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UNIT I

LESSON - 1

NATURE AND SCOPE OF BUSINESS

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1.0 Aims and Objectives : In this lesson we are going to discuss

- Meaning of Business and Profession and distinction between these two
- Nature and scope of a business
- Functions of business

After reading this lesson you should be able to understand the basic working knowledge of all above-mentioned topics and to answer lesson end activities given at the end of the chapter.

1.1 Introduction :

The subject of Business Organization and Management has acquired an important status in the field of business studies at the under-graduate level. It embraces the study of the methods, techniques and practices of efficient organizations and management of business.

The knowledge of this subject is essential not only for the commerce students, but also for all those who want to enter into any line of business.

1.2 Meaning of Business :

A business may be defined as an institution organized and operated to provide goods and services to the society with the objective of earning profit. L.R. Dickson has defined business as a form of activity pursued primarily with the object of earning profit for the benefit of those on whose behalf the activity is conducted. “Business involves production and/or exchange of goods and services to earn profits or in a broader sense, to earn a living. Profit is not the sole objective of the business. It may have other objectives like promotion of welfare of the workers and the general public. Business activities include production and distribution of goods and services which can satisfy human wants.

The term business should be used to convey the same meaning as the term trade simply denotes purchase and sale of goods whereas ‘business’ includes all activities from production to distribution of goods and services. It embraces industry, trade and other activities like banking, transport, Insurance and warehousing which facilitates production and distribution of goods and services. According to F.C. Hopper “The whole complex field of commerce and industry which includes the basic industries, processing and manufacturing industries, and the network of ancillary services: distribution, banking, insurance transport and so on, which serve and inter penetrate the world of business as a whole” are called business activities.

1.3 Meaning of Profession :

A Profession may be defined as an occupation which involves the rendering of personal services of a specialized nature, based on professional knowledge, education and training such as services rendered by physicians, lawyers, auditors. etc. They collect professional fee from their clients for the services rendered to them. They generally have membership of a professional body which enforces code of conduct among the members of the profession. For instance, Bar Council of India is the professional body which guides and regulates the law profession in India. The professional body also prescribes the nature and type of education and training required to practice the concerned profession.

1.4 Distinction Between Business and Profession :

The terms business and profession are similar in the many aspects. But they are differing from each other as explained in the following paragraphs.

(i) Establishment : A business enterprise comes into existence when an entrepreneur takes a decision to carry on production and/or exchange of goods and services in order to earn profits by satisfying the needs of the customers. The entrepreneur has also to complete all the legal formalities required to bring the particular business entity into existence. On the other hand, the professional firm is established by the decision of a professional (lawyer, chartered accountant, architect, etc) who holds the membership and the certificate of a practice of a professional body.

(ii) Nature of Operations : A business is engaged in the production and distribution of goods and services to satisfy human needs. The practice of profession involves rendering of personalized services of a specialized nature to the clients.

(iii) Motive : The motivating force behind a business is to earn profits by producing and distributing goods and services to satisfy the needs of the society. But a professional is

expected to emphasize the service motive and sense of mission to a greater extent than a businessman. A professional is expected to follow a rigorous code of conduct or ethical behaviour specially provided for the profession.

(iv) Qualifications : No qualification is prescribed by any authority for a business man. In case of profession, specialized knowledge and training are compulsory.

(v) Investment : Almost every business needs some capital. The amount of capital required varies from business to business and it also depends upon the scale of operations. A professional has also to invest some money to establish an office for rendering professional services.

(vi) Reward : A business man earns profit, a professional earns fee and an employee earns salary.

(vii) Transferability of Interest : Transfer of ownership is possible in case of business by following the prescribed formalities. It is not possible to transfer ownership interest in case of a profession or employment.

1.5 Nature of Business : A business enterprise has the following characteristics :

(i) Dealing in Goods and Services : The first basic characteristic of a business is that it deals in goods and services. Goods produced or exchanged may be consumer goods such as bread, rice, cloth, etc., or capital goods such as machines, tools, etc., The consumer goods are meant for direct consumption either immediately or after undergoing some processes, whereas the capital goods are meant for being used for the purpose of further production. Capital goods are also known as producer's goods. Services include supply of electricity, gas, water and finance, insurance, transportation, warehousing, etc.

(ii) Production and Exchange: Every business is concerned with production and exchange of goods and services for value (prices). Thus, goods produced or purchased for personal consumption (or) for presenting to others as gifts do not constitute business because there is no sale or transfer for value involved. If, for example 'A' buys a T.V. Set in Tokyo to be gifted to his brother on his return to New Delhi, it will not amount to business. But if the same person realize the price of the T.V. Set, it will come under the scope of business in a limited way provided the other conditions are also satisfied which are given below.

(iii) Regularity and Continuity in Dealings : One sale transaction cannot strictly constitute a business. A sale of a product can be called a business if it is undertaken frequently. If other essential characteristics of business are present and the production of goods or rendering of services for a price is undertaken regularly and continuously, this activity will be called a business.

(iv) Uncertainty or Risk : Business activities, as we have formed some definite ideas about it by now, carry an element of uncertainty or risk. It is true that the element of risk is present in almost all economic activities in a small or great measure. But it is certainly more significantly present in business activities. Risk involves the possibility of loss or what may be called uncertainty of return on investment made in the business due to a variety of factors over which the business enterprise has practically no control.

(v) Profit Motive : Human-beings are engaged in business primarily with a view to earn profits and acquire wealth. This is not in any way reduce the importance of service motive in business. As a matter of fact, there is a positive relationship between proper and satisfactory services to the customers and to the society and the extent of profit. Normally, better services

are accompanied by higher profits, but it may not always be so. Profit motive is also accepted as a desirable objective even for the Government enterprises engaged in business. It is called surplus instead of Profit in case of Government enterprises.

1.6 Scope of Business: The scope of business is very wide. It includes a large number of activities which may be classified under two broad categories, namely, Industry and Commerce. A description of the activities which come under these two broad categories is given below.

1.6.1 Industry : The activities of extraction, production, conversion, processing or fabrication of products are described as industry. These products of an industry may fall under any one of the following three categories:

(a) Consumers Goods : Goods used by final consumers are called consumers goods. Example of consumer goods Edible Oils, Cloth, Jam, Television, Radio, Scooter, Motor Car, Refrigerator, Cell phone etc. come under this category.

(b) Capital Goods : Goods used in the production of other goods are described as produces' goods. Steel produced by steel plant is used for fabrication into a variety of products such as motor cars, scooters, rail Locomotive engines, ships, surgical instruments, blades, etc. Similarly machine tools and machinery used for manufacturing other products also come under this heading. These are also called capital goods.

(c) Intermediate Goods : There are certain materials which are the finished products of one Industry and become the intermediate products of other industries. A few examples of this kind are the copper industry, the finished products of which are used in manufacturing Electrical Appliances, Electricity Wires, Toys, Baskets, Containers, and Buckets. Broadly speaking, industrial activities may be classified into primary and secondary which are explained in the following lines.

1.6.1 (i) Primary Industries : The following are some of the of primary industries :

(a) **Extractive Industries :** They extract or draw our their products from natural sources such as earth, sea, air. The products of such industries are generally used by manufacturing and construction industries for producing finished goods. Farming, mining, lumbering hunting, fishing, etc., are some of the examples of extractive industries.

(b) **Genetic Industries :** Genetic means parentage or heredity. Genetic industries are engaged in breeding plants, and animals for their use in further reproduction. For breeding plants, the seeds and nursery are typical examples of genetic industries. In addition, the activities of cattle-breeding farms, poultry farms and the hatchery come under the category of genetic industries

1.6.1 (ii) Secondary Industries : The following are the elements of secondary industries :

(a) **Manufacturing Industries :** These are engaged in producing goods through the creation of what is known as 'form utility' Such industries are engaged in the conversion or transformation of raw materials or semi finished products into finished products. The products of extractive industries generally become the raw-materials of manufacturing industries. Factory production is the outcome of manufacturing industry. Manufacturing industries may take any one of the following forms.

(i) Analytical : The basic material is analyzed and separated into a number of products. Oil refining is an example of analytical industry. The crude oil is extracted from beneath the earth and is processed and separated into petrol, diesel, kerosene, gasoline, lubricating oil, etc.

(ii) Synthetic : Two or more materials are mixed together in the manufacturing operations to obtain some new products. Products like soap, cement, paints, fertilizers, cosmetics are derived from this industry.

(iii) Processing : In this case, raw materials are processed through a series of manufacturing operations making use of analytical and synthetic methods. Textiles, sugar and steel are examples of this category.

(iv) Assembly Line: In assembly line industry, the finished product can be produced only after various components have been made and then brought together for final assembly to be converted into finished products. Production of automobiles, watches, televisions, bicycles, railway wagons, etc., are the typical examples of the industry.

(b) Construction Industries : They are concerned with the making of constructing of buildings, bridges, dams, roads, canals, etc. These industries use the products of manufacturing industries such as Iron and Steel, Cement, Lime, Mortar etc., and also the products of extractive industry such as stone, marble, etc. The remarkable feature of these industries is that their products are not sold in the sense of being taken to the markets. They are constructed and fabricated at fixed sites.

1.6.2 Commerce: The term commerce refers to the process of buying and selling-wholesale; retail, import, export, enter port trade and all those activities which facilitate or assist in such buying and selling such as storing, grading, packaging, financing, transporting, insuring, communicating, warehousing, etc. The main functions of commerce is to remove the hindrance of (i) persons through trade; (ii) place through transportation, insurance and packaging; (iii) time through warehousing and storage; and (iv) knowledge through salesmanship, advertising, etc., arising in connection with the distribution of goods and services until they reach the consumers. The concept of commerce includes two types namely: (i) Trade and (ii) Aids to trade which are explained in the following paragraphs.

1.6.2 (i) Trade : The term trade refers to the sale, transfer or exchange of goods and services and constitutes the central activity around which the ancillary functions like Banking, Transportation, Insurance, Packaging, Warehousing and Advertising cluster. Trade may be classified into two broad categories as follows:

(a) Internal or Domestic Trade: It consists of buying and selling of goods within the boundaries of a country and the payment for the same is made in national currency either directly or through the banking system. Internal trade may be further sub-classified into wholesale trade and retail trade.

(b) International or Foreign Trade: It refers to the exchange of goods and services between two or more countries. International trade involves the use of foreign currency (called foreign exchange) ensuring the payment of the price of the exported goods and services to the domestic exporters in domestic currency, and for making payment of the price of the imported goods and services to the foreign exporter in that country's national currency (foreign exchange).To facilitate this payment, involving exchange transactions, a highly developed system of international banking under the overall control and supervision of the central bank of the concerned country (Reserve Bank of India in our case) is involved.

International trade is carried on mostly in larger quantities both on Government account and on private account involving both individuals and business houses.

1.6.2 (ii) Auxiliary to Trade or Aids to Trade : As mentioned above, there are certain function such as banking, transportation, insurance, ware-housing, advertising, etc. which constitute the main auxiliary functions helping trade-internal and international. These auxiliary functions have been briefly discussed hereunder:

(a) **Banking:** Banks provide a device through which payments for goods bought and sold are made thereby facilitating the purchase and sale of goods on credit. Banks serve the useful economic function of collecting the savings of the people and business houses and making them available to those who may profitably use them. Thus, banks may be regarded as traders in money and credit.

(b) **Transportation :** Transport performs the function of carrying goods from producers to wholesalers, retailers, and finally customers. It provides the wheels of commerce. It has linked all parts of the world by facilitating international trade.

(c) **Warehousing:** There is generally a time lag between the production and consumption of goods. This problem can be solved by storing the goods in warehouse. Storage creates time utility and removes the hindrance of time in trade. It performs the useful function of holding the goods for the period they move from one point to another. Thus, ware housing discharges the function of storing the goods both for manufacturers and traders for such time till they decide to move the goods from one point to another.

(d) **Insurance:** Insurance provides a cover against the loss of goods in the process of transit and storage. An insurance company performs a useful service of compensating for the loss arising from the damage caused to goods through fire, pilferage, thief and the hazards of sea, transportation and thus protects the traders from the fear of loss of goods. It charges insurance premium for the risk covered.

(e) **Advertising :** Advertising performs the function of bridging the information gap about the availability and uses of goods between traders and consumers. In the absence of advertising, goods would not have been sold to a widely scattered market and customers would not have come to know about many of the new products because of the paucity of time, physical-spatial distance, etc.

1.7 Functions of Business : In order to achieve its objectives, a business enterprise performs many functions which may be broadly grouped under the following headings: Production, Marketing, Finance and Personnel. In big business organisations, there are separate departments to look after these functional areas. It may be noted that these functions are inter-dependent and inter-related. For instance, production department depends upon marketing department to sell its output and marketing departments depends upon production department for the products of required quality to satisfy its customers. Thus, there must be proper integration of various functional areas of business to achieve its objectives. This can be achieved by the management of the enterprise by effective planning, organization, direction and control. The important functions of a business are briefly discussed below.

(i) Production Function: It is concerned with the transformation of inputs like manpower, materials, machinery, capital, information and energy into specified outputs as demanded by the society. The production department is entrusted with so many activities such as production planning and control, quality control, procurement of materials and storage of materials.

(ii) Marketing Function: It is concerned with distribution of goods and services produced by the production department. It can perform this function efficiently only if it is able to satisfy the needs of the customers. For this purpose, the marketing department guides the production department in product planning and development. It fixes the prices of various products produced by the business. It promotes the sale of goods through advertisement and sales promotion devices such as distribution of samples and novelty items, holding contests, organizing displays and exhibitions, etc.

(iii) Finance Function : It deals with arrangement of sufficient capital for the smooth running of business. It also tries to ensure that there is proper utilization of resources. It takes many important decisions such as sources of finance, investment of funds in productive ventures, and levels of inventory of various items.

(iv) Personnel Function : This function is concerned with finding suitable employees, giving them training, fixing their remuneration and motivating them. The quality of human resource working in the enterprise is a critical factor in the achievement of business objectives. Therefore it is necessary that the work force is highly motivated and satisfied with the terms and conditions of service offered by the enterprise.

1.8 Let Us Sum Up : In this lesson we have discussed the meaning and nature of both business and profession, various activities that come under the scope of business and various functions of business.

