic, flexible and agile the company needs to be to compete. Next, determine the stability of the market and industry. A rapidly changing environment will favour the organic structure because it tends to be more adaptable to change. An organization operating in a stable environment, meanwhile, can benefit from a mechanized structure.

Step 3

Consider the organization's size and age. Small, young organizations require less of a management hierarchy than do larger, older organizations.

Step 4

Consider different organizational structures. The functional structure typically departmentalizes jobs based on work classifications such as marketing or production. Similarly, the matrix structure, which combines the team and functional approaches; and the divisional structure, which departmentalizes according to geography, product niche or customer.

Step 5

Review your analysis from the previous steps to determine whether the company is better served with a mechanistic or organic approach to structure, or something in between.

Step 6

Create an organizational chart of the structure or structures the company is considering. Graphically representing the company this way will clarify issues such as who reports to whom, where responsibility will fall, the need to add or cut employees or management levels, and changes that might have to be made in procedures.

Delegation of Authority

To delegate means to grant or confer, hence the manager who delegates grants or confers (authority) on others (subordinates) to accomplish certain duties in the form of work.

According to O. Jeff. Harris it is an authorisation to a subordinate manager to act in a certain manner independently. The delegation of authority is the delivery by one individual to another of the right to act, to make decisions, to acquire resources and to perform other tasks in order to fulfil job responsibilities.

L.A. Allen has defined delegation as "the entrustment of a part of the work, or responsibility and authority to another, and the creation of accountability for performance". Responsibility is the work assigned to a position. Authority is the sum of powers and rights entrusted to make possible the performance of the work delegated. Accountability is the obligation to carry out responsibility and exercise authority in terms of performance standards established. It is the obligation of an individual to render an account of the fulfillment of his responsibilities to the boss to whom he reports.

Delegation of Authority Just as no one person in an enterprise can do all the tasks necessary for accomplishment of goals so it is impossible, as an enterprise grows, for one person to exercise all the authority for making decisions. As you know that, there is a limit to the number of persons, managers can effectively supervise and for whom they can make decisions. Once this limit is passed, authority must be delegated to subordinates, who will make decisions within the area of their assigned duties. Then the question is how is authority delegated when decision-making power is vested in a subordinate by his superior. Clearly, superiors cannot delegate authority they do not have. It is equally clear that superiors cannot delegate all their authority without, in effect, transferring their position to their subordinates. The entire process of delegation involves four steps. They are:

1) The determination of results expected from persons in a position
2) The assignment of tasks to persons;
3) The delegation of authority for accomplishing these tasks;
4) The holding of people responsible for the accomplishment of these tasks.

Thus, delegation is the process that a manager follows in dividing the work assigned to him so that he performs that part, which because of his position he can perform effectively. But there is a difference between delegation and work assignment. Delegation constitutes a master agent relationship while work assignment constitutes master servant relationship. An employee’s work assignment may be reflected in his job description while delegated duties may not form the part of the employee’s normal duties. Delegation is legitimate authorisation to a manager or employee to act in specified ways. It enables him to function independently without reference to the supervisor but within the limits set by the supervisor and the normal framework of organisational objectives, policies, rules and procedures.

From the above discussion, it is clear that delegation involves;

a) Entrustment of work to another for performance

b) Grant of power, right or authority to be exercised to perform the work,

c) Creation of an obligation on the part of the person accepting delegation.

Principles of Delegation

Delegation is one of the most important elements in the organising process. It is through delegation that interrelationships are created in any organisation. There are certain principles which may be followed as guidelines for effective delegation. These principles are:

Principle of delegation by results: The purpose of delegation is to get work done through another more effectively and efficiently than it may be accomplished by the delegator himself in a given situation. It is, therefore, essential that the assignment of task or duty and the entrustment of authority should be done keeping in view the results expected.

Delegation by result implies that goals have already been set and properly communicated to the delegate and understood by him and that the job assigned fits the objectives.

Principles of competence: The person selected as a delegatee should be competent for the task assigned to him.

Principle of trust and confidence: It is necessary that there is an atmosphere of trust and confidence in the organisation as a whole and that there is a feeling of trust between the delegator and the delegatee. The delegatee should enjoy mental freedom in his work. He would be able to use his initiative and drive in work if he is mentally free.

Principle of parity between authority and responsibility: Authority delegated should be adequate in relation to the responsibility. It is logical that the responsibility for actions cannot be greater than the authority delegated, nor should it be less.

The principle of unity of command describes the authority-responsibility relationships. The principle states that each subordinate should have only one boss to whom he should be accountable to avoid confusion and conflict. In delegation, it is assumed that the right of discretion over a particular activity will flow from a single superior to a subordinate.

