Biyani's Think Tank

A concept based exclusive material

Business Organisation

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Published by :
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First Edition : 2009

Leaser Type Setted by :
Biyani College Printing Department

Preface

I am glad to present this book, especially designed to serve the needs of the students. The book has been written keeping in mind the general weakness in understanding the fundamental concepts of the topics. The book is self-explanatory and adopts the “Teach Yourself” style. It is based on question-answer pattern. The language of book is quite easy and understandable based on scientific approach.

This book covers basic concepts related to the microbial understandings about diversity, structure, economic aspects, bacterial and viral reproduction etc.

Any further improvement in the contents of the book by making corrections, omission and inclusion is keen to be achieved based on suggestions from the readers for which the author shall be obliged.

I acknowledge special thanks to Mr. Rajeev Biyani, *Chairman* & Dr. Sanjay Biyani, *Director* (*Acad.*) Biyani Group of Colleges, who are the backbones and main concept provider and also have been constant source of motivation throughout this Endeavour. They played an active role in coordinating the various stages of this Endeavour and spearheaded the publishing work.

I look forward to receiving valuable suggestions from professors of various educational institutions, other faculty members and students for improvement of the quality of the book. The reader may feel free to send in their comments and suggestions to the under mentioned address.

Author

Syllabus

Paper-II : Business Organisation

Section-A

1. Origin and development of entrepreneurship in India : Problems and suggestions. Role of RIICO and District Industrial Centres.
2. Significance and establishment of business organisation (Consideration and steps only). Business Environment. Business Ethics.
3. Need and importance of Finance. Sources of Finance. A brief study of Rajasthan Finance Corporation.

Section-B

4. Origin, development and activities of stock exchanges in India. A brief study of SEBI, OTCE and NSE.
5. Concept, objectives, forms and kinds of Business combination, Combination movement in India.
6. Modern methods of Advertisement and Publicity, Significance and evils of advertisement.

Section-C

7. Economic liberalisation Policy and implications. Implications of globalisation Policy on Business.
8. Concept of Welfare State, Government assistance to India
9. Industrial Policy. Industrial Democracy.

Content

B.Com. (Part-I) Examination, 2008

Business Administration

Second Paper

(Business Organisation)

Time : 3 Hours **MM. : 100**

Objective Part-I

Time : 1 Hour **MM. : 40**

Attempt all questions.

1. Answer each of the following questions in not more than 20 words each. Each question carries 2 marks.

   (i) "Business is a game of risk." Explain.

   (ii) What do you mean by a system?

   (iii) What is Business Ethics?

   (iv) State any four major functions of an entrepreneur.

   (v) When was 'RIICO' established?

   (vi) What do you mean by working capital?

   (vii) What is sensex (Sensitive Index)?

   (viii) In which yearthe 'SEBI' was constituted and describe the name of its present Chairman?

   (ix) What is cartel?

   (x) What is meant by 'welfare state'?

2. Answer each of the following questions in not more than 50 words each. Each question carries 4 marks.

   (i) What are the provisions of the new industrial policy with regard to small scale industries?

   (ii) State the five main objectives of works committees.

   (iii) State the five main probable advantages of the globalisation of business.

   (iv) What are the current media of advertising?

   (v) What is holding company? State the main types of a holding company.

DescriptivePart-II

Time : 2 Hour **MM. : 60**

Attempt three questions in all, selecting at least one question from each Section. Each question carries 20 marks.

Section-A

3. What do you mean by Business Organisation? Describe the main characteristics of it.

Or

Describe the various components of business environment. How they influence business? Explain.

Section-B

4. What do you mean by listing of securities? Describe the procedure for listing of securities in a recognized Stock Exchange.

Or

Explain the role of 'SEBI' in regulating and controlling of Indian Stock Exchanges in modern global era.

Section-C

5. Describe the recent trends in the economic liberalisation in India and also discuss their merits and demerits.

Or

Discuss the role of the State in the development of Indian industries. Give your suggestions to the Government for the rapid development of industries.

CHAPTER-I

Origin and Development of Entrepreneurship

Q.1 Define Entrepreneurship? Discuss its characteristics and importance?

Ans.: Entrepreneurship is meant for the function of establishing and organising a new enterprise and to start production process by raising, capital, hiring labour, obtaining raw material, and introducing new techniques of the production.

In the words of **Schumpeter**, ***"Entrepreneurship is an innovation function. It is leadership rather than ownership"*** In the words of **Rao** and **Mehta**, ***"Entrepreneurship can be described as creative and innovative response to the environment."***

Nature and Characteristics of Entrepreneurship : The definitions given above reveal the following characteristics of entrepreneurship :

(i) Entrepreneurship is the ability or urge to take risk.

(ii) Innovation

(iii) Business oriented tendency.

(iv) Creative activity.

(v) It involves dynamic leadership.

(vi) A function of high achievement .

(vii) Transformation of resources.

Meaning of Entrepreneur : In the words of Gerald A Silver, ***"An entrepreneur is an individual who conceives an idea for a new product or service, then finds some way of raising capital to form a business to produce the product or service."***

Characteristics of an Entrepreneur :

(i) Risk bearer

(ii) Innovator

(iii) Provider of resources

(iv) An organizer

(v) A forecaster

(vi) Agent of change

Importance of Entrepreneurship : The importance of entrepreneurship is as follows :

(i) Moving wheel towards the economic development

(ii) Organiser of productive resources.

(iii) Dynamic Agent.

(iv) Business Agent.

(v) Business prophet.

(vi) Captain of industry.

(vii) Components of modern production system.

(viii) Builder of new industrial unit.

(ix) Innovative giant.

(x) Ambassador of social changes.

(xi) Catalytic Agent of change.

Q.2 What are the causes for slow growth of Entrepreneurship in India?

Ans.: In spite of various efforts made by the government for the development of entrepreneurship, there have been a number of factors which impede the growth of entrepreneurship in India, important among them is as follows :

(i) Lack of coordination between different agencies.

(ii) Poor infrastructure facilities.

(iii) Unproductive investment.

(iv) Lack of training facilities.

(v) Lack of efficient marketing and distribution system.

(vi) Other obstacles.

(vii) Unfavourable social system.

(viii) Hereditary character of occupation.

(ix) Lack of adequate capital.

(x) Bureaucratic functioning.

(xi) Frequent changes in government regulation and policies.

(xii) Lack of entrepreneural spirit.

(xiii) Lack of attention by big business institutions towards small entrepreneurs.

Q.3 Write some suggestions for the development of Entrepreneurship in India?

Ans.: For the faster development of entrepreneurship the following suggestions can be given :

(i) There in need to identify a mechanism for the development of entrepreneurs in backward areas of the country.

(ii) The education system in the country should be restructured towards employment and entrepreneur oriented.

(iii) Feasibility studies should be undertaken by the industrial departments to find out opportunities for setting up industries and perspective industrial maps should be prepared and provided to the individuals.

(iv) The number of technical and vocational studies institutions should be increased and scholarship be given to motivate the people to become entrepreneurs.

(v) There should be wider publicity of various self employment schemes to create awareness among the young people.

(vi) There is a need for the expansion of consultancy services at different industrial estates and zones.

(vii) The information about various assistance incentives and other motivations given by the government and other agencies should be notified to the new entrepreneurs from time to time through effective medias.

(viii) The tax structure should be restructured in favour of small entrepreneurs.

(ix) There should be adequate infrastructure facilities like roads, electricity, water etc. in rural areas for the industrial development.

(x) Necessary improvement should be made in the industrial policy being announced by the government from time to time to create an investment climate in the country.

(xi) There is also need for the existence of sound capital market in the country.

(xii) More units may be given in the participation of trade fairs and exhibitions.

Q.4 Write a short note on RIICO & DICs in the development of Entrepreneurship?

Ans.: The Rajasthan State Industrial Development Corporation (RIICO) Ltd.; was set up in 1969, as a public limited company and investment under the companies Act, 1956. It aims to :

(i) Develop industrial areas by construction of factories and building up necessary infrastructure.