1.9 Lesson End Activities:

1. Define the term Business. How does it differ from Profession?
2. Explain the main characteristics of Business in the modern world.
3. Discuss the scope of a Business.
4. What is meant by trade? What are its types?
5. What are the ancillary functions of a trade ?
6. Briefly explain the important functions of a business .
7. Write short notes on
 - (i) Categories of goods.
 - (ii) Primary Industries
 - (iii) Secondary Industries
 - (iv) Commerce

1.10 Model Answers to Check Your Progress :

Question No. 1 Refer Para 1.2 & 1.4

Question No. 2 Refer Para 1.5

Question No. 3 Refer Para 1.6

Question No. 4 Refer Para 1.6.2 (i)

Question No. 5 Refer Para 1.6.2 (ii)

Question No. 6 Refer Para 1.7

Question No. 7 Refer Para (i) 1.6.1 ; (ii) 1.6.1 (i) ; (iii) 1.6.1 (ii) ; (iv) 1.6.2

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LESSON - 2

OBJECTIVES AND SOCIAL RESPONSIBILITIES OF BUSINESS

- 2.0 Aims and Objectives
- 2.1 Introduction
- 2.2 Economic Objectives
- 2.3 Human Objectives
- 2.4 Organisationals Objectives
- 2.5 Social Objectives
- 2.6 Social Responsibilities of Business
- 2.7 Let Us Sum Up
- 2.8 Lesson End Activities
- 2.9 Model Answers to Check Your Progress
- 2.10 References

2.0 Aims and Objectives : In this lesson we are going to discuss

- Various objectives of business
- Meaning of the concept of social responsibilities of a business.
- Arguments in favour of social responsibilities of a business
- Arguments against social responsibilities of a business
- Guidelines for determining criteria for social responsibilities of a business
- Reasons for assuming social responsibilities of a business
- Areas of both internal and external social responsibilities of a business
- The present position of social responsibilities of a business in India.

After reading this lesson you should be able to understand the basic working knowledge of all the above mentioned topics and to answer lesson end activities given at the end of the chapter.

2.1 Introduction: To a layman, an objective is an aim or a goal. This is a very vague description as it does not convey a specific meaning. If this definition is followed, it will not be possible to distinguish the short-term objectives and the long-term objectives. In order to be specific, an objective of an activity should be defined in relation to its environment. Thus, we may define a business objective as purpose or the reason for its existence

2.2 Economic Objectives : Since business is essentially an economic activity, the primary focus of economic objectives is on three important constituents of the business system, namely:

- (a) The owners
- (b) The employees and
- (c) The customers.

The owner(s) must get adequate return, on the capital invested and the risk undertaken by him or them in the form of profit or dividend. The employees must be adequately compensated through fair wages or salaries, allowances, bonus, and other welfare facilities in the form housing, medical and healthcare, education of children, recreational facilities, retirement benefits, etc. So that they devote heart and soul in organisation's work and work in the spirit of doing it not as hired employees but as if they are doing their own work. Customers are the patrons of the business enterprise and their satisfaction must be uppermost in the mind of the businessmen. Customers feel satisfied if they are supplied with quality products at reasonable prices coupled with adequacy of regular supply, after sale service, courtesy, etc. "The customer is the foundation of a business and keep it in existence". Business earns profit by satisfying the needs of the customers. As a matter of fact, the first and foremost objective of a business is creation and satisfaction of customers.

Earning of sufficient profits is necessary not only to provide adequate rewards to the owners and the employees, but the employees, but also to provide for innovation and growth and diversification. The most important and remarkable benefits to the society through innovation and growth are in the form of better products at lower rates and increase in employment opportunities.

2.3 Human Objectives : Focus on human objectives is mainly on two constituents, namely, (a) employees and (b) customers, both of whom must have a feeling of having been treated as human beings by the business enterprise. Employees, in order to have a feeling of having been treated as human beings, look forward to a business enterprise for the following objectives:

- (i) They are treated as partners in the joint venture and not as inferior lot;
- (ii) They are able to acquire and develop new abilities and skills in the process of employment; and
- (iii) They derive job-satisfaction.
- (iv) These help them to develop commitment to their work and in turn to the organization in which they are working.

Customers also look at the business enterprises as an institution which takes care of their needs as human beings. Hence the importance of courtesy, accommodation, understanding and fairness in dealings with the customers is quite obvious. This also points out the need for realization on the part of business enterprises that they do not fall prey to the temptation of profiteering through adulteration, hoarding, cornering of stocks, etc.

2.4 Organisational Objectives : Business enterprises, from the point of view of its growth and stability, can be compared with the human anatomy. Just as human body grows through a number of stages, that is, from infancy to childhood, from childhood to adolescence, from adolescence to adulthood and from adulthood to maturity, a business enterprise also passes through such phases during its existence. In order that a business may grow through these stages in time and with strength, it is necessary that the business strives for (a) ploughing back a part of its profits so that it may acquire strength to grow and survive in the face of competition; and (b) attaining an optimum size of operations so that it could avail of the economies of the scale.

2.5 Social Objectives : These objectives of business can be put in two categories: (i) Micro level (i.e., immediate environmental objectives); and (ii) Macro level (i.e., national objectives); Micro level social objectives. Under this category, this category, the business is expected help in the spread of literacy, education, training, medical care and public health, control of air and water pollution, development of backward classes and regions, and helping

cultural, religious and charitable institutions engaged in the work of improving the lot of human beings.

2.6 Social Responsibilities of Business: A large number of significant changes have taken place in social, political, economic and other aspects of modern culture. These changes make it appropriate to re-examine the role of modern business. It is common today to hear speeches or read articles calling for more social consciousness on the part of the business organizations. The demand for greater social awareness from the business organizations is a move and an important part of the society's attempt to make them more responsive to the need of mankind. It is heartening to note that society's changing values and needs are being due importance by the leading business houses of the world. This is obvious from the fact that the business houses are carrying on research and development activities and producing goods and services to provide greater satisfaction to the economic and social development of their nation.

Since long there has been a controversy whether business should assume social responsibilities, or it has no such obligations to fulfil. It would be worthwhile to analyze the arguments offered both in favour of and against assumption of social responsibilities by business. First of all we shall begin with the analysis of arguments in favor.

2.6.1 Supporting Arguments : The important arguments offered in favour of business assuming social responsibilities are as follows.

(i) Response to Social Demand : It is a well known fact that business is set up to earn profit by producing goods or rendering services to the members of the society. Thus, the business is the creation of the society in the sense that its primary objective is to fulfill the needs of the members of the society. In case the business fails to do so, the society through people's representatives in Government will either force them to do so through laws or may no longer permit them to survive.

(ii) Long-term self-Interest of Business : There is a growing realization on the part of the enlightened businessmen that it will be in their self-interest to fulfil the demands and the aspirations of the society. People who have a good environment, education, and opportunity make better employees, customers and neighbours for business than those who are poor, ignorant and oppressed. To quote Arjay Miller: "Under current conditions, management cannot effectively discharge its long-run responsibilities to shareholders unless it also behaves responsibly towards employees, customers, government, education and the public at large. The ability of a corporation to protect and enhance the stockholders equally depends crucially upon the prosperity, goodwill and confidence of the larger community. Acceptance of a large measure of responsibility towards the community is, therefore, good business as well as good citizenship."

(iii) Government Intervention : If the businessmen do not rise to the occasion in meeting the social responsibilities, the Government will step in and make them assume such responsibilities through legislation. Such legislative regulation is expensive for business and stand in the way of flexibility and freedom in making decisions and meeting competition. Hence it would again be in the interest of business community to voluntarily undertake to fulfil the social responsibilities. In doing so the business will also retain the needed credibility with the public pressure.

(iv) Public Image : The antennas of business managers are turned to the public opinion as good public opinion is a precondition to the success of any business. Therefore, they seek to

maintain a proper image of their business in the public mind by assuming social responsibilities.

(v) Socio-Cultural Norms : A business operates within a set-up of socio-cultural norms and restraints. No society will allow a business to maximize its profits at the cost of the society. It requires the business to respond to social obligations. It may even report to legal means to enforce discipline among the businessmen.

(vi) Consciousness Among Consumers : The consumers of today are well informed. They accept higher quality products at reasonable rates from the business. They can organize themselves in case a business resorts to malpractices such as adulteration and black marketing.

(vii) Strong Trade Unions : The level of education among the workers has been increasing. They understand the need of organizing themselves into unions to advance their economic and social interests. The government has also enacted social security measures due to which it has become difficult for the business houses to ignore the interests of the work force.

2.6.2 Objecting Arguments : The case against assuming Social Obligations. The classical view has been against the business assuming social responsibilities. It is argued that business is an economic institution and as such its primary responsibility is to produce goods and services efficiently and to earn profits for its owners, namely, the shareholders. Milton Friedman, a noted world economist and Nobel laureate supports the view of the classis in this regard. Friedman argues that “in a free enterprise, private property system, a manager is an employee of the owners of the business and directly responsible to them as his employers. Since stockholders want to make as much profit as possible, the manager’s sole objective should be to try to do this. If a manager spends stockholder’s money in the public interest, he is spending stock holder’s money without their approval and perhaps in ways stockholders would oppose. Similarly, if the cost of social action is passed on to consumers in the form of higher prices the manager is spending their money also. This is taxation without representation.” He further goes on to observe that “there is one and only one social responsibility of business-to use its resources and engage in activities designed to increase its profits so long as it stays within the rules of the game which is to say, engages in open and free competition, without deception or fraud. Few trends could so thoroughly under mine the very foundation of our free society as the acceptance by corporate officials of a social responsibility other than to make as much money for their stock-holders as possible. This is a fundamentally subversive doctrine.

In addition to the observations made by Milton Freidman, some more arguments are advanced opposing the idea of business assuming social responsibilities. These arguments are as follows:

(i) Violation of Rule of Profit Maximization : As a businessman moves away from the simple rule of profit maximization that guides his actions into the social and political realm, he has two guides to him know what social responsibilities he should assume in the public interest. The businessmen should not try to determine what is the public interest because “the economic system is not a playground on which businessman may exercise their peculiar preferences.”

(ii) Less Efficient Use of Resources : The doctrine of social responsibility implies acceptance of socialist view that political mechanisms rather than market mechanisms are the appropriate ways to allocate scare resources to alternative uses. As this process evolves, there

will be an erosion of the drive to use resources efficiently and a loss of the greater productivity of the present economic mechanism.

(iii) Burden on Consumers : If the market price of a product does not truly reflect the relative costs of producing it, but includes costs for social actions, the allocative mechanism of the market place will be distorted. The customer will have to pay a higher price than necessary to call the goods into the market because the business is spending funds on social responsibilities.

(iv) Lack of Social Skills : Businessman do not necessarily have social skills. Because of this they may not be able to solve social problems even though they spend a large amount for this purpose.

(v) Lack of Self-Interest : There is no substitute for the power of self interest to get people to act. Assumption of social responsibilities will hinder the achievements of self interests of businessmen. Any replacement of the altruism for self-interest will, therefore, be fatal to the efficiency of the business system.

2.6.3 Criteria for Determining the Social Responsibilities of Business :

The problem now arises what business can and should do? This requires laying down certain guidelines for the business to follow. In the light of today's economic realities, the intensity of social problems. Society's expectations and goals, the following may be suggested as broad guidelines to be observed by business in discharging its obligation by way of social responsibility.

(i) It needs to be remembered that business is predominantly an economic institution with a strong profit motive. As such, business should not be required to meet non-economic objectives of society in a big way without financial incentives.

(ii) Business should be expected to take the long-term view and perform socially responsible actions that might primarily reduce profits in the short-run but are in the ultimate interests of the company in the long-run. Helping meet the problems of unemployment, environmental pollution, civil disorders, etc., are some of the obligations which are in the long term interest of business.

(iii) Each business firm must think carefully before accepting what it thinks its social responsibilities are. The company should not underestimate the magnitude of the tasks involved in dealing with major social problems.

(iv) An individual business has social responsibilities commensurate with its social powers. For instance, Company, 'A' is the major employer in a town, and company, B' is an employer of only 10% of the working people in the town. Other things being equal, company A should give more attention to its social responsibilities than should company B.

(v) As a firm grows larger, it has an actual and potential influence on more and more people, society takes greater interest in what it does and the firm, in turn, thinks more carefully about its responsibilities. Social responsibilities differ according to the type of the company. The social responsibility of a public utility undertaking is much different from the social responsibility of a company engaged in the manufacture of dry cell batteries.

(vi) No one should expect a business voluntarily to jeopardize its ability to attract share holders investment. If a corporation diverts substantial sums of money to social

purposes, it will significantly reduce its average return on capital which in turn will bring reduced growth rates, a lower market evaluation of its securities, or both. This sort of thing cannot, of course, continue in the long run. A company guilty of serious air and water pollution may be forced to clean up its waste even though the impact may have great profit consequences. On the other hand, a company which has profit levels well above the industry average may find leverage in assuming social responsibilities of greater magnitude than a company much below the industry average.

(vii) Business should be obliged to internalize most of its external costs. In the past, business enterprises were excused from bearing such costs of production as air and water pollution, scarring hillsides in search of coal and defacing natural beauty. Society then held the economic output of business to be of higher priority.

2.6.4. Reasons for Accepting Social Responsibilities :

The businessmen of today are concerned about social responsibilities because of following factors:

(i) Compelling Forces : Businessmen have been forced to consider their social obligations because of ever increasing fear of public interference, through the Government. For instance, in India many Acts like Factories Act, Industrial Disputes Act, and Companies Act. Industrial (Development and Regulation) Act, have been enacted to control the functioning of the business undertakings. These Acts empower the Government to intervene whenever the situation warrants. Growing trade union movement, creation also compelled the managements of business enterprises to assume social responsibilities.

(ii) Persuasive Forces : Enlightened and influential business magnets have always appealed to the business community to realize its social obligations. As Mr. J.M.. Parsons, an industrialist and a former president of the Associated Chambers of commerce and Industry said, "It is our duty to ensure good working conditions and a good standard of living for our workers, to supply our customers with goods of acceptable quality at reasonable prices and to fulfill our obligations to the State by the punctilious payment of taxes, observance of rules of public regulation and co-operation in the larger purposes of society".

(iii) Favorable Conditions : As a result of separation of ownership and control, in case of large business the managerial function has been vested in the professional managers. The professional managers are well educated and well acquainted with the expectations of the society. They think in terms of long-range welfare and interests of the enterprise which can be achieved if they are able to satisfy the customers, shareholders, workers, society and the government. They examine their decisions and actions in the context of social obligations.

2.6.5 Areas of Social Responsibilities :

Social responsibilities of management can be studied under two headings: (i) Internal social responsibilities, and (ii) External social responsibilities.

2.6.5(i) Internal : Internal social responsibilities are concerned with assuring due process, justice, equity and morality in employee selection, training, promotion, and hiring or they may relate to such things as increasing employee productivity, or improving employee physical environment. It includes the following :

(a) Shareholders or Owners: Though there is a separation of ownership and management functions in case of joint stock companies, shareholders are entitled to appoint directors and seek regular, accurate and full financial information about the company. They expect a high rate of dividend on the money invested by them and also the maximization of the value of

their investment in the company. It is the duty of management to see that the company is stable and enterprising so that it may provide those who commit their capital to it with such a fair and adequate reward for the risk taken as will permit the company to attract the necessary supply of capital from the market. Management has also to keep the owners of the business well informed about the progress and the financial position of the business.