Principle of absolute responsibility: Responsibility is an obligation, which can neither be delegated nor be temporarily shifted. No superior can escape the responsibility for the activities of his subordinates through delegation, because it is the superior who has delegated the authority and has assigned duties. Similarly, the responsibility of the subordinate to his superior for performance of the delegated duties is absolute and cannot be shifted.

Principle of adequate communication: There should be free flow of information between superior and subordinate. This enables the subordinate to take decisions and interpret correctly the nature of the task to be completed with the nature and degree of authority vested in him. Principle of effective control: As the delegator delegates his authority but not the responsibility, he should ensure that the authority delegated is properly used.

Principle of reward: Effective delegation and proper exercise of authority should be rewarded. A rational rewarded system of reward would act as an incentive to subordinates to willingly take the responsibility and assume authority and also create a healthy environment within the organisation.

Principle of receptiveness: Delegation needs and it also creates an understanding between the superior and subordinate. Decision-making involves some discretion. This means that no two decisions or two persons can exactly be the same. It is therefore, necessary that the superior who delegates authority accommodate the ideas of his subordinates.

Delegation of authority is closely related to the concepts of centralisation and decentralisation of authority. Let us learn them in detail.

Centralisation

Centralisation is the reservation or withholding of authority by individual managers within the organisation. According to Henry Fayol, 'everything that goes to increase the importance of the subordinate's role is decentralisation, everything which goes to reduce it is centralisation" In centralisation little delegation of authority is the rule; power and discretion are concentrated in a few executives. Control and decision making reside at the top levels of management. However, absolute centralisation is untenable because it would mean that subordinates have no duties, power or authority. Centralisation may be essential in small organisations to survive in a highly competitive world. But as the organisation becomes more complex in terms of increasing size, interdependence of workflow, complexity of tasks and spatial physical barriers within and among groups, a function requisite for efficiency is to move decision-making centers to the operating level. Thus, the larger the size of an organisation, the more urgent is the need for decentralisation. This does not mean that decentralisation is good and centralisation is bad.

Decentralisation: Decentralisation is the systematic effort to delegate to the lowest levels, all authority - except that which can be exercised at central points. It is the pushing down of authority and power of decision-making to the lower levels of organisation. The centers of decision-making are dispersed throughout the organisation. The essence of decentralisation is the transference of authority from a higher level to a lower level. It is a fundamental principle of democratic management where each individual is respected for his inherent worth, and constitution.

Distinction between Delegation of Authority and Decentralisation

Although decentralisation is closely related to delegation, there are some differences between decentralisation and delegation, which are discussed below.

1) Delegation is a process of systematic transfer of authority while decentralisation is the end result of planned delegation.
2) Delegation refers to the transfer of authority from one individual to another. Decentralisation refers to the systematic delegation of authority to all units in an organisation-wide context.
3) Delegation can take place from one person to another and be a complete process. But decentralisation is complete only when the fullest possible delegation is made to all or to most of the people
4)) Delegation is between a superior and a subordinate while decentralisation is company-wide delegation as between top management and divisions or departments.
5) Delegation is necessary for effective management because no individual manager can afford to look after everything. But decentralisation is optional, necessitated by the growth of the organisation.
6) In delegation, operational control is exercised by the delegatee but in, decentralisation, the overall control is by the top management.

Merits and Limitations of Decentralisation

Merits

1) Facilitates growing and complex organisation: Centralisation of authority may be desirable under certain special circumstances to accomplish specific results or when the company is small. But when organisation grows in size and becomes complex, even a hardcore autocratic manager is forced to delegate some authority and bring about decentralisation.

2) Reduces the burden of executives: Decentralisation is always preferable when an organisation has grown in size and complexity, and there is a need to reduce the burden of the top executives.

3) Facilitates diversification: Decentralisation is required when business needs to be expanded by diversifying its activities or product lines.

4) Quick decision-making: Decentralisation facilitates consultative as well as quick decision-making at the action point. This promotes interaction among the different functionaries giving them an opportunity for self-development and training and stimulating them to put in their best effort in the growth and development of the organisation as whole.

Limitations

1) Leads to disintegration: Extreme decentralisation, however, may not be a cure. It may lead to looseness and also ultimately to the disintegration of the organisation. It may bring about the diseconomy of scale with the increase in the overhead expenses of each decentralised unit. The duplication in functions may further add to the total cost.

2) Does not suit specialised services: For specialised services like accounting personnel, research and development etc., decentralisation is unwarranted. Moreover, there are certain areas of control and responsibility like setting up overall organisational objectives, long-term planning, formulation of policy, capital investment etc. which need to be under central control only.

3) Conflict: Decentralisation puts increased pressure on divisional heads to realise profits at any cost. This encourages the managers to become department conscious. Sometimes the top management deliberately encourages competition between different departments to increase the profitability. This competition results in bitter inter-divisional rivalries and conflict.