(ii) Promote industrial units in public and joint sectors.

(iii) Provide loans to private and other entrepreneurs for setting up industrial units in the state.

(iv) Provide assistance for the development of infrastructure.

(v) Identification of industrial plans and programmes, and

(vi) Preparation of feasibility reports, etc.

Organisation Of RIICO : The administrative control of RIICO has been placed under the board of directors. There are executive directors looking after various divisions and they are responsible for effective functioning of all the divisions. The board consists of a chairman and Managing director appointed by the state Government.

Developmental Role of the RIICO : The various developmental role of the RIICO at the present time include the following :

(vii) Financial sanctions.

(viii) Recovery of dues.

(ix) Incentive schemes for recovery of dues.

(x) New initiatives for social infrastructure in industrial areas.

(xi) Pollution control and advisory service.

(xii) Special focus on national capital region.

(xiii) Equity assistance.

(xiv) Business development.

(xv) Special purpose industrial parks.

(xvi) Return on investment.

(xvii) New thrust on infrastructure development.

(xviii) Village amenities development and skill development scheme funds.

(xix) Critical infrastructure balancing scheme.

(xx) Growth centres.

(xxi) Development of II D centres.

Promotional Role of RIICO : The major promotional role of RIICO includes the following :

(i) Providing promotional loan facility.

(ii) Contribution in share capital of companies.

(iii) Interest free loans.

(iv) Extends loan facility in association with RFC.

(v) Distribution of capital investment grants for setting up new units.

(vi) Providing seed capital.

(vii) Promotion of industrial enterprise.

(viii) Software zone.

(ix) Campaigning towards industrial development.

(x) Providing technical and managerial services.

(xi) Merchant banking services.

(xii) Rehabilitation of sick units.

(xiii) Special concessions given to the entrepreneurs in allotment of lands.

Q.5 Write a short note on DIC (District industries Centre).

Ans.: District Industries Centres have been set up under the 1977 industrial policy of the government of India. The main thrust was given to the growth and development of small and cottage industries situated in rural and semi urban areas.

In the words of M.N. Upadhyaya, "District Industries centre means a single agency for making all the support and facilities to the entrepreneurs under one roof."

Characteristics : The characteristics of DIC are as follow :

(i) One window service concept.

(ii) Assistance by the central government.

(iii) Division into four categories.

(iv) Mobilisation of resources.

(v) Establishment by state.

(vi) Coordinating institution.

(vii) A dynamic institution.

(viii) Labour intensive.

(ix) A means for implementing central government plans.

Role and Function of DIC : The major functions are described below :

(i) To examine the industrial potential in the district.

(ii) Encouragement for the setting up of industrial units.

(iii) Registration of small units.

(iv) Balanced development of the district.

(v) To organise training programme.

(vi) Rehabilitation of sick units.

(vii) To develop infrastructural facilities.

(viii) To provide common facility.

(ix) Consultancy services.

(x) Rapid industrialisation of the district.

(xi) Research and development activities.

(xii) Development of handicraft industry.

(xiii) Collection and dissemination of information.

(xiv) To uplift the socially backward people.

Problems of DICS : The important problems of DICS are :

(i) Lack of finance.

(ii) Non-availability of suitable and trained employees.

(iii) Problems of coordination.

(iv) Problems of marketing.

(v) Problems of materials.

(vi) Dominance of bureaucracy and red-tapism.

(vii) Defective organisation structure.

(viii) Burden on the State Government.

Suggestions for Improvement :

(i) Banks and financial institutions are needed to provide sufficient finance to the DICS.

(ii) The State Government should appoint professionally and technically qualified and experienced employees for managing the DICS.

(iii) There should be sufficient coordination between different departments attached with the DICS.

(iv) The DICS should encourage Government procurement of small industrial products on priority basis.

(v) The DICS should encourage to set up industrial units in the districts.

□ □ □

CHAPTER-2

Business Organisation

Q.1 What do you mean by Business Organisation? Also explain its characteristics and nature of Business Organisation?

Ans.: A Business organisation refers to any industrial, commercial or service organisation which produces goods and or services for sale, or engages in distributing or assists in the process thereof. It is to represent any collection of business resources – factories, warehousing, machinery, material, employee etc., and the planned use of which is limited within the framework of a one man business, partnership, company, are other form of business organisation.

In the words of **Richard Norman Owens**, *"A business organisation is an enterprise engaged in the production or distribution of goods for sale in a market or rendering services for a price."*

In the words of **Bayard O Wheeler**, *"A business firm is an institution, company or enterprise which is engaged in buying or selling, being owned by one person or group of persons, who manage it within certain laid down creative policies."*

Characteristics and Nature of Business Organisation :

(i) An association of persons or group.

(ii) A pluralistic institution.

(iii) Different forms.

(iv) Wide scope of activities.

(v) Coordination of resources.

(vi) Created utilities.

(vii) Intensity of capital.

(viii) Increasing trend in forming into combination.

(ix) Customer satisfaction.

(x) Dynamic Environment.

(xi) It is a system an organ of the society.

(xii) Customer orientation.

(xiii) Socio-economic institution.

(xiv) Operating in different sectors of the economy.

(xv) An institution with multiple objectives.

(xvi) Faster growth of service organisation.

(xvii) Global operation.

(xviii) Independent and separate role of entrepreneur and manager.

(xix) Innovations and marketing as basic functions.

(xx) Government control and regulation.

(xxi) Improves the standard of living of people.

Q.2 Explain the significance of Business Organisation.

Ans.: The Significance of business may classified into the following four categories; namely :

(1) Significance to National Economy

(2) Significance to Business itself

(3) Significance to Community

(4) Significance from other point for view

(1) Significance to National Economy : The significance of business to a nation may be expressed by the following facts :

(i) Optimum and profitable use of resources.

(ii) Balanced industrial growth.

(iii) Source of national income.

(iv) Faster economic growth in the country.

(v) Contributes of national prosperity.

(vi) Better utilisation of human resources.

(vii) Increase in the standard of living of the people.

(viii) Source for meeting import requirements.

(ix) To meet the obligations of development planning.

(x) Larger creation of employment.

(xi) Eradication of poverty.

(xii) Capital formation.

(xiii) Development of labour and capital markets.

(2) Significance to Business itself : The significance of business from the point of view of business itself, may be stated as below :

(i) Large scale production and efficient distribution.

(ii) Creation of healthy competition.

(iii) Fulfillment of social responsibility.

(iv) Decrease in the cost of production.

(v) Helps to develop managerial skill.

(vi) Greater utilisation of production capacities.

(vii) Development of the undertaking.

(viii) Profitable sales volume.

(ix) Specialisation in production.

(3) Significance to Community : The Significance of business from the point of view of community is discussed below :

(i) Uplifts the standard and quality of life.

(ii) Development of labour markets.

(iii) Human prosperity.

(iv) Creation of employment.

(v) Creates habits of saving.

(vi) Provides goods and services at reasonable prices.

(vii) Advantage of form, place, time and possession utilities.

(viii) Consumer education.

(ix) Attention towards customer grievances.

(x) Appointment of efficient and experienced salesmen.

(4) Significance to other point of view : The other significance of business may be discussed under the following heads :

(i) Promotion of international trade.

(ii) Closer cultural relations between countries.

(iii) Helps in maintaining political peace.

Q.3 What is Business Environment and what are it's components?

Ans.: The environment of business is an extremely complex and dynamic phenomenon. It is the product of the technological, political legal, economic, social cultural, global and natural factors among which it functions. The environmental factors vary from country to country, even region to region.