(b) Workers: It is the basic responsibility of the business to produce wealth. It is also its responsibility to provide opportunities for meaningful work. In doing so managers are not to be considered as being in a different class from the workers. A manager is a worker and all who work in a company should give their best services and share in the resulting benefit. It is the responsibility of the management to win the co-operation of the workers by creating the conditions in which workers are enable to put forward their best efforts in the common task as free men. This means recognition of the workers right to a fair wages, to participate in decisions affecting their working life, to membership of a trade union, to collective bargaining and to strike. The worker should be helped by education and other means to throw away his ignorance. Management should give workers opportunity to develop their capabilities through training, education and the enjoyment of freedom to the greatest possible extent.

2.6.5(i) External : External social responsibilities refer to such actions as stimulating minority entrepreneurship, improving the balance of payments, or training and hiring hardcore unemployed.

(a) Consumers : Consumer's satisfaction is the ultimate aim of all economic activity. This involves more than the offer of products at the lowest possible price. Adulteration of goods, poor quality, failure to give fair measure, lack of services and courtesy to the customer, misleading or dishonest advertising, are all examples of a violation by business enterprise of its obligations towards the consumers of its products.

(b) Suppliers : Management should deal with the suppliers judiciously. It should try for fair terms and conditions regarding prices, quality, and delivery of goods and payment of prices. Their dealings with the suppliers should be based on integrity and courtesy in the absence of which the suppliers will not supply them the goods on credit. In short, management must create healthy relations with the suppliers.

(c) Society : Peter Drucker pointed out that the business should be so managed as to make the public good the private good of the enterprise. Management must be guided by the socio-economic objectives of the society. It should not indulge into any practices which is not fair from social point of view. Society expects that the management uses the factors of production effectively and efficiently for the satisfaction of needs of the society. If the management fulfils these expectations, its goodwill and reputation will increase.

Good management can also contribute to the advancement of local amenities where the enterprise functions. It can develop the surrounding area for the well-being of workers and other people. Management has certainly got great responsibility to keep the healthy environment/conditions where the production is being carried on. It should take preventive measures against water and air pollution and should contribute to the community development activities. If the management fails to discharge its responsibility, the Government will interfere to prevent the enterprise from spoiling the condition of living by virtue of the powers given to it under various statutes.

(d) Government : Every business enterprise is governed by various laws in regard to various matters concerning the management of business. It is the duty of the management of every enterprise to manage its affairs according to the laws affecting it. Management's policies

should be laid down taking into consideration the provisions of various legislation and the guidelines issued by the Government. Management should follow fair trade practices. It should pay taxes any other Government dues honestly, fully and promptly. It should not encourage corruption, black marketing and other social evils. It should continuously work to contribute to the socio-economic goals of the nation. It should conserve national resources.

2.6.6. Social Responsibilities in India :

Since 1947, Government, educationists, political parties, labour unions and various other groups in our society have brought about tremendous changes in the minds of the people about aims and values of life. In our present society, people are now anxious to have equality of opportunities for their growth and development within the framework of their working spheres and political institutions.

The Government is eager to see that the rate of our national income is increased so that people may have better living standard. Unless Indian business makes full use of modern technology and science, and encourages the development of innovational personnel within, there will be no impetus for economic growth. Our Entrepreneurs must develop values and aims conducive to the increase in the rate of economic growth. When these characteristics do not appear in their personalities, they are taken as moving behind time. It is obvious that one social responsibility of our business entrepreneurs is to help the country in raising its national income.

Increasing the rate of new jobs to absorb persons is another social responsibility. The development plans which the country has undertaken since independence should normally create new jobs for engineers, technologists, scientists and other personnel. Technical and engineering institutions are training such young men. The absorptive capacity of business, however, has not increased in proportion to the supply of trained personnel. Already, there is considerable unrest among thousands of trained young men who are still unemployed.

While no country can possibly solve its unemployment problem through reliance on business sector only, Indian entrepreneur must understand the implication of the expensive development of higher education in that society looks to them for the absorption of a large segment of educated people. It is not enough that only the present employees should get the benefits from the productivity of enterprise; equally important is to provide additional jobs for new personnel every year. A large amount of nation's capital is being spent for developing human resources in schools, college and universities. Whether or not the policy-makers of education are giving a rational and correct approach to our educational development, the pressure from society for immediate employment of educated young men is exerted towards business because in planning manpower development, the planners depend heavily on the possible expansions of industrial enterprises. The creation of new jobs is not a problem but a challenge which business must accept. The immediate entrepreneurial group will have to think of capital investment and industries in the light of human resources which they can utilize on increasing rate, without affecting business purpose.

Business cannot perform its social responsibility without developing an organizational culture of its own which will aim at giving a unity of character in thinking and action among all its members and which adapts itself to the changes made necessary by other cultures. Today it is the entrepreneurial culture with its distinct aims about ownership, exercise of authority, control and sharing of gains which dominates business. Authority, control and gains are desired by all employees. The contract with entrepreneurial culture naturally brings these desires in these employees, more so when they are competent in their functional areas.

Organization culture in business must have a unity of purpose. Unity of purpose should also have the recognition of society. It is not merely the problem of human relations but of integration of aims and beliefs of every member in business with business purpose. This integration will lead to the formation of organizational culture strong enough to influence other communities and to be influenced by them. Such a culture will make it possible for all members to respond to all human situations in society, to foster spirit of service in its member towards communities, to develop habit of thinking from the point of view of society, to offer a fellowship to members in which their life assume new meaning and direction, and to appreciate desires and aspirations of men who have the abilities.

Developing an organizational culture in business is the responsibility of the entrepreneurs. If entrepreneurs do not become alert in understanding the implications of social changes in business in time and continue to remain indifferent to designing and developing organizational culture acceptable to society, to think of “other ways” in exercising control and making an enterprise socially responsible. What these “other ways” will be and whether they will be better and more rational both for business and social purpose, no one can hazard to make a prophecy at this stage.

Fortunately, the enterprises in the public sector have become acutely aware of the urgent need of an organization culture. The delay in developing organization culture so far has not been due to any lack of faith or obduracy of the top management. It is rather because the public sector in its present form is a recent development in India. The task is most exciting and exacting, and yet most urgent. Since the top management in the private sector has not given its best efforts to this task, it should do well to emulate the public sector for organization culture. This will be also an example of its social responsibility.

2.7 Let Us Sum Up : In this lesson we have discussed the various objectives of business and the concept of social responsibilities of business.

2.8 Lesson End Activities :

1. Briefly explain the various Objectives of a Business.
2. Explain the concept of social responsibilities of a business. Discuss the various arguments supporting and objecting the social responsibilities of a business.
3. What are the factors to be considered as criteria for determining the social responsibilities of a business?
4. Why the business organisations assume Social Responsibilities?
5. Explain the areas of social responsibilities of a Business.
6. Write short note on
 - (i) Constituents of Economic Objectives.
 - (ii) Constituents of Human Objectives.
 - (iii) Two categories of Social Objectives.
 - (iv) Social Responsibilities in India

2.9 Model Answers to Check your Progress :

Question No. 1 Refer Para 2.2 to 2.6

Question No. 2 Refer Para 2.6.1 & 2.6.2

Question No. 3 Refer Para 2.6.3

Question No. 4 Refer Para 2.6.4

Question No. 5 Refer Para 2.6.5

Question No. 6 Refer Para (i) 2.2 ; (ii) 2.2 ; (iii) 2.5 ; (iv)2.6.6

2.10 References

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LESSON - 3

FORMS OF BUSINESS ORGANISATION

- 3.0 Aims and Objectives
- 3.1 Introduction
- 3.2 Meaning
- 3.3 Sole Proprietorship
 - 3.3.1 Meaning of sole proprietorship
 - 3.3.2 Features of sole proprietorship
 - 3.3.3 Merits of sole proprietorship
 - 3.3.4 Demerits of sole proprietorship
 - 3.3.5 Suitability
- 3.4 Hindu Undivided Family
 - 3.4.1 Meaning of HUF
 - 3.4.2 Features of HUF
 - 3.4.3 Merits of Joint Hindu Family
 - 3.4.4 Demerits of Joint Hindu Family
 - 3.4.5 Suitability
- 3.5 Let Us Sum Up
- 3.6 Lesson End Activities
- 3.7 Model Answers to Check Your Progress
- 3.8 References

3.0 Aims and Objectives : In this lesson we are going to discuss

- The various forms of business organisations in India.
- Meaning, Features, Merits, Demerits and Suitability of Sole Proprietorship.
- Meaning, Features, Merits, Demerits and Suitability of HUF.

After reading this lesson you should be able to understand the basic working knowledge of all the above-mentioned topics and to answer lesson end activities given at the end of the chapter.

3.1 Introduction : In the previous chapters, we have discussed about the nature, objectives, functions and scope of a business organisation. In the present chapter we are going to discuss in detail about the various forms of business organizations that exist in India.

3.2 Meaning : A business enterprise may be owned by one person or a group of persons. When it is owned by one person, it is known as sole proprietorship. Except this form of organization, all other forms of business organizations come under the category of 'group

ownership' or 'joint ownership'. Group ownership of the business organisations may take any one of the following forms :

- (i) Sole Proprietorship
- (ii) Joint Hindu Family Firm
- (iii) Partnership Firm
- (iv) Joint stock company and
- (v) Co-operative Undertaking.

The above mentioned forms of organisations are follows :

3.3 Sole Proprietorship :

3.3.1 Meaning : A business that run under the exclusive ownership and control of an individual is called sole proprietorship or single entrepreneurship. It is started through the initiative of an individual and is run with the capital supplied by the proprietor from his resources or through borrowed means. The proprietor manages the business himself, bears all risks alone and gets all profits by virtue of the nature of this form of organization. He has almost unlimited freedom of action to run his business. He may choose to run any line of business without going through the legal formalities excepting those in which license may be required from the Health Department, the Municipal Authority, or some other body. The individual may run the business alone with the help of his own skill and intelligence or may employ a few employees for that purpose. It is the simplest and the oldest form of organization.

3.3.2 Features: It is the oldest form of commercial organization. It is because of its peculiar features that even in these days of modernisation individual proprietorship stand out unaffected.

(i) Single Ownership : This is owned by one man and nobody else contributes capital.

(ii) Own Control : He has absolute control over the affairs of the concern. His decision is final. Since he need not consult others, he can take quick decision and gain enormously

(iii) Own Profit : The attraction of reaping the entire profits motivates him to put forth the best in him. He strives tirelessly for the improvement and expansion of his business.

(iv) Unlimited Liability : The liability of the sole proprietor is unlimited. As a result, when his business assets are not adequate for paying the debts, his private properties have to be sold.

(v) Absence of Government Regulation : A sole proprietary concern is free from Government regulations. No formalities are to be observed in its formation, management or in its closure.

(vi) No Separate Entity : The sole trading concern is not regarded as an entity different from the proprietor. Consequently the business comes to an end with the permanent disability or death of the proprietor.

(vii) Limited Capital : Since capital is contributed by only one individual it is bound to be small. Apart from this financial constraint his inability to manage beyond a level also impedes its expansion. The size of the business unit therefore tends to be small.

3.3.3 Merits :

(i) Easy to Form and Dissolve : Since no legal formalities need to perform to start a sole proprietary business, it is most easy to start a business as a sole proprietary concern. Sometimes, a few restrictions are placed by local bodies such as municipalities, etc., from the

view point of maintenance of health and sanitation. Just as it is easy to form, it is equally convenient to dissolve a sole proprietorship concern.

(ii) Direct Motivation : In this form, there is a direct relationship between rewards and efforts. The sole proprietor enjoys the entire profits and hence is inspired, induced and motivated to give his best of efforts and skills in running the business.

(iii) Absolute Control : The proprietor is free to prepare any plans and policies and execute them for the success of his business without any interference or clash of interest from any quarter. He is free to direct and control the operations of his business.

(iv) Business Secrecy : To face the challenge of competition in the market, maintenance of business secrecy provides an edge to the firm over its rival firms. The degree of retention of business secrecy is the highest in this form of organization.

(v) Promptness in Decision-Making : A sole proprietor being a single owner is not required to consult anyone while taking decisions. This enables him to take prompt and quick decisions taking advantage of the opportunities which may arise in business from time to time.

(vi) Flexibility in Operations : If the situation demands changes in strategy, the same can be easily brought about to meet the changed situation without causing least of unsought consequences. Sole proprietorship offers the scope for flexibility in business operations by allowing the business to adapt and adjust itself to changing times and situations.

(vii) Personal Relations : Normally, the size of a sole proprietary business being small, the owner maintains a personal touch with his employees and customers. Personal attention to customers results in increased sales and individual attention to employees brings in efficiency and motivation on the part of employees there by reducing the cost of production. The resultant reduced costs and increased sales are reflected in increased volume of profits.

(viii) Credit Standing : Since a sole proprietor is liable to pay the debts of the business out of his private property and investment as well, the credit worthiness or standing of the sole property concern is greatly enhanced. The creditors, therefore, do not hesitate to lend to a sole proprietor.

(ix) Limited Regulations : The business activities of a sole proprietor are least regulated by law and the Government. No doubt, a sole proprietary business has to comply with labour laws and tax laws, there is no other interference in the day-to-day running of the business from the Government. Similarly, there is no Government regulation in respect of formation and dissolution of its business.

(x) Independence : This form of organization offers a way of life for acquiring honourable living to those persons who do not want to serve others and take pride in ownership and control of their business. It provides an opportunity of business career to many people with available resources and there by utilizing their capacity and skills in the field of business. The sole proprietor being his own master and manager derives greatest possible satisfaction in terms of having created or rendered worth while commodity or service.

(xi) Development : Since a sole proprietor has to face all kinds of problems and challenges single handed, the qualities of initiative, self-reliance and responsibilities get developed in him, there by, enabling him to enjoy a respectful life in the society full of warmth and social contacts.

3.3.4 Demerits :

(i) Limited Capital : Since the capital is contributed by one individual only, business operations have necessarily to be on a limited scale. Even when he wants to raise funds by borrowing, the borrowing capacity of one individual is bound to be limited. Thus large scale units which require enormous capital cannot be started by an individual.

(ii) Limited Managerial Skill : Whoever may be a person his resourcefulness and business management will be less effective beyond a certain stage. Further, since he has to keep his fingers on everything and has to work under severe stress, he likely to take wrong-decisions. Thus, these two factors, namely limited availability of capital and limited managerial ability do not allow the business unit to expand.