Environment is a mixture of economic, social, political, legal and technological forces. **Arthur M. Weimer writes the business environment is the climate or set of conditions; economic, social, political or institutional in which business activities are conducted.**

In the wards of **William Gluck** and **Jauch**, ***"Environment contains the external factors that create opportunities and threat to the business. This includes socio-economic conditions, technology and political conditions."***

Component of Business Environment : The component of Business Environment are as follows :

Components of Business Environment

Internal Environment

- Objectives
- Management Structure
- Human Resource
- Marketing Capabilities
- R&D
- Technological Capability
- Internal Relationship

External Environment

Micro Environment

- Customers
- Suppliers
- Competitors
- Marketing Intermediaries
- Public

Macro Environment

- Economic Factors
- Political Factors
- Technological Factors
- Social – Cultural Factors
- Global Factors

Q.4 What steps are required to take before the establishment of a Business Enterprise?

Ans.: The important steps involved establishing a new enterprise are as follows:

Preliminary Step or Promotion Stage
↓
Preparation of Project Report or Feasibility Report
↓
Completion of Legal Formalities and Registration of Enterprise
↓
Launching of the Business Enterprise
↓
Staffing
↓
Commencement of Business

Q.5 What do you mean by Business Ethics? Explain its main characteristics and scope of Business Ethics?

Ans.: Business ethics is concerned with day to day behaviour of business in a business situation. Business ethics is rapidly becoming an important subject of study replacing yesterday's "social responsibility of business."

In the words of **Robert Gueinner** and others, ***"Business ethics may be defined as those principles, practices and philosophies that are concerned with moral judgments and good conduct, as they are applicable to business situations."***

In the words of **Rogene A. Buchholz**, ***"Business ethics refers to right or wrong behaviour in business decisions."*** Thus, business ethics relates to the behaviour of a businessman in a business situation.

Characteristics or Assumption of Business Ethics :

For the understanding business ethics, it is necessary to know its important characteristics there are :

(i) As a discipline.

(ii) It is art and science both.

(iii) Ethics is different from social morality.

(iv) Not based on emotions & sentiments.

(v) Business ethics is not affected by social approval or disapproval.

(vi) An ancient concept.

(vii) A universal philosophy.

(viii) Dynamic philosophy

(ix) Theology is the basis of business ethics.

(x) Study of goals and means.

(xi) Recognition of moral responsibility.

(xii) More greater than law.

(xiii) Different from social responsibility.

(xiv) Hermony between different roles.

(xv) Good intention.

Scope of Business Ethics : The scope of business ethics or the issues in business ethics are as follows :

(i) Issues relating to objectives of Business.

(ii) Issues relating to employees.

(iii) Issues relating to competitive institutions.

(iv) Issues relating to Government.

(v) Issues relating to national interest.

(vi) Issues relating to owners of business.

(vii) Issues relating to customers.

(viii) Issues relating to creditors.

(ix) Issues relating to local community.

Q.6 Is "Good Ethics promotes Good Business" explain?

Ans.: Well known authorities like Raymond Baumhart, Brener and moltander etc proves in their finding that only those business can exists on a long term basis which conduct their activities on ethical grounds. Their findings were supported by learned, doolby and Katz. At the same time, there are certain other who do not accept this findings that "good ethics promotes good business." Although they are few in numbers, their agreements cannot be overlooked.

The following paragraphs give the arguments in favour and against, "good ethics promotes good business."

Arguments in Favour : Some of the important arguments in favour is as follows :

(i) Satisfaction of sub conscious mind.

(ii) Goodwill of Business and Businessman

(iii) It increases Mutual Trust and confidence.

(iv) Sound Business Insurance.

(v) Helps in Professionalisation of management.

(vi) Initiative for others.

(vii) Relieves from Tensions and worries.

(viii) Greater zeal and productivity.

(ix) Perpetual succession.

(x) Essential in the present situation.

Arguments against the view of "Good Ethics promote Good Business" : The critics gives the following argument in support of their claim :

(i) No reward for ethical conduct.

(ii) No resistance from officers.

(iii) Demand of the day.

(iv) Difficult to decide in a situation of dilema. □ □ □

CHAPTER-3

Business Finance

Q.1 What is Business Finance? Explain about the need and importance of Business Finance?

Ans.: **Business Finance**: The term business finance refers to money or funds available to a firm. Financial management is concerned with the proper management of funds and responsible for estimation of financial resources, their procurement and their application in a manner in which they help the enterprise to grow according to well defined objectives. Thus, the term Business finance involves various functions, such as; estimation of financial resources, procurement of funds and judicious application of funds.

In the words of **S. C. Kuchhal**, ***"Finance is the process of conversion of accumulated funds to productive uses."***

In the Words of **R. W. Paish**, ***"In a modern money using economy, finance may be defined as provision of money at the time it is wanted."***

Hence we can say that finance is very essential for the establishment, development and growth of any business enterprise.

Need and Importance of Business Finance : Finance is the life blood of a business, without which business activities can not be run, nor could it be established. Finance is the foundation on which the structure of business built up. It is key sources of business. The need of business raised both for a short run as well as for a long run.

The need and importance of finance for a business can be experienced from the following advantages :

(i) Finance is important to meet out promotion expenses i.e. payable to legal advisors, accountants and management consultants, for preparation of various documents, for registration etc.

(ii) For the arrangement for current assets.

(iii) For the purchasing of permanent assets i.e. building, land, plant and machinery etc.

(iv) Finance is important-to meet out the working capital requirement.

(v) To meet the cost of obtaining business finance.

(vi) For the development and expansion of business.

(vii) To face the uncertain future effectively.

(viii) Purchase of patents and goodwill.

(ix) For availing the trading opportunities.

(x) For providing liquidity.

(xi) To bridge time gap between production and sales.

(xii) For growth of business and industry.

(xiii) For keeping pace with increasing competition and technological changes.

Q.2 What are the factors which determine the need of Business Finance?

Ans.: The number of factors which determine the financial requirement of an enterprise are such as :

(i) Size of the enterprise

(ii) Nature of business

(iii) Possibility for future expansion

(iv) Professional management

(v) **Investment environment :** The country where the people take more investment by the people.

(vi) **Government policy :** Where the government fellows liberal investment policy towards investment in the new areas of development, less amount of capital is needed. On the other hand, if it fellows strict and rigid policies, and imposes statutory restriction in place of encouragement to entrepreneurs, the business requires more capital.

(vii) **Availability of finance :** In a country, where there is enough sources of finance, less amount of capital is needed.

Q.3 What are the various sources of Business Finance?

Ans.: Financial requirements of an enterprise falls primarily under the following **two categories** :

(i) Short Term Financial Requirements

(ii) Long Term Financial Requirements

Short Term Financial Requirements : Short term finance are required to meet working capital requirement or we can say day to day requirement.

Sources of short term financial requirements is as follow :

- o Trade Credit
- o B/R
- o Factoring
- o Bank Loan
- o Cash Credit etc.

Note : Under short term finance, the focus is on maintaining liquidity by obtaining short term funds at reasonable cost.

Long Term Financial Requirements : Long term finances are raised to meet fixed capital requirements of an enterprise.

They are raised for a period exceeding one year. Long term finance are divided into two part:-

Long Term Finance

Medium/Intermediate Term Funds | Long Term Funds

Note : Medium/Intermediate term funds are used for one to five years and long term funds are used for more than one year.

Various Sources of Long Term Finance is as follows :

Share (Owners' Capital) :

- o Debentures
- o Company Deposits
- o Long Loans from Financial Institutions
- o Loans from Commercial Bank
- o Venture Capital Financing
- o Lease Financing

Now, we will have to look these various sources of long term finance in detail :

(1) **Owners Capital :** Here owner's capital refer to the equity shares. Basically, a company can raise finance from shareholders in two ways :

(i) By a right issue.

(ii) By an issue to the public i.e. IPO.

Merits:

(a) Provides permanent sources of finance.

(b) No mandatory payment (i.e. dividend) to equity shareholders, since they are the owners.

(c) New equity shares can always be issued and thus they remain flexible with the company regarding the choice to be made for raising additional finance.

(d) Broadened by making a right issue.

Demerits :

(a) Extends voting rights to new shareholders.

(b) Distribution of profits among a wider group of people.

(c) Cost of underwriting and distributing new issues of ordinary shares are usually high.

(d) Dividends are not tax-deductible like interest payments, which can reduce available profit.

(e) Dividends are not tax-deductible like interest payments, which can reduce profits available.

(2) **Preference Shares :**

- o Entitled to receive a fixed rate of dividends.
- o They have preferential rights over equity shareholders both with respect to payment of dividend as well as repayment of capital.

Types of Preference Shares :

- o Cumulative Preference Shares
- o Non-cumulative Preference Shares
- o Redeemable Preference Shares
- o Non-redeemable Preference Shares
- o Participating Preference Shares
- o Non-participating Preference Shares
- o Convertible Preference Shares

Merits :

(a) Flexible methods.

(b) No risk.

(c) Leverage advantages.

(d) Issue of preference shares does not create any sort of change against the assets of company.

(e) Issue of preference share does not materially disturb the existing management control.

(f) Redeemed after a specified period.

(g) Useful for investors, who have a higher rate of return with comparatively lower risk.

(3) **Debentures:** A debenture is an instrument which acknowledge debt of a firm. Therefore, debenture holders are the creditors, receiving interests for the deposit of their money with the firm respective of Profit and Loss.

Types of Debentures :

(a) **Registered/Bearer Debentures :** Registered debentures are those whose name, address and other particulars of the debenture holders are entered into the register of debenture holders. Bearer debentures are transferable by more delivery and company does not record the name and address of the debenture holder.

(b) **Mortgaged/ Naked Debentures :** Mortgaged debentures are also known as secured debentures because they have a specific charge on assets of the company. If the company becomes a defaulter in payment of interest and principal amount, the debenture holders can sell mortgaged assets to recoup their amount. Naked Debentures holders are those who are not secured by any charge on assets of the company.

(c) **Convertible/Non-convertible Debentures :** The right of debenture holder to convert the debentures into any type of securities is known as convertible debentures conversion can be possible either fully or in partly.

(d) **Redeemable/Irredeemable Debentures :** Redeemable debentures are those, the principal amount can be redeemed by the company at the end of a specified period, as per the terms of the issue. Irredeemable debentures refers to those the payment of principal amount can not be redeemed during the life of the company.

Advantage /Merits of Debentures :

(a) Interest payable on debentures can be kept – normally less than the cost of equity and preference shares. Thus debenture issue is cheaper.

(b) Interest payable on debenture is allowable tax deduction in computation of taxable income.

(c) Debentures can be redeemed when a firm has surplus funds.

(d) Funds raised by the issue of debentures may be used in business to earn much higher rate of return than the rate of interest.

(e) Debenture holders are not entitled to have any control over the management of the company.

(f) When company's earning capacity is at a low level, debenture issue is more advantageous.

Demerits :

(a) There is a fixed commitment to pay interest at fixed rate.

(b) Debenture issue may not be possible beyond a certain limit.

(4) **Plouging Back of Profits :** Every business create a reserve funds by transferring a portion of its profits every year to this fund. Accumulation of retained profits constitutes a reasonable amount of finance which is used for the growth and development of business.

Merits :

(a) Expansion and modernization become easier.

(b) Book value/ market value of shares get increase.

(c) Dividend can be paid easily.

(d) Funds can be used for the development or expansion of business.

(e) Provides security even during recession period.

(f) Increases the credit worthiness of an organisation.

(g) No need to subscribe the capital from outside sources.

Disadvantages/ Demerits :

(a) Get encouragement of speculation in shares market.

(b) There is a possibility of over capitalization.

(c) Directors of such companies mis-utilize the reserve fund.

(d) It will reduce tax ability of a shareholders.

(e) Such enterprises succeed in establishing monopoly in the market.

(5) **Loan from Financial Institutions :** A number of specialised financial institutions have been set up to meet the specific financial needs of industrial enterprises.

Following are the institutions :

o LIC

o Industrial Development Banks of India (IDBI)

o Unit Trust of India

o Industrial Finance Corporation

o Industrial Credit and Investment Corporation of India (ICICI)

o General Insurance Companies

- State Financial Corporation
- Industrial Reconstruction Bank of India
- Export Import Bank of India (EXIM Bank)
- Small Industries Development Bank of India

(6) **Lease Finance :** When a company is in need of fixed assets, it may approach the leasing company. A lease is a contractual arrangement under which the owner of an assets, called the lesser, permits the another party, the lessee to use the assets for a specified period of time in return for a specified payment, also specifies the period covered by the lease.

Advantages/ Merits :

(a) Simple and easy to financial problem.

(b) It has the advantage of "pay as you can".

(c) The capital of the company can be invested in some projects.

(d) 100% cost of the fixed assets can be hired.

(e) Very little legal requirement is needed for acquiring finance.

(f) The burden of outdated technology or absolution of technology does not affect the company.

Demerits :

(a) The interest rate on the leased finance will be higher, this arrangement is a costly one.

(b) If the technology is outdated before the expiry of the leasing agreement, the leasee company has to bear heavy losses.

(c) If the assets are obtained by lease, the capital of the company remains unutilised.

(d) The lease company has to depend on the leasing company for the maintenance of assets obtained on lease.

(7) **Venture Capital Financing :** The venture capital financing referd to, investment in new and tried enterprises that are lacking a stable record of growth. In a broader sense, venture capital refers to the commitment of capital as shareholding, for the formulation and setting up of small firms specialising in new ideas and new technologies.

A ventures capital company is defined as "a financing institution which joins an entrepreneur as a co-promoter in a project and shares the risks and rewards of the enterprise."

Features of Venture Capital : Some of the features of venture capital financing is as follows :

(a) Venture capital is usually in the form of an equity participation. It may also take the form of convertible debt or long term loan.

(b) Investment is made only in high risk but high growth potential projects.

(c) Venture capital is available only for commercialisation of new ideas.

(d) Venture capitalist joins the entrepreneur as a co-promoter in projects and share the risks and rewards of the enterprise.

(e) There is continuous involvement in business after an investment by the investor.

(f) Venture capitalist may disinvests his holdings either to the promoters or in the market.

Various Sources of Short-Term Finance : Short term capital satisfies the day to day needs of operation of business. There are number of sources for short term capital. Important among them are as follow :

(a) **Public Deposits :** Public deposits invite by the companies through advertisement invite attention of general public to deposit their savings with the company the period of deposits may extend from six months to three years (The 12% rate of interest offered is generally higher from that given by the banks).

(b) **Trade Credit :** It refers to the amount payable to the suppliers of raw material goods etc. after an agreed period, which is generally less than a year (It is 2% customers for all business firms to allow credit facility to their customers in trade or business).

(c) **Commercial Banks** : Commercial Banks are essential dealers in short term credit to finance current assets or circulating capital. Commercial banks provide following facilities to the customers :

- Bank loans and advance.
- Overdraft facilities.
- Bill discounting etc.

The rate of interest on bank credit is fairly high but its burden is not excess because it is used for short period.

(d) **Depreciation Fund :** Depreciation funds is created from a portion of profits to replace the obsolescence plant, machinery and equipment etc.

(e) **Indigenous Bankers and Money Lenders :** Indigenous Bankers and money lenders are important sources of finance for rural artisans small and cottage industries and small trader. Such bankers and money lenders satisfying the financial needs of business end society.

Some other sources of short term finance is as follows :

- Finance Companies
- Advances from Customers
- Tax Redemption Fund

Q.4 Write a brief note on the Organisation of the RFC?

Ans.: Rajasthan Financial Corporation (RFC) came into existence on April 8, 1955, as a State Financial Corporation.

- Its registered office is situated in Jaipur.
- Its authorized capital is Rs. 100 crore dividend into 10 crore shares of Rs. 10 each.
- The subscribed and paid up capital of the corporation stood at Rs. 67.53crore as on March 31, 2003.

Objectives of RFC : The main objectives of RFC is as follows :

(i) Create an environment of balanced industrial development.

(ii) It helps in formulating a basic structure for industrial development.

(iii) Extend assistance to small and medium scale industrial units.

(iv) Give encouragement to set up industries based on high technology.

(v) Initiate rapid economic growth in the state through fast industrialization.