(iii) Unlimited Liability : The liability of a sole trader being unlimited, even his private assets are in danger of being lost.

(iv) Uncertainty of Continuity : Since the success of the sole trading concern hinges on the personal qualities of the proprietor, any prolonged illness or permanent disability or death brings the business to a standstill.

(v) Inability to Avail of Specialization : Since the business unit is small and the financial resources limited experts in different fields cannot be employed to secure maximum advantage. He alone has to handle production, marketing, correspondence, etc. It is common knowledge that one cannot be an expert in all these varied fields of business activities, as a result, efficiency suffers.

(vi) Hasty Decision: Though quick decision is a definite advantage, sometimes the decision taken in a hurry is likely to spell ruin to the business. One has to agree with the proverb, 'haste makes waste'

3.3.6 Suitability : The form of sole proprietorship is suitable in the following cases:

(i) Where the products cannot be standardized and have to be made to order.

(ii) Where the production technology is simple and the capital required as well as the risk associated with it is not heavy.

(iii) Where the tastes and fancies of individual customers play an important role in the case of tailoring and hair-dressing.

(iv) Where changes in fashion are frequent.

(v) Where professional services are to be offered as in the case of painters, photographers, lawyers, doctors etc.

(vi) Where prompt decision and quick action is called for as in the case of speculative business.

(vii) Where Government itself favours individual entrepreneurs and encourages them it set up small scale units in industrial estates or in backward regions.

(viii) For people who love freedom of action and who like to pursue independent way of life. Because they do not want to work under any master; for such people sole proprietorship is ideally suited.

3.4 Hindu Undivided Family :

3.4.1 Meaning : The Joint Hindu Family firm is a form of business organization in which the family possesses some inherited property and the 'Karta', the head of the family, manages its affairs. It comes into existence by the operation of Hindu Law and not out of contract between the members or coparceners. If the personal who have co-parcenary interest in the ancestral property carry on business it is a case of Joint Hindu family firm. Thus, the Joint Hindu Family Business is a business by co-parceners of a Hindu undivided estate. Following the Hindu Succession Act, 1956, a female relative of a deceased male co-parcener will have a

share in the co-parcenary interest after the death of the co-parcener in question. Even a male relative claiming through such female relative (specified as Clause 1 in the Act). is entitled to get a share of the co-parcenary interest at the time of death of such co-parcener. Such relatives are not included in the list of holders of co-parcenary interest but they are allowed to have some share out of co-parcenary interest as outsiders.

Three generations next to the holder in unbroken male line constitute a co-parcenary, and property inherited by a Hindu from his father, father's father and father's grandfather is regarded as 'ancestral'. A son, grand son and great grand son become joint owners of the property by reason of their birth in the family. The property is managed and held by the senior male member or the father as the Head of the Family, technically known as 'Karta'. In Hindu law, a family business is taken as a part and parcel of the heritable property, and therefore, the family business becomes the subject matter of co-parcenary interest. The rights and liabilities of co-parceners are determined by the general rules of the Hindu Law. It should be noted that joint family firm with the joint ownership of the inherited business is created by the operation of law and does not arise out of contract between the coparceners.

3.4.2 Features of HUF : The Joint Hindu Family Firm possesses the following characteristics or features :

(i) Status : The membership of the family business is the result of status arising from birth in the family, and hence there is no question of the members being discriminated in terms of minority and majority on the basis of age.

(ii) Male Members : Only male persons, and not females, can claim co-parcenary interest in the Hindu Family business firm.

(iii) Karta : The right to manage the business vests in Karta alone (i.e. the Head of the Family). He has the implied authority to obtain loans through mortgage, etc. for the purpose of the business. Other members have neither any right to manage the affairs of the business nor any right to take loans on mortgage for the purpose of business.

(iv) Liability : The liability of all the members of the Joint Hindu Family, except that of the Karta, is limited to the value of their individual interests in the joint property. The liability of the Karta is unlimited and as such extends to all that he owns as his separate and private property.

(v) Fluctuating Share : The share of each member's interest in the family property and business keeps on fluctuating. The member's interest increases by death of any existing co-parcener and decreases by birth of a new co-parcener.

(vi) Continued Existence : The existence of the Joint Hindu Family Business is not affected by the death or insolvency of a co-parcener or even that of the Karta.

(vii) Freedom of Action : The co-parceners do not have a right in the affairs of the family business which is the exclusive domain of the Karta. If the co-parceners are unhappy with the functioning of the Joint Hindu Family business, they ask for its partition alongwith the division of the property of the family. At the time of such partition of the ancestral property, the co-parceners have no right to ask the Karta for an a of the past profits and losses.

3.4.3 Merits of Joint Hindu Family :

(i) Assured of Share in Profits : Every co-parcener gets a share in the profits of the business irrespective of his contribution to the successful running of the business. In this way every co-parcener is assured of a share in the profits of the business.

(ii) Freedom to Karta : The Karta of the family has unrestricted freedom in the sense that he can run the business without interference by other coparceners. This facilitates quick decision making in the business.

(iii) Co-operative Efforts : To take advantage of the capabilities and resourcefulness of the co-parceners, the duties of the business are divided among the members in accordance with their capacity and ability.

(iv) Sharing of knowledge and Experience : It provides an opportunity for younger members to get the benefit of knowledge and experience of elder members of the family. This helps the younger members to develop and acquire expertise without much difficulty.

(v) Inclusion of Finer Values of Life : Every member of the family gets an opportunity for participation in the business and the qualities of sacrifice, duty and discipline become embedded in them. A Joint Hindu Family Business can succeed only when such qualities are displayed by Karta and in turn they are emulated and appreciated by other members of the family.

(vi) Insurance against Contingencies : It serves as an insurance cover for maintaining the children, widows, ailing or invalid members of the family.

(vii) Limited Liability : It has limited liability of all the co-parceners except that of karta.

3.4.4 Demerits of Joint Hindu Family :

(i) Lack of Motivation : There is no encouragement to work hard and to earn more because members who work hard do not get the direct benefits of their efforts. Further the right to share in income or profits of business irrespective of the efforts put in makes the members of the family lazy and unenterprising.

(ii) Unfair to Co-parceners : Since Karta has the unchallengeable authority to manage the business, the initiative and sincerity of the younger members may not find scope and opportunity for use.

(iii) Scope for Misuse : Since Karta has full freedom in carrying on the business, he may misuse this freedom for his personal benefits and gains. This is one reason why most of the Joint Hindu Family Business firms are giving way to other forms of organizations.

(iv) Limited Resources : Because of the limited capacity of the firm in terms of having members, investing capital and borrowing loans, the Joint Hindu Firm has limited resources at its disposal for investment in business.

(v) Fear of Disintegration : Small family quarrels on controversial matters may lead to the disintegration of this form of business organization.

3.4.5 Suitability : This form of organization is gradually losing grounds to other forms because of the strains on Joint Hindu Family system arising out of growing impact of Industrialization and consequential preference for individual family living.

3.5 Let Us Sum Up : In this lesson we have discussed nature, merits and demerits of sole proprietorship and Hindu Undivided Family.

3.6 Lesson End Activities :

1. Draw a chart showing different forms of organisations.
2. What do you understand by sole proprietorship? Describe its main features.
3. Enumerate the merits and demerits of sole proprietorship.

4. In what circumstances sole proprietorship is considered and why?
5. What is Hindu Undivided Family Business ? Describe its main characteristics.
6. Enumerate the merits and demerits of HUF.

3.7 Model Answers to Check Your Progress :

- Question No. 1 Refer para (3.2)
Question No. 2 Refer para (3.3 & 3.3.2)
Question No. 3 Refer para (3.3.3 & 3.3.4)
Question No. 4 Refer para (3.3.5)
Question No. 5 Refer para (3.4.2)
Question No. 6 Refer para (3.4.3 & 3.4.4)

3.8 References

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LESSON - 4

PARTNERSHIP FIRM

- 4.0 Aims and Objectives
- 4.1 Introduction
- 4.2 Meaning
- 4.3 Features
- 4.4 Kinds of Partnership Firms
- 4.5 Kinds of Partners
- 4.6 Requisites of an Ideal Partnership Firm
- 4.7 Merits of Partnership Firm.
- 4.8 Demerits of Partnership Firm
- 4.9 Partnership Deed
- 4.10 Registration of Firms
- 4.11 Let Us Sum Up
- 4.12 Lesson End Activities
- 4.13 Model Answers to Check Your Progress
- 4.14 References

4.0 Aims and Objectives : In this lesson we are going to discuss

- Meaning and Nature of Partnership Firms.
- Various modes of Partnership Firms
- Different Kinds of Partners.
- Merits and Demerits of Partnership Firm.
- Meaning and Contents of Partnership Deed.
- Procedure for Registration and Effects of Non – Registration.

After reading this lesson you should be able to understand the basic working knowledge of all above-mentioned topics and to answer lesson end activities given at the end of the chapter.

4.1 Introduction : The limitations and deficiencies of sole proprietorship and Joint Hindu Family Business in respect of limited financial resources, limited managerial ability and skills and concentrated risk led to the emergence of partnership as a form of business organization. A partnership is an association of two or more persons who carry on business together for the purpose of earning profits.

4.2 Meaning : Section 4 of the Indian Partnership Act, 1932 defines partnership as “the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.” Persons entering into partnership agreement are known as

‘partners’ and collectively as ‘firm’ or ‘partnership firm’. The name in which the business is carried on is called ‘firm name’.

The partners provide the capital and share the responsibility for running the business of the firm on an agreed basis. In some cases, however, one partner provides whole or most of the capital and other contributes technical or managerial skill with or without some portion of capital. The terms and conditions of partnership are usually mentioned in the Partnership Agreement known as the Partnership Deed.

4.3 Features : The essential features of a partnership firm are discussed below:-

(i) Two or More Persons : There must be atleast two persons to form a Partnership. The partnership Act fixes no maximum limit on the number of partners of a partnership firm. But the Companies Act, 1956 lays down that any partnership or association of more than 10 persons in case of banking business and 20 persons in other business operations as illegal unless registered as a Joint Stock Company. Thus, the maximum limit on the number of partners is ten in case of banking business and 20 in case of other lines of business.

(ii) Contractual Relation : The relation of partnership is created by contract and not by status as in case of Joint Hindu Family. There must be an agreement between two or more persons to enter into partnership. Such an agreement may be oral, written or implied. Since partnership is an out-come of a partnership the persons who enter into an agreement of partnership must be competent to enter into contract. Minors, lunatics, insolvent and other persons incompetent to enter into a valid contract cannot enter into a partnership agreement.

(iii) Lawful Business : The partners must agree to carry some lawful business. Mere holding of property in joint ownership cannot be considered as partnership unless it is accompanied by certain business activities and possesses other features of partnership.

(iv) Sharing of Profit : There must be an agreement to share the profits and losses of the business of the partnership firm. This is at the very root of bringing the persons together to carry on a business. However, sharing of profit is not a conclusive proof of partnership. Employees or creditors who share profits of the firm cannot be called partners in the absence of any agreement of partnership.

(v) Agency Relationship : There must be an agency relationship between the partners. This is the crucial test of the existence of a partnership firm. Every partner is a proprietor as well as an agent of the firm. The business of the firm may be carried on by all or any of them acting for all unless otherwise agreed. Every partner is entitled to take part in management of day-to-day operations of the firm and to represent the firm and other partners in dealing with other parties.

(vi) Unlimited Liability : As a result of contractual relationship between the partners of a firm, all the partners are liable jointly and severally for all debts and obligations of the firm to an unlimited concern. That means if the assets of the firm are not sufficient to meet the obligations of creditors of the firm, the private assets of the partners can be attached to satisfy their claims. The creditors may even realize the whole of their dues from one of the partners. The partner from whose property the dues are recovered is entitled in law to obtain rateable contribution from the other partners of the firm.

(vii) Non-Transferability of Interest : A partner cannot transfer his proprietary interest to any person (except those who are already the partners) without the unanimous consent of other partners. The restriction on transfer of interest is based on the principle that the partner

himself being an agent of the partnership firm cannot delegate his proprietary interest to outsider.

4.4 Kinds of Partnership Firms: Partnership firms can be classified as below :

(i) Partnership-at-Will : A partnership is called partnership-at-will when (a) the partnership is formed to carry on business without specifying any period of time, and (b) no provision is made as to when and how the partnership will come to an end. The life of such a partnership continues as long as the partners are willing to continue it as such. It can be dissolved by any partner giving a notice to the firm withdrawing from the partnership or terminating the partnership.

(ii) Particular Partnership : A partnership established for a stipulated period or for the completion of a specified venture comes to an automatic end with the expiry of the stipulated period or on the completion of the specified venture, as the case may be.

(iii) Joint Venture : It is organized for completing a specific task or venture during a specific period. A joint venture is a partnership without the use of a firm name, limited to particular venture in which the persons concerned agree to contribute capital and to share profits or losses. It may involve joint consignment of goods, an underwriting transaction, a speculation in shares, construction of a building, or any similar form of enterprise.

(iv) Limited Partnership : In limited partnership, the liability of the partners is limited except that of one or more partners. The partners whose liability is limited to the extent of capital contributed by them are referred as 'limited partners' or 'special partners.' There is no provision for the formation of limited partnership in India. Such a partnership can be found in U.K., U.S.A. and some of the European countries. There must be at least one partner with unlimited liability in case of a limited of the business. He cannot act as an agent of the firm or of the other partners. However, he can assign his interest in the firm to another person with the consent of the partners with unlimited liability.

4.5 Kinds of Partners: Partners can be classified from different start points-on the basic of business interest, on the basic of public liabilities and , on the basic of managerial responsibilities. The important categories of partners are as follows :-

(i) Active or Actual Partner : Partners who take an active part in the conduct of the partnership business are called 'actual' or 'ostensible' partners. They are full-fledged partners in the real sense of the term, such a partner must give public notice of his retirement from the firm in order to free himself from liability for acts after retirement.

(ii) Sleeping or Dormant Partner : Sometimes, however, there are persons who merely put in their capital (or even without capital they may become partners) and do not take active part in the conduct of the partnership business. They are known as 'sleeping' or 'dormant' partners. They do share profits and losses (usually less then proportionately), have a voice in management, but their relationship with the firm is not disclosed to the general public. They are liable to the third parties for all acts of the firm just like an undisclosed principal. They are, however, not required to give public notice of their retirement from the firm.

(iii) Partner in Profits Only : A partner who has stipulated with other partners that he will be entitle to a certain share of profits, without being liable for the losses, is known as 'partner in profits only'. As a rule, such a partner has no voice in the management of the business. However, his liability vis-à-vis third parties will be unlimited because in India we cannot have 'limited partnership'.