(vi) Promote and encourage new entrepreneurs.

(vii) Makes available financial assistance at easier terms to backward sections of the society.

Management : The management of the RFC is entrusted to a board consisting of the following (as on 31.3.2003) :

(i) Chairman and managing director appointed by the state Government.

(ii) Two directors nominated by the state Government.

(iii) Two directors co-opted by the Board.

(iv) Two directors nominated by the SIDBI.

(v) One directors nominated by the State Bank of Bikaner and Jaipur (SBBJ).

- An executive committee is also functioning to assist the Board of directors.
- All branches of the corporation are directed and controlled by regional offices.

Role of RFC as an Agent of the State Government and SIDBI : The corporation plays an active role in implementing the schemes of the state Government and Small Industries Development Bank of India (SIDBI). Some of the schemes are as follow :

(a) Interest incentive scheme.

(b) Capital investment subsidy scheme. Interest subsidy under technology upgradation fund scheme (TUFS).

Function of RFC : RFC introduced more schemes in the year 2002-2003 as under :

(i) Fast track loan scheme.

(ii) Scheme or financial assistance to industrial concerns in commercial construction activities.

(iii) Platinum card loan scheme.

(iv) Special purpose working capital term loan scheme.

(v) Scheme for roll-over-cum-principal replenishment 2002-2003.

Q.5 Write different steps to be taken for processing of loan from the RFC.

Ans.: The RFC considers grant of financial assistance by way of loans up to Rs. 90 lakh depending on the nature and size of the enterprise seeking loans. The steps are to be taken for processing of loan from the RFC is as follows:

Completion of Application Form

↓

Documents to be Furnished with the Loan Application

↓

Payment of Application Fee

↓

Submission of Application Form

↓

Processing of Loan Application

↓

Sanction of Loans

↓

Documentation

Q.6 What are the different steps to be taken for procedure adopted by the RFC in recovery of loan?

Ans.:

Eighteen Months Moratorium Period

↓

Quarterly Installment

↓

One Month's Notice

↓

Appropriation of Amount paid by Entrepreneur

↓

Follow Up Action against defaulters

↓

Legal Notice

↓

Acquisition of Assets

↓

Reschedulement of the Installments

Q.7 Write a critical essay on the performance of RFC?

Ans.: On account of the following reasons the functions of the RFC are criticized :

(i) Least attention is paid on underwriting of securities, buying of securities, giving guarantee etc.

(ii) A Plethora of documents are required to be submitted along with the application forms which causes delay in getting loan.

(iii) The corporation could not succeeded in attraction public deposits due to low rate of interest paid to the investors.

(iv) Lack of the professionally talented persons in the organisation structure of the RFC.

(v) There is lack of flexibility in the working of the RFC.

(vi) The paid up capital of the RFC, is not sufficient to meet its financial commitments.

(vii) Less attention is paid towards sophisticated and hi-tech industries. The loan facilities are available only for traditional industries.

Q.8 Give a few suggestions for improving the functions of RFC?

Ans.: The following suggestions can be given for the improvement in the functioning of the RFC :

(i) The criteria for the sanction of loans should be further Liberalised and more attention be paid for offering guarantee against loans.

(ii) The procedure for the sanction and disbursement of loans should be made more simple.

(iii) The corporation should invest in the capital of industrial units in association with other financial institutions.

(iv) Corporation should pay due attention on its other functions, i.e. under writing, offering guarantee, equity participation etc.

(v) The bureaucratic functions should be effectively checked and steps may be taken toward decentralization of authority.

(vi) Importance should be given to modern industrial units along with traditional industrial units.

(vii) Public deposits should be allowed on more attractive terms.

(viii) Exports from different field should be appointed in the functioning of the Board.

(ix) There is need to find additional sources of capital to meet its commitments in time.

□ □ □

Stock Exchange

Q.1 Define Stock Exchange? Explain its characteristics, objectives and also mention its significance?

Ans.: The stock exchange is an important segment of capital market which, not only provides capital but also helps investors to trade in securities, It is an highly organised market where securities are purchased and sold for a consideration through its members acting as brokers jobbers.

In the words of **Pyle**, ***"Stock exchanges are market places where securities that have been listed thereon, may be bought and sold for either investment or speculation."***

Thus, a stock exchange may be defined as an association of persons organised or incorporated to provide a market among themselves for the purchase and sale of securities.

Characteristics :

(i) A stock exchange is an important segment of capital market

(ii) Stock Exchange is an important source of capital formation.

(iii) It is a regular market for buying and selling in securities.

(iv) Provides liquidity on securities to the investors.

(v) It is an intermediary between the buyer and seller.

(vi) Transactions can be made according to the rules and bye-laws framed.

(vii) Securities are transacted only through the brokers, who are the authorized members of the stock exchange.

(viii) Cash transactions and forward (future) transactions can be held in a stock exchange.

(ix) Only those securities are allowed to be transacted which are listed in stock exchange.

(x) Stock Exchange is a registered body.

(xi) It is a barometer which indicate the general conditions of business in a country.

Objectives : The main objectives of a stock exchange are as under :

(i) To provide a specific place, regular market, and other facilities to the registered members of Stock Exchange.

(ii) To regulate and control transactions in securities.

(iii) Maintaining price stability in securities.

(iv) To build up high level of trustworthy and responsibility among the members who deal in securities.

(v) To develop the business of the country by increasing the volume of transaction in securities.

Importance or Significance of Stock Exchange : For the convenience of study, the significance of stock exchange may be grouped into as follows :

(1) Significance to investors.

(2) Significance to institutions issuing securities.

(3) Significance to the community and the nation.

(1) **Significance to Investors :**

(i) Provide market.

(ii) It provides liquidity.

(iii) Provides information about demand conditions.

(iv) Decision about investment get easy.

(v) Buying and selling.

(vi) The buyers and sellers can transact business with full confidence.

(vii) Reduces the risk of investors.

(viii) The listing of securities – provide security to investors.

(ix) This market makes provisions for future transactions.

(x) Investment in foreign securities.

(xi) It extends guidance to investors.

(xii) The investor can deal in buying and selling in securities while remaining any part of the country.

(2) **Significance to the Security Issuing Companies :**

(i) It brings liquidity and convenience.

(ii) Stability in prices.

(iii) Publication of quotations and activities of stock exchanges.

(iv) Regular market becomes available.

(v) Improves the goodwill of the company.

(vi) It facilitates to obtain foreign investment.

(viii) Able to subscribe for its share and deb. whenever needed.

(3) **Significance to the Community and the Nation :**

(i) It motivates the people to save and investment, leading capital formation in the country.

(ii) The government can obtain capital for its economic development.

(iii) It serves a source for the development of sound industrial organisation.

(iv) It increases international dynamism or capital.

(v) It is the economic barometer of the country.

(vi) It helps in the balanced development of the country by wider distribution of securities throughout the country.

Q.2 Write the functions of Stock Exchange?

Ans.: The functions of stock exchanges are as follows :

(1) **Functions of Directorate of Stock Exchange :**

(i) To see whether all the stock exchanges are functioning according to the provisions of securities contract (Regu.) Act, 1956.

(ii) To keep a watch on the day to day functioning of stock markets.

(iii) To make efforts to stop the undesirable speculation.

(iv) To advice the Government in respect of administration of stock exchanges markets.

(v) To see that rules relating to listing of securities are strictly observed.

(vi) Granting special permission to the members to transact beyond the limit approved.

(vii) The see that orders issued by the Central Government in respect of stock exchange are strictly followed.

(2) **General Functions of Stock Exchanges :**

(i) To provide a ready and regular market.

(ii) Encouragement to healthy competition.

(iii) Proper printing of securities.

(iv) Encourage for more savings.

(v) Listing of securities.

(vi) Wider distribution of securities.

(vii) Capital for industrial and services institutions.

(viii) Assists in capital formation.

(ix) Providing liquidity to healthy competition.

(x) Maintains stability in prices.

(xi) Publication of market report.

(xii) Economic barometer.

(xiii) Makes the transactions viable and secured.

(xiv) Acts as middleman.

(xv) Education to investors.

Q.3 Discuss the Power and Function of SEBI?

Ans.: Securities and Exchange Board of India, popularly known as SEBI, was constituted by department of economic affairs, Government of India on 12th April, 1988 with an object to develop and regulate the Indian capital market. In 1992 an Act was passed by parliament of India, known as securities and Exchange Board of India Act, 1992. This Act came into force with effect from 21 February, 1992. The basic object of this Act was to provide statutory powers to SEBI so as to protect the interest of investor, and to promote and regulate the development of securities market in the country.

Powers and Functions of the SEBI : It shall be the duty of the Board :

(i) To protect the interest of investors.

(ii) To regulate the business in stock exchanges and other securities markets.

(iii) To regulate and control the functioning of intermediate's like stock brokers, sub-brokers share transfer agents, bankers, portfolio managers.

(iv) To register and regulate the working of depositories custodians of securities foreign institutional investors, credit rating agencies.

(v) To promote and regulate self-regulatory organisations.

(vi) To prohibit fraudulent and unfair trade practices relating to securities markets.

(vii) To prohibit insider trading in securities.

(viii) To impart education and training to stock market investors.

(ix) To regulate substantial acquisition of shares and takeover of companies.

(x) Regulating the working of venture capital funds and collective investment schemes, including mutual funds.

(xi) To regulate and promote self-regulatory organisations in the securities market.

(xii) Levying fees or other charges for carrying out operations in stock market.

(xiii) Conducting research for any of the above purposes,

(xiv) Performing such other functions as may be prescribed.

(xv) To control and regulate large scale purchase of company's securities.

(xvi) Registration of intermediaries and issue of registration certificates to them as required under the SEBI Act.

Power to Issue Directions :

(i) In the interest of investors or orderly development of securities market.

(ii) To present the affairs of any intermediates or other persons referred to in the Sec.12 for the interest of investors or security market.

(iii) To secure the proper management of any such intermediary or person, it may issue such directions :

(a) To any person or class of persons referred in sec. 12 or associated with the securities market; or

(b) To any company in respect of matters specified in sec. 11A as may be appropriate in the interest of investor in securities and the securities market.

Q.4 Discuss the role of SEBI?

Ans.: The role of SEBI can be divided into two parts for the convenience of the study :

(1) Role in Primary Market

(2) Role in Secondary Market

(1) **Role in Primary Market :** The SEBI has been playing important role in safeguarding the interest of investors in primary market (new issue market). It has made the following effort in this connection :

(i) Redesigning of prospectus.

(ii) Expression of 'Risk Factors'.

(iii) Registration of merchant bankers.

(iv) Introduction of 'Stock Invest Plan'.

(v) Solutions to investor's complaints and problems.

(vi) Development of detachable abridged prospectus with share application.

(vii) Registration of other important institutions.

(viii) Efforts of complete allotment and listing procedure.

(ix) Registration of investors association.

(x) Education to investors.

(2) **Role in Secondary Market/ Stock Exchange :** The SEBI also plays important role in the expansion and quality improvement of secondary market/stock exchanges in the country. This will be clear from the description of the following points :

(i) Contribution towards expansion of stock exchanges.

(ii) Inspection of stock exchanges.

(iii) Regulation and control of 'Mutual Funds'.

(iv) Registration of 'Portfolio Managers'.

(v) Improvement in the working system.

(vi) Regulation of insider trading.

(vii) Constitution of advisory committee.

(viii) Registration of brokers and sub-brokers.

(ix) Registration of foreign investment institutions.

(x) Laying out guidelines.

(xi) Research and publications.

Q.5 Write a short notes on OTCE? Also mention it features and advantages?

Ans.: The OTC exchange is a recognise stock exchange market under security contract (regulation) Act. Initially the recognition was granted by the government to this exchange in August 1989 for a period of five years, but it started the operations from November, 1992. At the beginning its operations have been limited to the jurisdiction of Mumbai, but later extended to Madras and Delhi. By January 1995, a net-work of its offices have been set up in 25 cities in the country in 1995 it had a total membership of 325 members, dealers and representative offices. Thereafter the process of setting up counters in different cities, towns and appointment of dealers and members have been in progress.

Objectives : The main objectives of setting up the OTC Exchange have been the following :

(i) To provide listing facility to small and medium size companies.

(ii) To assist such companies in subscribing capital at low issue expenses.

(iii) To make available alternate arrangement for the investors to deal in securities.

(iv) To relieve the investors from delay in settlement of deals.

(v) To provides proper liquidity to all securities.

(vi) To make available nation-wide market for buying and selling of securities.

(vii) To provide information about the latest prices of different securities to investors.

(viii) To assist in complying with buying and selling decision promptly.

(ix) Modern technology to be used in stock exchange.

Features of OTC Exchange : The important features are as under :

(i) Nationwide trading.

(ii) Operation by authorised dealers / members.

(iii) Issue sponsor.

(iv) Transparency.

(v) No physical delivery of security certificate.

(vi) Market maker.

(vii) No dual listing.

(viii) Registration of investors.

(ix) Ringless exchange.

(x) Floorless exchange.

(xi) Computer screen based trading.

(xii) Trading through online system.

(xiii) Nationwide listing of securities.

Advantages of OTC Exchange : The new system of security market evolved by OTC exchange offers number of advantages over the traditional stock exchange. The advantages can be divided in to :

(i) Advantages to companies.

(ii) Advantages to Investors.

(iii) Advantages to members and dealers.

Advantages to Companies : The fallowing advantages are available to companies subscribing from public :

(i) Helps in raising funds at fair price.

(ii) Enhance capital raising power.

(iii) Saving in cost.

(iv) Stability in management.

(v) It encourages closely help companies to go pubic.

Advantages to Investors : The following advantages are available to investors :

(i) Display of security prices on computers.

(ii) Quick disposal of transaction.

(iii) Provides definite liquidity.

(iv) Provides sense of security.

Advantages to Members and Dealers :

(i) Provides national market for buying and selling of securities.

(ii) As it is a ring less trading system based on computer network, it provides easier trading.

(iii) Due to high volume of work transparency in transaction, quick disposal of transaction provides greater confidence to investors, thus it increase the volume of work.

(iv) There is a regular settlement system within a weeks time.

Q.6 Write a short note on NSE (National Stock Exchange).

Ans.: National Stock Exchange (NSE) was set up on 27th November, 1992, under the provisions of companies Act, 1956 on the basis of ferwani committee recommendations for providing nation wide stock market services to investors. The exchange is wholly computerized and linked through the satellite communication system. Its registered office is situated in Mumbai.

This exchange is granted permission by the Government of India under the provisions of security contract (Regulation) Act, Initially for a period of five years, it started from April 1993.

The important objectives of setting up the NSE is as follows :

(i) To make available a countywide market for dealing in securities.

(ii) To bring efficiency, pragmatism transparency in security market.

(iii) To make available top quality service to all investors.

(iv) To bring the stock exchange within the proximity of all the investors.

(v) To facilitate speedy clearing of transactions.

(vi) To extend the Indian stock market to world level.

(vii) To set an example of ideals for the other stock exchange.

□ □ □

CHAPTER-5

Business Combination

Q.1 What do you understand by Business Combination? Discuss its objectives?

Ans.: A combination is said to exist when two are more commercial or industrial units are operated or controlled by one ownership interest. Combination take a number of forms varying from the unwritten understanding amongst dealers to a highly integrated amalgamation or fusion of business houses covering a whole and of productive activity.

In the words of **M. L. Kothari**, ***"Combination refers to any formal or informal combining of two or more industrial units, proprietary or corporate entity, producing similar or different article or engaged in the successive process of manufacture of an article with, a view to earn maximum profits on capital employed."***

It is clear from above definitions that business combination may be any formal or informal agreements between two or more industrial units of similar or different articles producing units, for a common purpose. It is not essential that always the combining units may lose their existence when forms into a new institution.