(iv) Sub-Partner : When a partner agrees to share of profits in a partnership firm with an outsider such an outsider is called a sub-partner. Such a sub-partner has no rights against the firm nor he is liable for the debts of the firm.

(v) Partner by Estoppel : If a person represents the outside world, by words spoken or written or by his conduct or by lending his name that he is a partner in a certain partnership firm, he is then estopped from denying his being partner, and is liable as a partner in that firm to any one who has on the faith of such representation granted credit to the firm.

4.6 Ideal partnership requisites: In order to be successful in partnership, must possess the following requisites:

(i) Good Faith : The partners should create mutual trust and confidence amongst themselves through honesty of purpose and fair dealings. To achieve this, the partners must be select carefully and the number of partners should, as far as possible, be kept small. Three to five partners are considered to be ideal.

(ii) Common Approach : In order to achieve smooth and proper functioning of partnership, it is important to ensure that the persons who are chosen as partner must have common approach to the problems of business. For instance, one partner with an extremely legalistic and technical out look may find it difficult to deal with another partner who is liberal in his approach. Similarly, a partner with highly venturesome approach cannot deal with another extremely cautious and safety-prone partner.

(iii) Written Agreement : To avoid the possibility of misunderstanding and disputes between the partners, it is advisable that the mutual rights and obligations of the partners be incorporated into a partnership deed. The deed should also include details about capital, sharing of profits, drawing rights, payment of interest on capital to partners, payment of commission or salary, if any to active partners, and so on.

(iv) Registration : Immediately after formation of partnership it should be got registered with the Registrar of firms. An unregistered firm suffers form certain disabilities, in as much as it cannot enforce legal remedies against outsiders. A firm can be got registered any time before filling a suit or enforce its rights against third parities in case it is not registered soon after its formations.

(v) Adequate Capital : A partnership firm should be started only if the partners are confident that they will be able to arrange adequate fund for both long-term and short term. As far as possible, long-term funds must be contributed by the partners. Short-term funds may be borrowed from banks and other sources.

(vi) Skills and Talents : Every partner is supposed to contribute either in term of capital or in terms of business ability and skill or in terms of widespread resourcefulness and contacts. Every partner must contribute in one form or the other. A balanced partnership firm must have partners who contribute capital and talents.

(vii) Stability : The partners strive to impart long life or continuity to the firm. This will be possible only if the firm is earning profits and reinvesting a part of profits into the business. Good faith among the partners is also necessary for the stability of the firm.

4.7 Merits of Partnership:

(i) Ease of Formation : Like sole proprietorship, the partnership is also relatively free from legal formalities in terms of its formation.

(ii) Larger Resources : This form enables the pooling of larger resource than sole proprietorship, for a number of persons (partners) contribute to the capital of the business. Not only this, the credit worthiness, which can also be used for borrowing larger sums of money, is also greater in this form than in the case of sole proprietorship. This enables a partnership firm to undertake operations on a relatively larger scale and thereby reaping the economies of scale.

(iii) Combined Abilities and Judgment : In addition to the pooling of capital resources, the partnership combines abilities and skills of two or more persons (partners), and thus ensures better management of the business. Combined abilities and judgment, when properly integrated produces the results which are appreciably greater than the sum total of individual scattered efforts. Moreover benefits of specialized knowledge and division of labour can also be availed by judicious choice of partners possessing different business skills.

(iv) Flexibility : Since partnership business is not regulated by any law in its day to day just as a company business is regulated by Company Law, it imports flexibility in its operation. It can change its business whenever the partners like. Moreover, it is easier to change the line of business if the firm is not successful in one line of business because of its small scale operations.

(v) Quick Decisions : A partnership firm is able to make decisions without delay because partners can meet and discuss the business problems more frequently. But in the case of a joint stock company, a good deal of time is wasted in calling the meeting of the Board of Directors and the shareholders.

(vi) Cautious Operations : Since the liability of the partners is unlimited, they are more cautious in running the business.

(vii) Survival Capacity : The survival capacity of the partnership firm is greater as compared to the sole tradership concern. The partnership business need not come to an end on the death of a partner if the partnership deed does not provide so. Moreover, a partnership firm can undertake more than one line of business because it has more capital resources and it can compensate its loss in one line by the profit in other lines of business.

(viii) Better Human or Public Relations : Every partner can be made to develop healthy and cordial relations with employees, customers, suppliers and citizens, etc. The fruits of such a relationship may be reflected in higher accomplishments and larger profits for the business. This will also result in enhancing the goodwill of the firm and pave the way towards its steady progress.

(ix) Protection of Minority Interest : According to the features of partnership, no major amendments affecting the basic nature of partnership can be made without the unanimous consent of all the partners. Thus every partner's views-voice carries weight in partnership.

4.8 Demerits of Partnership Firm:

(i) Lack of Harmony : The partnership business works steady as long as there is harmony and mutual understanding among the partners. If there is any occasion when this harmony is adversely affected that is the beginning of the end of a good partnership.

(ii) Limited Resources : Since maximum number of partners cannot exceed 20 in ordinary business and 10 in banking business, the amount of capital resources is limited to the contribution to be made by the partners. As we have observed earlier that the ideal number of partner is three to five, the contribution in terms of capital shrinks further. This is one reason

on account of which a partnership form of organization is not suited to undertake a large size business operation requiring huge capital investment.

(iii) Instability of Business : The partnership firm comes to an end with the death, retirement or insolvency of a partner. Not only this, it may also come to grief in the case of dissensions among the partners. Thus the life of a partnership firm is highly uncertain.

(iv) Lack of Public Confidence : Since a partnership business is not subjected to detailed regulations just as a company business is, it fails to inspire public confidence.

(v) Risk of Implied Authority : A partner having implied authority to bind the firm by his acts of commission and omission, the firm may find itself difficulty in any moment.

(vi) Unlimited Liability : From this stand-point, a partnership is even worse than sole proprietorship because a partner is liable to the extent of his private property not only for his own mistakes and lapses but also for the mistakes, lapses and even dishonesty of his fellow partner or partners. Partners are both jointly and severally liable. This may have more dangerous effect of curbing entrepreneurship because the partners may be afraid of venturing into new areas of business activities for fear of losses.

(vii) Non-Transferability of Interest : Since no partner can transfer his interest to an outsider without the unanimous consent of all the partners, it makes investment in partnership business reluctantly shy.

(viii) Social Losses : If a partnership firm is dissolved because of lack of harmony among the partners, or the risk of implied authority, or on account of any such reason, it is a definite loss to the society both in terms of supply of goods and services and in terms of source of employment.

4.9 Partnership Deed: Though a partnership agreement need not necessarily be in writing, yet to avoid future misunderstanding and mutual bickering. It is desirable to have a written agreement. Such a written agreement setting out all the terms and conditions of partnership is known as partnership Deed. A carefully drafted partnership Deed helps in bringing out differences which may develop among partners and in ensuring smooth running of the partnership business. It should be properly stamped and registered. The usual contents are;

- (i) Name of the firm
- (ii) Nature of the proposed business to be carried on by the partnership.
- (iii) Duration of the partnership business whether is to be run for a fixed period of Time or whether it is to be dissolved after completing a particular venture.
- (iv) The capital to be contributed by each partner. It must be remembered that capital Contribution is not necessary to become a partner for, one can contribute his organizing power business acumen, managerial skill etc. instead of capital.
- (v) The amount that can be withdrawn from the firm by each partner.
- (vi) The ratio in which the profits or losses are to be shared. (If the profit sharing ratio is not specified in the Deed, all the partners must share the profits and bear the losses equally)
- (vii) Whether any interest is to be allowed on capital and if so, the rate of interest.
- (viii) Rate of interest on drawings, if any.
- (ix) Whether loans can be accepted from the partners and if so the rate of interest Payable thereon.
- (x) Amount of salary or commission payable to partners for their services. (Unless this is specifically provided, no partner is entitled to any salary)
- (xi) Maintenance and audit.

- (xii) Matters relating to admission of a new partner.
- (xiii) Matters relating to retirement of a partner. The arrangement to be made for paying out the amount due to a retired or deceased partner must also be stated.
- (xiv) Method of valuing goodwill on the admission death or retirement of a partner.
- (xv) Distribution of managerial responsibilities. The work that is entrusted to each partner is better stated in the deed itself.
- (xvi) Procedure for dissolution of the firm and the mode of settlement of as thereafter.
- (xvii) Arbitration in case of disputes among partners. The deed should provide the method for settling disputes or difference of opinion. This clause will avoid costly litigations.

4.10 Registration of Firms: The Indian partnership Act does not make registration of a partnership compulsory. But the disabilities of non-registration virtually make it compulsory.

4.10.1 Procedure for Registration: A statement should be prepared stating the following particulars.

- (i) Name of the firm
- (ii) The principal place of business
- (iii) Name of other places where also the firm carries on business.
- (iv) Name and addresses of all the partners.
- (v) The date on which each partner joined the firm.
- (vi) The duration of the firm.

This statement, signed by all the partners should send to the Register of firm along with the necessary registration fee of Rs.3. Any change in the above particulars must be communicated to the Register within 14 days of such alteration.

4.10.2 Effects of Non- Registration:

(i) An unregistered firm cannot file a suit to enforce its claims against third parties. If such rights arise out possible to recover debts from third parties. It has no right even to demand a set-off in any suit filed by its creditors.

(ii) However it can sue other for enforcing rights arising otherwise than out of a contract. For example, it can bring a suit for wrongful infringement of trade make or patent.

(iii) The right of third parties against the firm is not affected by non-registration. It means that they can sue the firm or any of its partners. A partner of an unregistered firm cannot sue the firm or other partners. For enforcing his rights under the partnership deed. However, his right to sue for the dissolution of the firm or for the as of a dissolved firm is not affected by non-registration. In short, non-registration does not affect the following rights.

- (a) Suit not exceeding Rs.100.
- (b) The rights of firms or partners of firm having no place of business in India.
- (c) The power of an official assignee or Receiver to realize the property of an insolvent partner.
- (d) Suits arising otherwise than out of contract explained above.
- (e) The rights of third parties against the firm any of this partners.
- (f) Suit by a partner for the dissolution of the firm for as of a dissolved firm or for a share the assets of a dissolved firm as stated above.

Registration can be affected at any time. All the disabilities automatically disappear as soon as the firm is duly registered.

4.11 Let Us Sum Up : In this lesson we have discussed meaning, nature, types, merits and demerits for partnership firm and procedure of registration along with effects of non-registration.

4.12 Lesson End Activities :

1. Define Partnership. What are its essential features?
2. What are the kinds of Partnership?
3. Enumerate different kinds of Partners.
4. What are the requirements of an Ideal Partnership?
5. Enumerate the merits and demerits of Partnership Firm.
6. ' The registration of partnership firms is not compulsory by law, though almost all the firms getting registered'. Why?
7. Write short note on
 - (i) Mutual Agency (ii) Unlimited Liability (iii) Partnership at will
 - (iv) Distinction between particular partnership and joint venture (v) Partnership by Estoppels

4.13 Model Answers to Check your Progress :

Question No. 1 Refer para (4.3)

Question No. 2 Refer para (4.4)

Question No. 3 Refer para (4.5)

Question No. 4 Refer para (4.6)

Question No. 5 Refer para (4.3 & 4.5)

Question No. 6 Refer para (4.10.2)

Question No. 7 Refer para (i) (4.3) (ii) (4.3) (iii) (4.4) (iv) (4.4) (v) (4.5)

4.14 References

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LESSON 5

JOINT STOCK COMPANY

- 5.0 Aims and Objectives
- 5.1 Introduction
- 5.2 Meaning of Company
- 5.3 Features of Company
- 5.4 Kinds of Companies
- 5.5 Distinction Between Public and Private Company
- 5.6 Privileges of a Private company
- 5.7 Merits of a Company.
- 5.8 Demerits of a Company
- 5.9 Let Us Sum Up
- 5.10 Lesson End Activities
- 5.11 Model Answers to Check Your Progress
- 5.12 References

5.0 Aims and Objectives : In this lesson we are going to discuss

- Meaning and Nature of a Company .
- Various kinds of Companies
- Merits and Demerits of a Company .

After reading this lesson you should be able to understand the basic working knowledge of all above-mentioned topics and to answer lesson end activities given at the end of the chapter.

5.1 Introduction: The sole proprietorship and partnership forms of organizations have failed to meet the growing needs of modern industry and commerce. They possess many limitations like limited resources, unlimited liability and fear of discontinuity. To get over these limitations, joint stock company form of organization came into existence. Now it is the most widely used form of business organization not only in the private sector but also in the public sector. This form of organization has proved to be very suitable for large scale enterprises. It is also equally good for undertakings doing business on a small scale because of easier access to financial resources, limited liability and continued existence.

5.2 Meaning: A company is an incorporated voluntary association of persons in business having joint capital divided into transferable shares of a fixed value, along with the features of limited liability, common seal and perpetual succession. Chief Justice Marshall defined a company, in the Dartmouth College case, as “person, artificial, invisible, intangible and existing only in the eyes of law. Being a creation of law, it possesses only those properties which the charter of its creation confers on it either, expressly or as incidental to its very existence; among the most important of which are immortality and individuality.”

5.3 Features: The definition given above reveals the following features of a company :

(i) Artificial Legal Person : A joint stock company is an artificial person created by law to achieve the objectives for which it is formed. A company exists only in the contemplation of law. It is a fiction of law but it cannot be called fictitious as it exists. It is an artificial person in the sense that it is created by a process other than natural birth and does not possess the physical attributes of a natural person. It is invisible, intangible, immortal (law alone can dissolve it), and exists only in the eyes of law. It has no body, no soul, no conscience, neither it is subject to imbecilities of the body.

A company is an incorporated association of persons under the Companies Act, 1956. The Companies Act recognizes it as a person. Like a natural person, it has rights and obligations in terms of law. However, it cannot do those things which a natural person can do such as taking oath in person, appearing in a law court in person, practicing a profession like law or medicine, enjoying married life, etc. Although a company is a legal person having nationality and domicile, it is not a citizen and hence cannot claim the protection of those fundamental rights which are expressly guaranteed to citizens such as right of franchise. However, the company has the right to challenge a law if the law happens to violate fundamental rights of citizens.

(ii) Distinct Legal Entity : A company is a legal person having a juristic personality entirely distinct from and independent of the individual persons who are its members (owners). It has the right to own and transfer the title to property in any way it likes. No member can either individually or jointly claim any ownership right in the assets of the company during its existence or its winding up. It can sue and be sued in its own name by its members as well as outsiders similarly, creditors of the company are creditors of the corporate body and they cannot directly proceed against the members personally.

(iii) Perpetual Succession : A joint stock company has a continuous existence and its life is not affected by the death, lunacy, insolvency or retirement of its members or directors. Members may come and go, but the company continues its operations so long as it fulfils the requirements of the law under which it has been formed. Thus, a company has a perpetual succession irrespective of its membership.