Objectives/ Advantages of Combinations : The basic objectives/ advantages of combinations are summarized below :

(i) To avoid unhealthy and wasteful competition.

(ii) Desire for prestige, survival or growth.

(iii) To make the member units sound on economic and business point of view.

(iv) To regulate output or prices.

(v) Advantage to investors.

(vi) Reductions in the distribution functions.

(vii) To enjoy the advantages of professional management and services.

Other Objects : They include the following :

(i) It enables the combining units to withstand the rigours of depression.

(ii) It Provides full play to the ambitions and abilities of capable entrepreneurs.

(iii) It enables the full utilisation of patents and technical know how on a co-operative basis.

(iv) It enables the units to join hands and establish a monopoly with all its economics in –production, management, and marketing.

Q.2 What are the disadvantages/evils of Combinations?

Ans.: Evils of combinations are given below :

(i) Mis-utilisation of collective strength.

(ii) Inefficiency.

(iii) Increased risk.

(iv) Encouragement towards over capitalization.

(v) Bar to economic progress.

(vi) Unfair practices to root out small businessmen.

(vii) Concentration of economic and political power.

(viii) Exploitation of producers.

(ix) Unfair tactics.

(x) Creates instability in the economic system.

(xi) Exploitation of consumers.

Q.3 Write various forms of Business Combinations?

OR

What are the various form of Business Combinations?

Ans.: The business combinations are essentially the result of the different types of integration's. They have different forms in different types of situations existing in different countries of the world. The classifications of combinations are as follow :

Forms of Business Combinations

Simple Association	**Complex Association**
1) Trade Associations	**1) Federations**

2) Chamber of Commerce

3) Trade Union

4) Gentlemen's Agreements

(a) Pools

(b) Cartels

2) Consolidations

(i) Partial Consolidation

(a) Combination Trust

(b) Holding Company

(c) Community of Interest

(ii) Complete Consolidation

(a) Amalgamation

(b) Merger

Q.4 What are the different types of Business Combinations?

Ans. There are five main types of business combinations such as :

Kinds of Business Combinations

- Horizontal Combination
- Vertical Combination
- Lateral / Allied Combination
  - Convergent
  - Lateral Combination
  - Divergent Lateral Combination
- Circular Combination
- Diagonal Combination

(1) **Horizontal Combination :** Horizontal combination refers to the combinations of plants of the same stage of production or at the same plane in the trade of commerce. There are run under single form of Management.

For Example : A combination of five steel mills doing similar business belongs to the category of horizontal combinations.

Horizontal Combination

Steel Mill **A** | Steel Mill **B** | Steel Mill **C** | Steel Mill **D** | Steel Mill **E**

Distribution

Forms of Vertical Combinations

Forward Integration | Backward Integration

Advantages : The important advantages of horizontal combinations are given below:

(i) Reduce the intensity of competition.

(ii) Brings economics of large-scale production.

(iii) Equilibrium in demand and supply.

(iv) Monopoly profit.

(v) Economic stability.

(vi) Cost reduction.

(vii) Representation of industry.

(viii) Facilitates government control easier.

Disadvantages : They include the following :

(i) Cannot ensure a regular supply of raw materials

(ii) Cannot avoid cut-through competition.

(iii) Exploitation of customers.

(iv) Lead to the creation of monopoly.

(v) Danger to units remain outside the combination.

(2) **Vertical Combination :** It implies the integrations of the various process of an industry controlled by different firms, manufacture to the finished product for distribution.

For Example : The units engaged in ginning of cotton carding, pressing, and bailing, spinning, wearing and bleaching may join together to form a vertical combination.

Cotton Ginning Mills

↓

Cotton Spinning Mills

↓

Cotton Wearing Mills

↓

Printing and Dying Mills

↓

Selling Institution

Advantages : The important advantages are summarized below :

(i) Certainty of raw materials.

(ii) Economics of bulk purchases.

(iii) Elimination of middlemen.

(iv) Maintain quality of raw materials.

(v) Need for lesser number of salesmen.

(vi) Better consumer services.

(vii) Certainty of income.

(viii) Scientific innovation becomes possible.

Disadvantage : The disadvantages of vertical combinations are as follow :

(i) Large –scale production not possible.

(ii) Mutual dependence.

(iii) Increase in competition.

(iv) Lack of flexibility.

(3) **Lateral or Allied Combination :** Lateral or allied combination refers to those firms which manufactures different kinds of products though they are allied in some way.

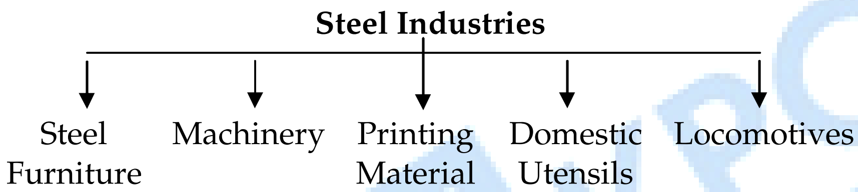
Lateral combination may take any of the two forms such as: -

(i) Divergent Lateral Combination

(ii) Convergent Lateral Combination

(i) **Divergent Lateral Combination :** It takes place when a major firm supplies its product to the other combining firms which uses it as their raw materials. This means that a product of one firm becomes the raw materials of many other firms.

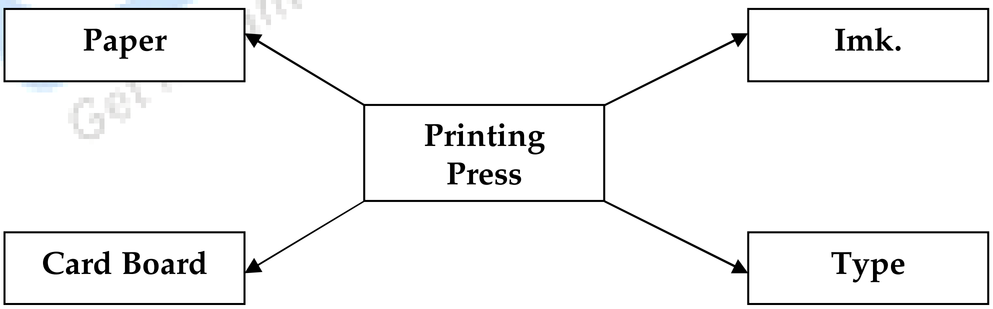
For example : Leather is the source of raw material from which saddles, harness, shoes, suit cases, fancy goods etc. can be produced. Steel Mill supplies steel to a number of allied firms for the manufacture of a variety of products like tubing, wire, nails, machinery, building materials locomative, stell furniture etc.



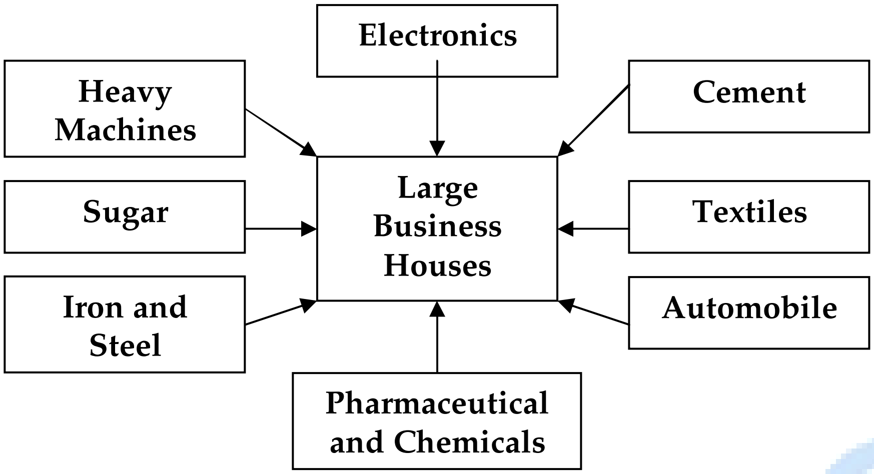
(ii) **Convergent Lateral Combination :** The various types of products manufactured by the combining units become the raw materials of a single firm, such a firm becomes the center nucleus of a combinations.