(iv) Common Seal : A company being an artificial person cannot sign documents for itself whereas a natural person can do. The law has, therefore, provided for the use of a common seal, with the name of the company engraved on it, as substitute for its signatures. Any document bearing the common seal of the company and duly witnessed (signed) by at least two directors will be legally binding on the company.

(v) Limited Liability : Liability of the members of a limited company is limited to the value of the shares subscribed to or the amount of guarantee given by them. Members cannot be asked to pay anything more than what is due or unpaid on the shares of the company held by them even though the assets of the company are not sufficient to satisfy fully the claims of creditors of the company in the event of its winding up. Thus, by virtue of this characteristic the personal property of a shareholder cannot be attached for the debts of the company if he holds a fully paid up share.

(vi) Transferability of Shares : Members of a public limited company are free to transfer the shares held by them to any one else. Shares can be sold and purchased through the stock exchange.

(vii) Separation of Ownership and Management : Ordinarily, the number of shareholders, who are the owners of the company, is fairly large and hence all of them or most of them cannot participate in the day-to-day management of the company. The law, therefore,

provides for the Board of Directors, elected by members (owners) in the general body meeting of the company, to govern the affairs of the company.

It may, however, be noted that a company possesses the above mentioned characteristics or features by virtue of its incorporation or registration under the Companies Act. Although a partnership firm-an alternative to the company form of organization-may also be got registered under the Indian Partnership Act, 1932, yet it does not possess any of these characteristics.

5.4 Kinds of Companies : Companies may be classified from different points of view which are briefly described as under:

5.4.1 On the Basis of Formation :

(i) Statutory Company : A company which is created by a special Act of the Parliament or Assembly of any State is called as statutory company. This is done only in special cases where it is necessary to regulate the working of the company for some specific purposes. The State Bank of India, Reserve Bank of India, Life Insurance Corporation, Unit Trust of India etc., are examples.

Statutory companies are governed by the Acts creating them. They are not required to have any memorandum of association or articles of association. Changes in their structure are possible only by amendments in the Acts creating them. The annual report on the working of such statutory company is required to be placed on the tables of Parliament or Assembly. It cannot be regarded as a department of the Government.

(ii) Registered Company : A company registered under the Companies Act, 1956 is called as a registered company. These are governed by the above Act and subject to the rules of memorandum of association and articles of association of their own. The annual report on the working of such statutory company is required to be placed on the tables of members of the company at the time of annual general meeting.

(iii) Government Company : Government Company means any company in which not less than 51 percent of the paid-up share capital is held by the Central Government and or by any state Government or State Governments. The auditor of a Government company is appointed by the central Government on the advice of the Comptroller and Auditor-General of India. The audit report is to be placed before the parliament. A Government company has an independent legal entity and cannot be identified with the Government.

5.4.2 On the Basis of Public Interest :

On the basis of number of members or public interest, companies may be further categorized into (i) Private Company and (ii) Public Company,

(i) Private Company : A private company is a very suitable form for carrying on the business of family and small concerns it is registered under the Companies Act, 1956. According to Section 3 of the Companies (Amendment) Act, 2000 a private company is one which has the following features.

- (a) The minimum paid up capital is Rs. 1,00,000
- (b) The minimum number of members is two
- (c) The maximum number of members is fifty
- (d) It is prohibited from issue of shares to the public
- (e) It is prohibited from transfer of shares

Such a company must use the word “Private” as part of its name. A private company enjoys some privileges and exemptions which have been discussed later in this chapter.

(ii) Public Company : It is suitable form of company for carrying on the business at large scale involving huge amount of capital. According to Section 3 of the Companies (Amendment) Act, 2000 a private company is one which has the following features.

- (a) The minimum paid up capital is Rs. 5,00,000
- (b) The minimum number of members is seven
- (c) The maximum number of members is unlimited

Such a company must use the word “Ltd” as part of its name.

5.4.3 On the Basis of Liability : On the basis of liability of members the companies Act makes provision for the registration of these types of companies namely:

(i) Companies Limited by Shares : A company having the liability of its members limited by the memorandum to the value of shares held by them is called a company limited by shares. If a member has paid the entire value of the share, he does not owe any further liability to the company and in case he has partly paid the value of share, the liability of such member (s) is limited to the value of the unpaid amount of the shares held by him. Most of the Companies in India belong to this category.

(ii) Companies Limited by Guarantee : such a company is defined as a company having the liability of its members limited by its memorandum, to such amount as the members may respectively undertake to contribute to the assets of the company in the event of its being wound up. The amount guaranteed by each member cannot be demanded until the company is wound up. Hence it is in the nature of a ‘Reserve Capital.’

Such companies may or may not have share capital. They are generally formed without share capital for non-trading purposes, such as the promotion of art, science, culture, sports, etc. The Articles of Association of such a company must state the number of members with which the company is to be registered.

(iii) Unlimited Companies : A company having no limit on the liability of its members is an unlimited company. The liability of members in this type of companies, being unlimited, may extend to the personal property of the members. In this respect, it resembles partnership. But it is different from the partnership in the sense that the creditors of such a company cannot sue members directly. They can only resort to the winding up of the company on default. The reason for this is that the company enjoys a separate legal entity distinct from that of its members (owners), whereas a partnership firm does not enjoy such a separate entity. It is to be remembered here as well that the liability of a member is enforceable only at the time of winding up of the company. A member continues to be liable for one year, after he ceases to be a member provided the existing members are unable to satisfy the contributions required to be made by them.

5.4.4 On the Basis of Control : On the basis of control over the company, the companies may be classified as under :

(i) Holding Company : Where one company controls the management of another company, the controlling company is called Holding Company. For example if company A hold more than 51% of paid up share capital of company B, the company A is called as holding company. To be legal, it is arise in the following circumstances .

- (a) Where the majority of directors are directors of the holding company

- (b) Where not less than 51% of paid up share capital is held by holding company
- (c) Where a company is subsidiary company of a holding company.

(ii) Subsidiary Company : Where one company controls the management of another company such company so controlled is called as subsidiary company. For example if company A hold more than 51% of paid up share capital of company B, the company B is called as subsidiary company.

5.4.5 On the Basis of Nationality:

(i) Indian Company : A company registered in India having place of business in India is called as Indian company. It may be private company or public company. It may be noted that where, all the share holders of a company are foreign citizens, a company shall be called as Indian company if it is registered in India.

(ii) Foreign Company : It means a company incorporated out side India and having place of business is called as foreign company. The term place of business does not mean agency business in India. It may be noted that where, all the share holders of a company are Indian citizens, a company shall be called as foreign company if it is registered out side India.

5.4.6 On the Basis of Area :

(i) National Company: Such companies confine their operations within the boundaries of the country in which they are registered.

(ii) Multi National Company: Such companies which extend the areas of their operations beyond the country in which they are registered.

5.5. Distinction between Public and Private Company : The following are the points of distinction between private company and a public company.

(i) Minimum Number of Members: The minimum number of members required for a private company is two, while it is seven for a public company.

(ii) Maximum Number of Members: A private company cannot have more than fifty members. However while counting the maximum number, the present as well the past employee-members should be excluded. In the case of a public company, maximum membership is unlimited.

(iii) Issue of Prospectus: A private company cannot issue a prospectus inviting the public to subscribe for its share or debentures. But a public company is entitled to do it. Further it has to file a copy of its prospectus or a statement in lieu of prospectus with the Registrar before proceeding to allot shares.

(iv) Commencement of Business: A private company can commence business on getting the certificate of incorporation. But a public limited company has to take some more steps like issuing a prospectus, filing a copy of it with the Registrar, securing minimum subscriptions etc. In short, it cannot start its operations till it gets the certificate of commencement of business from the Registrar.

(v) Addition of Words to the Name: The words private limited are appended to the name of a private company while the word 'limited' alone is added to the name of a public company.

(vi) Transferability of Shares: A private company, by its articles, restricts the right to transfer its shares whereas the shares of a public company are freely transferable.

(vii) Statutory Meeting: Public company has to file with the registrar a statutory report and hold a statutory meeting not later than six months and not earlier than one month from the date on which it is entitled to commence business. But a private company is not required to do so.

(viii) Number of Directors: A private company is required to have at least two directors while a public company should have a minimum of three directors.

(ix) Written Consent by Directors: In the case of a public company, every director should file with the registrar his written consent to act as a director and to take up the qualification shares. But the director of a private company is not required to do so.

(x) Interest of Directors in Contracts: Every director of a public company who is interested in a contract has to disclose the nature of his interest therein at the Board meeting which discusses it. Further, he should neither participate in the discussion nor vote on it. These restrictions do not apply to a private company.

(xi) Appointment of Directors: A separate resolution for the appointment of each director is required for a public company whereas two or more directors can be appointed on block by a single resolution in the case of a private company.

(xii) Issue of Share Warrants : public limited company, if authorized by its articles, can issue share warrants in respect of its fully paid-up shares but a private company cannot issue them.

(xiii) Kinds of Shares : A public company can issue only equity and preference shares but a private company can issue any class of shares. (Example deferred shares can also be issued.)

(xiv) Maximum Number of Directorship : A person cannot hold directorship in more than 20 public companies while one can act as a director in any number of private companies.

(xv) Restrictions on Managerial Remuneration : A public limited company cannot pay more than 11% of its net profits by way of managerial remuneration. Further, it has to get the approval of the Central Government for raising such remuneration. But these restrictions do not apply to a private company which is free to spend any amount on its management.

5.6 Privileges of a Private Company: Privileges available to all private companies including subsidiaries of public companies.

(i) Easy Formation : A private company can be incorporated with just two person. This facilitates easy formation as well as smooth functioning.

(ii) Commencement of Business on Incorporations : A private company can commence business immediately on getting the certificate of incorporation. It does not have to get a further certificate to commence business.

(iii) Exemption from Issuing Prospectus : A private company is prohibited from issuing a prospectus inviting the public to subscribe for its shares or debentures. Thus there is no necessity for it to file with the Registrar a copy of the prospectus or a statement in lieu of a prospectus.

(iv) No Need to Get Minimum Subscription : it can proceed to allot share without having to wait for minimum subscription.

(v) Exemption From Holding Statutory Meeting : It need not hold a statutory meeting nor file a copy of the statutory report with the Registrar whereas a public company is required to hold it after one month but within six months from the date on which it is entitled to commence business.

(vi) Exemption Regarding Right Issue : In the case of a public company, when further shares are issued, they must first be offered to the existing shareholders. But a private company is exempt from this restriction; it is free to issue them to outsiders (section 81c).

(vii) Exemption Regarding Proceedings at a Meeting : Two persons personally present can be the quorum for the general meetings of the shareholders of a private company while it is five for a public company. In a private company poll can be demanded by one person if the number of members present does not exceed seven and by two persons if it exceeds seven. While it can be demanded by at least five members in a public company.

(viii) Minimum Number of Directors : It is allowed to work with two directors while three are required for a public company.

(ix) Exemption From Filing Written Consent : Directors of a private company are not required to file with the Registrar their written consent to act as such director; further, unlike in a public company, they need not give any undertaking to take up qualification shares and pay for them within the prescribed period.

(x) Index of Members : A private company need not keep an index of its members.

5.7 Merits of a Company : A company form of organization has become very popular not only in India but also outside India particularly for industrial and trading operations undertaken on a large scale. This is because of the following advantages/merits enjoyed by the company form of organization:

(i) Large Financial Resources : The joint stock company can raise large amount of money or capital by issuing shares and debentures to the public. The capital of the company is issuing shares and debentures to the public. The capital of the company is divided into shares of small denominations of Rs.20, Rs50, or Rs.100 which attract person for investment with small income. The ease with which the investor can transfer his share holding is another attraction for the investors to raise vast funds to undertake its business activities from a position of strength.

(ii) Limited Liability : The liability of shareholders of a company is limited to the face value of the shares held by them. Their private property is not attachable to recover the dues of the company. Thus, this form of organization is a great attraction to persons who are not willing to take risk as is inherent in other forms of organization such as sole proprietorship and partnership as they do not possess the features of limited liability.

(iii) Continuity : A company being an artificial person created by law and enjoying a distinct and separate personality of its own is not affected by the entry and exit of its members. It continues to be in existence even if all the persons who promoted it leave or desert it or give up their membership. Hence as a body corporate, it enjoys perpetual existence. Being a stable form of organization it is suited for such business activities which require long period to establish and consolidate.

(iv) Transferability of Shares : The right of the shareholders of public companies to transfer the shares held by them imparts liquidity to the investments and thereby encourages investment of funds in the company. The existence of stock exchange and continuity of operations in it facilitate further the transferability of shares especially in respect of those which are listed on the stock exchange.

(v) Benefits of Large Scale Operation : A company is in a position to raise large amount of capital and thereby undertake large scale operations. The largeness of the operations results in the economies in production, purchase, selling, management, advertising, etc. This in turn, leads to increase efficiency and the consequent reduction in the cost of production.

(vi) Professional Management : The largeness of the financial resources and the requirements of business operations prompt a company to hire the services of professional managers, both on the Board of Directors and in various management positions. The professional managers by applying their managerial skill and talent help the company to achieve greater heights of efficiency and competitive strength in relation to the rival firms.

(vii) Public Confidence : From inception to its winding up all the activities of a company are regulated by the provisions of the Companies Act. The companies are under legal obligation to get their accounts audited by a qualified Chartered Accountant and publicise their audited accounts, Director's Report, etc. All this creates and promotes public confidence.

(viii) Scope for Expansion and Growth : The company form is conducive to the expansion of business operations and is also responsible for the growth of giant-size enterprises which operate not only within the country but also in a number of foreign countries. Two limiting factors viz., limited financial resources and unlimited liability are conspicuous by their absence in the case of company form of organization as a result of which the company form enjoys greater potentialities of growth over other forms of organization.

(ix) Social Benefits : The company form of organization is an effective medium, of mobilizing the scattered savings of the community and investing them in different commercial and industrial enterprises. It is also indirectly helping the growth of financial institutions like banks, insurance companies etc., by providing avenues for the investment of their funds into shares and debentures. It offers employment to many people both skilled and unskilled. Further, it produces large amount of revenue to the Government both through direct and indirect taxes.

(x) Tax Benefit : The tax burden varies considerably between a corporate form and a non-corporate form under the Income Tax Act. Companies being legal persons are taxed as distinct bodies on their income in addition to tax paid by shareholders at the time of dividend distribution. Whatever be the size of income, companies pay a uniform rate of tax. On the other hand, proprietorships or partnerships have no entity apart from the entity of the owners thereof.

5.8 Demerits of a Company: The following are the demerits of the company form of organization “

(i) Difficult and Costly Formation : The formation of a company requires fulfillment of a number of legal formalities. For this purpose provisions of the Companies Act are to be complied with and large amounts have to be spent in order to fulfill the preliminaries. In addition, it is time consuming as well for a number of sanctions and approvals are to be obtained from different authorities before a company gets going. These difficulties in terms of fulfilling legal formalities, time required to complete them and the money needed to undertake all these formalities at times discourage people from going in for this form of organization.

(ii) Lack of Personal Touch: There is a divorce between ownership and management of the joint stock company. The affairs of the company are managed by the professional managers. This may be responsible for lack of personal involvement and stake which characterize sole proprietary and partnership forms of business organization.

(iii) Oligarchic Management: The management of a company which is supposed to be conducted as per desires of the shareholders or owner turns out to be a plaything of a few individuals. In theory, every shareholder has a right to participate in the Annual General Meeting and other meetings of the company and to exercise his right to elect directors, to appoint auditors and participate in other matters. But in practice, companies are managed by a small number of persons who are able to perpetuate their reign over the company from year to year. This is because of a number of factors like lack of interest on the part of the shareholders, low literacy level among the shareholders, and lack of sufficient information about the working of the company.

5.9 Let Us Sum Up : In this lesson we have discussed meaning, nature, types, advantages and limitations of joint stock companies.

5.10 Lesson End Activities :

1. Define the term joint stock company. What are its salient features ? (5.2)
2. Briefly explain the various types of companies. (5.3)
3. Distinguish between Private and Public Company. (5.3.7)
4. What are the privileges of a private company ?
5. Enumerate the merits and demerits of a Joint Stock Company. (5.4 & 5.5)
6. Write short notes on :
 - (i) Statutory Company
 - (ii) Government Company
 - (iii) Holding Company
 - (iv) Subsidiary Company.

5.11 Model Answers to Check your Progress :

Question No. 1 Refer para 5.3

Question No. 2 Refer para 5.4

Question No. 3 Refer para 5.5

Question No. 4 Refer para 5.6

Question No. 5 Refer para 5.7,5.8

Question No. 1 Refer para (i) 5.4.1(i) ; (ii) 5.4.1(iii) ; (iii) 5.4.4 (i); (iv) 5.4.4(ii)

5.12 References

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LESSON - 6

CO-OPERATIVE SOCIETY

- 6.0 Aims and Objectives
- 6.1 Introduction
- 6.2 Meaning
- 6.3 Characteristics of Co-operative organisation
- 6.4 Formation of co-operative
- 6.5 Types of co-operative
- 6.6 Merits
- 6.7 Demerits
- 6.8 Suitability
- 6.9 Difference between Company and Co-operative Society
- 6.1 Let Us Sum Up
- 6.11 Lesson End Activities
- 6.12 Model Answers to Check Your Progress
- 6.13 References

6.0 Aims and Objectives : In this lesson we are going to discuss

- Meaning and Nature of Co-operative Societies.
- Various kinds of Co-operative Societies
- Merits and Demerits of Co-operative Societies

After reading this lesson you should be able to understand the basic working knowledge of all above-mentioned topics and to answer lesson end activities given at the end of the chapter.

6.1 Introduction: The forms of business ownership and organization discussed so far are run basically with a view to make profit. The cooperative form a organization is different from the rest in so far as it is not set up with profit as the guiding motive but with the main purpose of rendering service to its members in particular and to the society in general. Cooperative organizations have emerged primarily to protect and safeguard the economic interest of the relatively weaker sections of the society in the face of exploitation by businessmen whose primary motive is profit maximization.

6.2 Meaning: According to the International Labour Office, a cooperative organization is “an association of persons, usually of limited means, who have voluntarily joined together to achieve a common economic end, through the formation of a democratically controlled business organization, making equitable contributions to the capital required and accepting a fair share of risks and benefits of the undertaking.”

6.3 Characteristics of Co-operative Organisation: The cooperative organization, being different in its rationale and philosophy possesses certain features/characteristics which may be briefly explained as follows:

(i) Voluntary Association : As stated above, persons desirous of pursuing a common objective can form themselves into an association and leave the same as and when one likes by withdrawing his capital. Thus, voluntary feature of the cooperative organization has two important connotations:

- (a) Any person may become a member of such an organization irrespective of his caste, creed, religion, colour, sex, etc., and
- (b) The members come together to form themselves into an association without any coercion or intimidation.

(ii) Service Motive : As stated earlier, a cooperative organization is established primarily with a view to rendering service to its members in particular and to the society in general. This however, does not mean that such an organization will not work for profit. There are several cooperative organizations which are making reasonably good profits. What we reiterate here is the emphasis on service and not on profit.

(iii) Capital : The capital of the co-operative organization is procured from its members in the form of share capital. However, the share capital constitutes only a limited source of business finance, the major part of which is raised by the cooperative organization either by way of loan from the Government and the apex cooperative institutions, or by way of grants and assistance from the government.

(iv) Return on Capital : The return on capital subscribed by the members is in the form of a fixed rate of dividend which is a charge on the trading surplus of the organization.

(v) Distribution of Surplus : The entire trading surplus earned by a cooperative organization after meeting its trading expenses and paying a fixed rate of dividend is not distributed among the members. Under the present law governing co-operative organization a sum of about $\frac{1}{4}$ of its profits is to be transferred to general reserves. Similarly, a portion of the profit, not exceeding 10% may be utilized for the general welfare of the locality in which the society is functioning. The rest of the surplus may be distributed in the form of bonus on a certain agreed basis but not on the basis of the capital contributed by the members. The bonus may be paid to the members in proportion to the purchases made during the year by the members in case of Consumers' Co-operative Stores, or in proportion to the goods delivered for sale to the society in the case of Producers' Co-operative Store.

(vi) Separate Legal Entity : Like a company, a co-operative organization also enjoys a separate and independent entity distinct from that of its members. As such, it has a perpetual life and is not affected by the entry and exit of members. It can sue or be sued in its own name. It can own property and dispose of it in its own name, likewise can enter into business contracts in its own name.

(vii) Democratic Functioning : The management of cooperative organization vests in a managing committee elected by members on the basis of 'one-member-one vote' irrespective of the number of shares held by any member. It is the general body of the members which lays down the broad framework of policy within which the managing committee has to function.

(viii) State Regulation : A co-operative organization right from its inception up to its end is subjected to detailed regulation under the Co-operative Societies Act, 1919 or other State

Co-operative Societies Act. A co-operative organization in order to be registered with Registrar of Co-operative Societies has to fulfil certain requirements.

6.4 Formation of Co-operatives : As stated earlier, a co-operative society enjoys a separate legal entity of its own after getting incorporated. To get a co-operative society incorporated, an application is to be submitted to Registrar of Co-operative Societies of the concerned state in which the society's registered office is situated. The application contains the following information :

- (i) The name of the society
- (ii) The aims and objectives for which the society is being created
- (iii) Division of share capital
- (iv) The names and addresses of the members
- (v) Two copies of the bye-laws and
- (vi) Two copies of the rules and regulations of the Society

The Registrar of Co-operative Societies after getting the application for registration alongwith the copies of the bye-laws and those of rules and regulations of the society carefully scrutinizes them so as to ensure that the two documents do not contain anything which is contrary to the spirit of the Co-operative Societies Act. In case he is satisfied with regard to these points, the society is registered and a certificate to that effect is issued. After getting the Certificate of Incorporation, the society assumes a separate legal entity of its own.

6.5 Types of Co-operatives: On the basis of nature of services rendered by cooperatives they may be classified into the following categories:

(i) Producer's Co-operatives : These co-operative societies are formed to help and strengthen small producers who cannot stand up in the competition offered by organized large scale producers. The Producers' Co-operatives may be organized on may one of the following two basis:

(a) The producer members maintain their separate individual entity. The society supplies them with raw-materials, tools, equipment etc. The members sell their individual output to the society.

(b) The member producers produce on behalf of the society as its employees. The member producers are paid wages for their work. Here, again, the society supplies them with raw-materials, tools and equipment etc. In either case the marketing of the products is undertaken by the society.

(ii) Consumers' Co-operatives : These societies are formed for the main purpose of making available day to day requirements for goods to their members at cheaper prices. For this purpose they buy their goods from wholesales at wholesale prices and sell them to members and often to non-members as well at prices slightly lower than the market prices. The difference between the wholesale prices and the selling price of the co-operatives represents the surplus which after meeting the operative expenses are distributed among the members as bonus, besides transferring a part thereof to general reserve and other kinds of reserves. This form of co-operative has been receiving government's attention and help with a view to contributing the general problem of price rise.

(iii) Marketing Co-operatives : These societies are set up either for selling manufactured products or agricultural commodities. As such, marketing co-operatives may be classified into two broad categories.

(a) Industrial Marketing Co-operatives: These societies pool the manufactured products of small producers such as artisans, weavers, small producers, etc., and sell them at prices which are remunerative to the member producers.

(b) **Agricultural Marketing Co-operatives:** These are organized by farmers for selling their own farm-products and also for obtaining their agricultural inputs. Thus, agricultural co-operatives are engaged in a two way function of selling farm products and buying seeds, manures, implements and many other goods. Since agricultural marketing involves several steps like processing, warehousing, financing etc., these co-operatives are often formed on a multipurpose basis for catering to the needs of agriculturists both as sellers and buyers of products.

(iv) Co-operative Credit Societies : These are formed by members to pool their savings and to invest their resources thus collected for giving loans to members on favorable terms involving interest, security and re-payment. Such co-operatives are organized both in rural and urban areas. In rural areas, these are called primary Credit Societies or Rural Credit Societies, while in urban areas these societies are known as Co-operative Banks.

(v) Housing Co-operatives : These societies are formed by those people who strive to own a flat or a piece of land for constructing their own house. As such, these societies are formed mostly in urban areas and that too in big cities where the problem of housing is acute. These societies are allotted land (developed or undeveloped) by the local authority or by the Urban Development Authority at concessional prices. The same is true with regard to the allotment of flats. Such societies can also negotiate loans for its members on easy terms from financial institutions and national building organizations which have been recently established. They may also procure building materials in bulk for their members so as to reap the economies of bulk buying.

(vi) Co-operative Farming Societies : In our country, the problem of sub-division and fragmentation of agricultural land-holdings is very acute. One of the ways to get over this problem is to organize small land owners and tillers of land into farming societies with a view to reaping the benefits of large scale mechanized farming. This large scale co-operative farming results into raising agricultural output and reducing the cost per unit.

6.6 Merits: Different types of co-operatives have distinct merits to their credit. But there are some common merits which can be witnessed in all co-operatives. These are as follows;

(i) Easy Formation : Being a voluntary association, it is easy to form as it does not require long and complicated legal preliminaries. Any 10 adult persons can voluntarily form themselves into an association and get it registered with the Registrar of Cooperatives.

(ii) Democratic Functioning : As observed earlier, the management of co-operative is vested in a managing committee which is elected by the general members of the co-operative on the basis of 'one-man-one-vote'. As such, it does not matter whether a member holds one share or more than one share.

(iii) Limited Liability : Like the liability of the shareholders in company form of organization the liability of the members in a co-operative organization is also limited to their capital contribution. The effect of limited liability is mentioned in the bye-laws of the co-operative which is checked by the registrar at the time of registering the same.

(iv) Internal Vitality : Co-operatives are not permitted to declare dividend for its members exceeding certain per cent, the balance of the surplus earned in any year by the co-operative can well be utilized for its growth, modernization and development. Thus, there is built in advantage of ploughing back of profits for the better health and prosperity of the organization.

(v) Continuity: Like the company, the co-operative enjoys a separate legal entity of its own independent of the entity of its members who own it. Hence the life of co-operative organization remains unaffected by the death, insolvency or conviction of a member.

(vi) State Assistance : Since, Co-operatives have been adopted by the Government as an instrument of economic policy, a number of grants, loans and financial assistance are offered to them to make them function efficiently.

(vii) Social Service : Co-operatives foster fellow feeling among members and impart moral and educative values in their every day life which are essential for better living.

(viii) Reducing Inequalities : Since the benefits and profits of co-operatives are enjoyed by those people who are relatively of moderate means, this helps in raising the economic status of the relatively poor people thereby reducing the disparity between the rich and the poor.

6.7 Demerits :

(i) Limited Capital: The amount of capital that a co-operative can muster is extremely limited because of the membership remaining confined to particular locality or region and also because of the principle of 'one man-one vote' and the divined restrictions.

(ii) Plenty of State Regulation : Under the existing arrangement the co-operatives are subjected to a variety of regulations from the co-operative department of the State Government partly because the state offers a number of financial helps and partly because it is always anxious to see that the movement succeeds. All this has led to excessive state regulations in the day to day functioning of the co-operative which, at times, amounts to interference.

(iii) Lack of Managerial Talent : Co-operatives at the primary level generally suffer from extremely limited managerial talent because they depend on the personnel drawn from amongst their own members to serve on the managing committee which, in turn, manages the day to day affairs of the co-operatives. However, at the higher levels, namely, State and apex federation level this constraint is not so acute. But if we compare the availability of managerial talent in a company form of organization, then again cooperatives do not stand anywhere near them.

(iv) Lack of Secrecy : As is usually common with the forms of organization which enjoy separate legal entity and as such are under obligation to make fuller disclosures of their operations to their members, the co-operatives too being corporate in status fail to preserve their business secrets. In this respect, co-operatives are similar to the company form of organization.

(v) Lack of motivation : The built in constraint that co-operatives society cannot offer dividend beyond a certain fixed rate (i.e., 6 1/4 per cent), the members of the managing committee with whom rests the responsibility of managing the co-operatives do not feel sufficiently motivated to do their best to see the co-operative a grand success.

(vi) Differences among members : Although co-operatives are formed with great fanfare and with the great ideals of co-operation and self-help, but soon these higher values of human life disappear with the passage of time. There are often bickerings, differences and bad blood created among members on petty matters. This marks the beginning of an end to the co-operative organization.

6.8 Suitability: A close look at the merits and demerits of the co-operative form of organization would reveal that it is suitable mainly for small and medium size operations because they suffer from limited capital resources, lack of managerial talent, a lot of state regulation and interference and low credit worthiness in the eyes of financial institutions. However, there are certain notable exceptions to this general rule, the large sized IFFCO (Indian Farmers and Fertilizers Co-operative) involving an investment of over Rs. 250 crores and the Kaira Co-operative Processing Milk and milk products under the brand name of 'Amul' are illustrations in point.