For example : a printing press may combine with units producing paper, ink, types, cardboard, printing machinery etc. to get the supply of these things required for it.

The diagram below depicts a convergent lateral combinations :



(4) **Circular Combination:** When firm belonging to different industries and producing altogether different products integrate or combine under a central agency, it is called a circular or mixed combination. The important object or the idea of such a combination is to derive the benefits of combined administrative advantages.



(5) **Diagonal Or Services Combination :** It is a combination which is bought about by diagonal integration. It takes place when a unit providing essential auxiliary goods and services to an industry is combined with a unit operating in the main line of production. An organisation may make ancillary articles necessary for making the main product fit for sale. In such a case, the goods and services required for the main process of production will be available inside the organisation itself. If a industrial enterprise combines with repairs workshop for maintaining the tools and machines in a order it is called as diagonal integration.

Q.5 Write a short note on Combination Movement in India?

Ans.: The combination movement in India may be studied by dividing the periods into two parts:

(1) Development till India's Independence

(2) Development after Independence

(1) **Development till India's Independence :** Before India's Independence, three forms of combinations were found operating in the country. There were the simple associations, chambers of commerce and output combinations.

Till Independence, the development and growth of combination movement in India were very slow. The major reasons for this slow growth were continued because of following factors :

(i) Lack of competition.

(ii) Lack of industrial development.

(iii) Managing agency system in the country.

(iv) Less number and small size of units.

(v) Individual outlook of Indian businessmen.

(vi) Small and Scattered industrial units.

(vii) State interference.

(viii) Lack of corporative spirit.

(2) **Development after the Independence :** After the independence, the combination movement took momentum and the following two forms took place :

(i) Community Interest

(ii) Alliances and Mergers

(i) **Community Interest :** After the independence, many trade association and chamber of commerce have been established. The main reason for this growth was the increasing number of companies in the country. The managing agency system was prevalent in Indian companies and this has helped in the development of activity of community. It was the most widely employed form of combination in India at that time and has assumed two main forms, such as

(a) Interlocking of interests through managing agents of financial and managerial integration.

(b) Interlocking through directors.

(ii) **Alliances/ Collaborations/ Mergers/ Takeovers :** After the world war II, another development started, namely the formation of alliances, or collaborations between Indian and foreign industrialists. Some of the main collaborations in early days were :- (a) The Hindustan Motors Ltd., as a result of Nuffield – Birla Motars deal, (b) Ashoka Motors Ltd.- linking with Austin Motors Ltd. for the manufacture of cars and trucks etc.

Some examples of public sector collaboration were (a) an agreement between the Government of India and Krupps and Demag of Germany for setting up of a steel plant at Rourkela. (b) another with a Swiss firm for production of Machine Tools etc.

In addition to mergers and alliances, the process of takeovers have also been taken place in view of the Liberalisation policy adopted by the Government, after 1985. For instance, Tata steel company has taken over the management and control of many engineering companies operating in eastern southern regions similarly Hindustan Liver Ltd. has taken over many smaller companies producing detergent powders etc. The momentum of takeovers, and mergers have been more faster in recent year, for instance – General Electric Company with Godrej refrigerators, Proctor and Gamble with Godrej soap, Coco-cola with Parle soft drinks; Godrej with Goodnight etc.

At present more interest is found in the combination movement in India. Some important reasons for this interest are summarized below :

- Liberalisation.
- Relaxation in the provisions of FERA.
- Provision in the sick Industrial companies.
- Operations in stock exchange.
- Policy of the joint sector.
- Policy of nationalization.
- Inter-locking directorship in companies.
- To have the advantage of high technology.
- To remove the problems of marketing.
- To cope with the supply of raw materials.

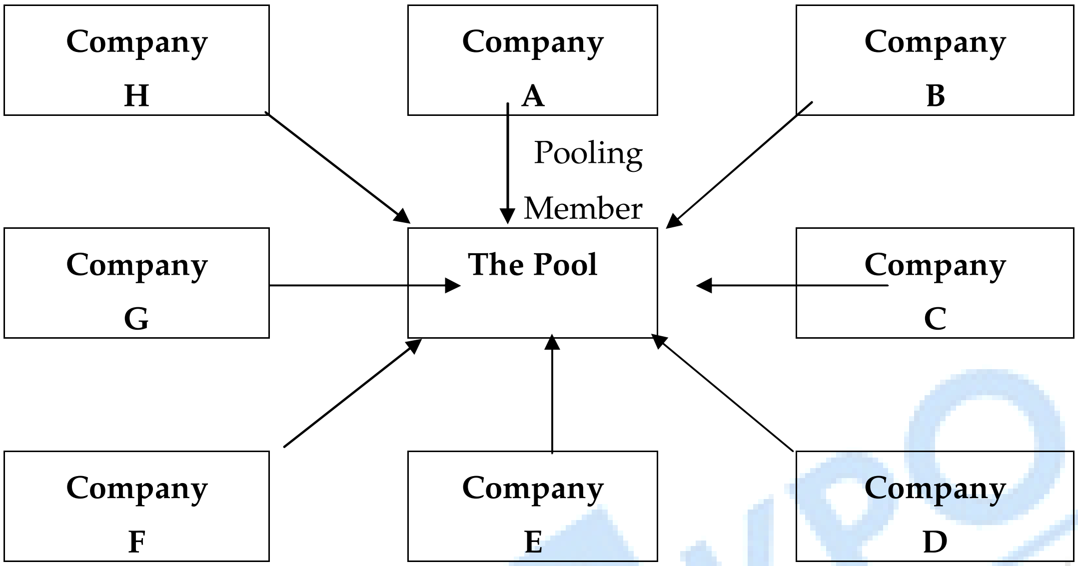
The foregoing analysis is an indications of growing importance of combinations movement in India, especially after the independence.

Q.6 What do you understand by a Cartel and Pools?

Ans.: **Pool :** A Pool is a business organisation formed with member units to seek a degree of control over the price. It is usually formed by agreements in writing and provided for penalties to those who violate it.

Definition of Pool : In the words of L.H. Haney, "A pool is a form of business organisation established through federation of business units whole members seek a degree of control over prices by combining some factors in the price making process in common aggregate and apportioning that aggregate among members."

Federation of Pools :



Types of Pools:

(i) Price Pool

(ii) Output Pool

(iii) Territorial or Market Pool

(iv) Traffic Pool

(v) Income or Profits Pool

(vi) Patent Pool

(vii) Export Pool

(viii) Agriculture Pool

(ix) Mixed Pool

Cartels : Cartel is a voluntary agreement of capitalistic enterprise of the similar type to secure a monopoly of the market. An agreement which is made with a view to improve the profit of its members business. It is a pool in which common sales agency or syndicate is attached. The basic object of a cartel is the domination of market by the elimination of competition through various restrictive measures.

In the words of **Van Bechereth**, ***"A cartel is a voluntary agreement of capitalist enterprises of the same branch for the regulation of the sales market with a view to improve the profitability of its business member."***

Types of Cartels :

(i) Term Fixing Cartels

(ii) Price Fixing Cartels

(iii) Customer Assigning Cartels

(iv) Zonal Cartels

(v) Quota Fixing Cartels

(vi) Super Cartels or International Cartels

(vii) Syndicate or Proper Cartel

(viii) Buying Cartel

Q.7 What do you understand by Amalgamation and Merger?

Ans.: **Amalgamation :** Amalgamation implies the creation of a new company by a complete consolidation of the combining units two or more companies working as a group or otherwise may liquidate themselves under the law and sell their assets and transfer their liabilities to a new company which issues its own stock in exchange for the worth of property received from the amalgamating companies. Under amalgamation, none of the existing companies retain its identity.

Merger or Absorption : Absorption is another name for merger. Merger refers to one business unit combine with another unit. The absorbing company retains its identity and enlarges its size through merger. The company which is merged loses its entity in the absorbing company.

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