6.9 Difference between company and Co-operative Society:

Distinction between Co-operative Organisation and Joint Stock-Company

Basic Motives

- | | |
|----------------------------------------------------------------------|--------------------------------------------------------------------------------|
| 1. Service Motive-Primary Profit or Earning Surplus Motive-Secondary | 1. Profit Motive (except Public Enterprise) Primary, Service Motive-Secondary. |
|----------------------------------------------------------------------|--------------------------------------------------------------------------------|

Governing Act

- | | |
|-------------------------------------------------------------------------------|-----------------------------|
| 2. The Cooperative Societies Act, 1912 or the Stat Cooperative Societies Act. | 2. The Companies Act, 1956. |
|-------------------------------------------------------------------------------|-----------------------------|

Membership

- | | |
|---------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|
| 3 (a) Drawn mostly from a particular locality or region | 3 (a) Public company draws its membership from the whole country or even from other countries of the world. |
| (b) Minimum-10
Maximum-100 | (b)Minimum (i) Public Company-7 (ii)Private Company-2
Maximum (i) Not Fixed in case of Public Company.
(ii) 50 members in case of Private Company. |

Members' Liability

- | | |
|------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|
| 4. Generally limited but it may opt, for unlimited liability of its members. | 4. Liability is limited to the amount of capital contribution or guarantee under-taken by a member. |
|------------------------------------------------------------------------------|-----------------------------------------------------------------------------------------------------|

Democracy in Management

- | | |
|----------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|
| 5. Real because the members of the managing committee are elected on the basis of one-member-one vote and without the system of proxy. | 5. Superficial at times because the Board of Directors is elected by the shareholders on the basis of the amount of their shareholding and also through the system of proxy. |
|----------------------------------------------------------------------------------------------------------------------------------------|------------------------------------------------------------------------------------------------------------------------------------------------------------------------------|

Transferability of Interest

- | | |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|
| 6. May or may not have share capital. Generally it has share-capital. In that case shares are not transferable. Sometimes limits are also placed on individual holding. | 6. Generally has share-capital and the shares are freely transferable in case of public company. But there is no such limit in case of public companies. |
|-------------------------------------------------------------------------------------------------------------------------------------------------------------------------|----------------------------------------------------------------------------------------------------------------------------------------------------------|

Issue of Fresh Share Capital

- | | |
|-------------------------------------|------------------------------------------------------------------------------------------------------------|
| 7. It is done to admit new members. | 7. The issue of fresh capital by the existing company is first to be offered to the existing shareholders. |
|-------------------------------------|------------------------------------------------------------------------------------------------------------|

Exemptions

- | | |
|-------------------------------------------------------------------------------------|----------------|
| 8. Exempt from paying stamp duty and registration fees at the time of registration. | Not so exempt. |
|-------------------------------------------------------------------------------------|----------------|

Disposal of Surplus

- | | |
|--------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|
| 9. Fixed rate of dividend on Capital contributed by members plus bonus according to patronage extended by members to the society e. g., in | 9. Dividend as declared by the Company. |
|--------------------------------------------------------------------------------------------------------------------------------------------|-----------------------------------------|

proportion to purchases made by members from the Consumer's Co-op. Store during particular year.

6.10 Let Us Sum Up : In this lesson we have discussed meaning, nature, types, merits and demerits of a co-operative society the procedure for registration of a co-operative society and comparative analysis between co-operative society and joint stock company.

6.11 Lesson End Activities :

1. What is a co-operative organisations? Explain the various forms of co-operatives prevalent in India.
2. Explain the features of a co-operative organisation.
3. Distinguish between Company and Co-operative Society.
4. Enumerate the merits and demerits of Co-operative Organisation.

6.12 Model Answers to Check your Progress :

Question No. 1 Refer Para 6.1& 6.4

Question No. 2 Refer Para 6.3

Question No. 3 Refer Para 6.9

Question No. 4 Refer Para 6.6, 6.7

6.13 References

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LESSON - 7

PUBLIC ENTERPRISES

- 7.0 Aims and Objectives
- 7.1 Introduction
- 7.2 Meaning
- 7.3 Need
- 7.4 Features of public Enterprises
- 7.5 Objectives of public Enterprises
- 7.6 Problems and short comings of public sector
- 7.7 Form of organisation and Management Enterprises
- 7.8 Let Us Sum Up
- 7.9 Lesson End Activities
- 7.1 Model Answers to check your progress
- 7.11 References

7.0 Aims and Objectives : In this lesson we are going to discuss

- Meaning and Nature of Public Enterprises
- Rationale of Public Enterprises
- Various forms of Public Enterprises

After reading this lesson you should be able to understand the basic working knowledge of all above-mentioned topics and to answer lesson end activities given at the end of the chapter.

7.1 Introduction: The concept of laissez faire which reigned supreme up to the end of the last century has lost its meaning and also popular support. The state today, far from being merely a passive observer of the economic process, which once it was, has emerged as an active participant, taking upon itself the role of protector, of controller, of guardian of the citizens, and of entrepreneur. In fact, there is hardly any sphere of human activity to day which is not in some way or other controlled and regulated by the modern state.

7.2 Meaning: According to A.H. Hansen, Public Enterprise means state ownership and operations of industrial, agricultural, financial and commercial undertakings, public sector enterprise is owned and managed by the government.

7.3 Need : The need for state entry in the business arises because of the following factors:

(i) Need for Planned Economy : The modern economy has inevitably to be a planned economy. In a planned economy, the national responsibility of planning is something that cannot be assumed or discharged by any authority finally other than the government which the people have elected to office to take after the affairs of the country. Hence, the responsibility for planning must be assumed by the government. In order to take the economy

towards planned direction, the direct participation of the state in industrial and commercial enterprises is a necessary concomitant.

(ii) Need For Sound Industrial Base : Immediately after independence in 1947, the industrial base of our country had not been sufficiently built up and as such intervention became imperative. To build the industrial base. The Government had to set up a number of enterprises in various fields like manufacturing, mining, banking, development finance, etc. The government had to step in because private enterprises were hesitant, unwilling, timid and unable to provide the necessary entrepreneurship. The public enterprise was the only way to get over all these hurdles.

(iii) Establishment of Socialistic Pattern of Society : The government of our country having been committed to the objective of establishing a socialist pattern of society is increasingly compelled to enter directly into industrial and commercial activity. The creation of a socialistic pattern of society calls for state participation in industrial and commercial enterprises.

(iv) Creation of Developmental Demands : In the planning process, the government has not only to think of how much a product is needed but also to go ahead with the plans to meet demands for such products. But, instead, it has also to create and influence certain kinds of demands which are instrumental and helpful in promoting the process of economic development. It is with this end in view that the government in our country decided to set up a number of public enterprise which are engaged in the production of such commodities for which, to begin with there was a substantial demand in the country but the same got created since public enterprise started producing them. In this category, we include the production of iron and steel, fertilizers, pesticides, heavy engineering machine tools, chemicals, etc.

(v) Generation of Surplus For Economic Growth : The state in order to fulfill its economic and social commitment towards the people could no longer depend only on the revenue derived mainly through taxation. Public enterprise have come to be regarded as an important instrument for generating surpluses (what are also known as profits in the case of private enterprises) which in turn are ploughed back in the form of investment for the purpose of economic development.

(vi) Need to Serve as Model Employer : One of the constitutional obligation of the state in our country is to encourage and promote labour welfare. In this regard, we may recall the old saying that practice is always better than precept', it is with this motto that the government has set up a number of public enterprise in which its employees are given reasonably good wages, housing accommodation and other welfare recreational, etc. thus, the public enterprise act as model employers' and the by, stimulate the private enterprise to do likewise.

(vii) Provision of Infrastructural Facilities : The growth of public enterprise is undertaken, to begin with and mostly , on those areas which are extremely important and useful to usher in and later on support the process of industrialisation and economic growth. That is why most of the state investments take place into such enterprise which is extremely helpful to the private enterprises in enabling them to set up their own industries. The development of railway net-working, road net-work, telephones and telegraph net-work, generation of river valley projects, canals, dams, setting up of term-lending institutions, etc., are examples in point.

(viii) Balanced Regional Development : A public enterprise may be set up not so much from the point of view of the considerations listed above but just to provide an industry in a

region where may be none or very few. This is done with a view to offer employment opportunities in economically backward regions and to ensure all round balanced regional development of the different parts of the country.

(ix) Generation of Employment : Public enterprise at times are also set up with a view to offer employment to people because private enterprises may not be forthcoming for the purpose.

(x) Equal Distribution of National Income : Large scale participation by government in industrial and commercial enterprise is bound to increase the national income which goes into the common pool and is available for redistribution and reinvestment. This helps in achieving equitable division of national income and thereby reducing the economic disparities.

7.4 Features of Public Enterprises: A close look at the above definitions of public enterprises would reveal the following characteristics of the public enterprises.

(i) State Ownership : The public enterprises should either be wholly owned by the central government or state government (s) or local authority or jointly owned by two or more of them . For instance, the Indian Airlines and Air-India are owned by the central government and Punjab state and financial corporation limited is owned by the government of Punjab. State ownership means that more than 50% of the out-standing equity is being held by a public authority. If the enterprise is owned both by the government and private persons, the state must have the predominant share (at least 51%) in the ownership of such enterprise.

(ii) State Control : The state retains the ultimate management and control of public enterprise in so far as the appointment of personnel such as members of the board of Directors, Chairman, Managing Director, etc. are concerned.

(iii) Service Motive : Public enterprise are generally run with a service motive. Though, in modern times, public enterprise strives to earn surplus, but its primary emphasis is always to render service to the public at large. Even it may have to incur losses in the process of serving the society.

(iv) Government Financing : The bulk of the financial needs of the public enterprise is met by the government through appropriation from the budget. But in course of time, when the public enterprises attains maturity, it may cease to draw from government funds, instead may actually be contributing to the government revenues.

(v) Public Ability : Since the public enterprises are owned and managed by the government, they are able in terms of their results to the elected representatives of the people who constitute parliament and state legislature. That is why; the working of the public enterprise is subjected to close scrutiny by the committees of parliament or state legislature, as the case may be.

7.5 Objectives of Public Enterprise : The points discussed earlier under the heading of rationale of public enterprise may also be regarded as the objectives of public enterprises. However, there are certain other focal points which may be interpreted as objectives of public enterprise. These are as follows:

(i) Stimulate Economic Growth : The driving motive, which attracts government in business, is to speed up the tempo of economic development. It is with this end in view that

the government enters into various sectors of economic activities such as machine building, electricity generation, road and rail net work, communication net work, fertilizers, pesticides, chemicals, etc.

(ii) Provide Employment Opportunities : The state having assumed the responsibility of a welfare state has to do all that whereby the avenues of employment get created and multiplied. This is all the more important in a country like ours which is plagued by rising population. In fact, the entire strategy of the present day economic policy is in favor of creation of larger employment opportunities through the process of economic planning. Public sector can play a great role in this direction.

(iii) Channalise Public Saving : The process of economic growth needs step up in the rate of saving and its proper channelisation into productive avenues. The government undertakes this task by nationalizing the existing financial institutions like banks and insurance companies and by setting up a number of term-lending institutions. That is why, we find the major commercial banks and both life and general insurance nationalized in our country. Further, the government has set up a number of financial assistance to large, medium, and small sized enterprises both in public and private sectors.

(iv) Diffusion of Economic Power : In an economic system which is characterized by private enterprise, the emergence and growth of private monopolies is a natural process. There are several ways of tackling the problem of growth of private monopolies. One of the most important strategies of meeting this problem is by setting up enterprise in the public sector.

There are certain sectors which are exclusively earmarked for the public enterprise, and in other, public enterprise enter to offer competition to private enterprise and thereby prevent the emergence and growth of private monopolies.

(v) Egalitarian Society : One of the basic purposes of state entry into economic area is to reduce disparities in the distribution of income and wealth in the country and thereby promote a social order wherein a more egalitarian distribution of national income and wealth is brought about.

(vi) Strengthen Research and Development : The base as well as quality of economic development of a country depends to a large extent on the technological inventions. This requires substantial investment of funds and retention of scientific and technological talent. It is public enterprise alone which can afford both of these. That is why most of the research and development activity in our country is being organized by the institutions which are owned and controlled by the Government.

7.6 Problems and shortcomings of public sector Enterprise : All these data are no doubt impressive. However, in view of the crucial role of , and the quantum of investment proposed in , the public sector in the ensuing years, it is better to examine some of its shortcomings:

(i) No Systematic Criteria Investment Decision : The Government's investment decisions relating to public sector enterprise are often not preceded by a detailed evaluation of the nature of potential cost-benefit analysis. The result is that wrong investment decisions are often taken , mainly because of political pressure from different quarters. Undesirable consequence therefore ensue. For example, investment is made in low priority units , there is non-availability of technical personnel, and so on.

(ii) Unduly Long Gestation period : Many projects took a longer time for completion than they should have. This resulted in rising costs and longer delays in the supply of the goods needed by the economy. For example, the Tomboy Fertilizer project took twice the time and cost, Rs.13 cores more than the original estimate. These delays were mainly due to faulty or inadequate planning and project reports.

(a) Over- Capitalization : Because money was available from the government just for asking, many projects (e.g., Tomboy Fertilizer project, Heavy Engineering Corporation) were over-capitalized, making capital output ratio. Unduly unfavorable. This locking-up of precious capital was a waste of valuable resources from the community's point of view, and of incurring avoidable expenditures on the installation of surplus machines and capacity.

(b) Employment of Excess Manpower : No scientific personnel policy was worked out. Nor was there scientific and accurate estimate of manpower requirements. As a result, excess labour was often employed. There was often no policy regarding the wage structure, and the promotion and training of personnel. While there was excess labour, the chief executives' posts were often unfilled for months because the required personnel was not available.

(c) Large Overhead Expenditure : Heavy expenditure was often incurred on social overheads, such as building of townships, schools, hospitals and theatres. While these were necessary, the question is whether the expenditure on such items could afford such expenditure. For example, on a of Hindustan steel alone, the outlay on the total expenditure on a project was incurred on social overheads.

(d) Under Utilization of Installed Productive Capacity : Low capacity utilization has been a serious defect in many public sector undertakings. As show in Table 3, only 55% of the units (i.e.90) reported more than 75% capacity utilization, 19% of the units (i.e.31)reported less than 50% capacity utilization. Non-utilization of installed capacity. Which amounts to locking up of scarce resources, is due to a wrong estimate of future demand various bottlenecks in production following the non-availability of power or of an important, or labour trouble.

(i) Absence of a Proper Price Policy : Public sector undertakings are expected to attain various socio-economic objectives ; they are not supposed to be obsessed with the profit motive. The Government did not spell out any clear guidelines for the price policy to be followed by different units, not did it indicate how much each unit should earn on the amount invested in it. The consequence is that, even today, there is no clear-cut price policy for different public sector units.

(ii) Inefficient Management : Many public sector undertakings are characterized by inefficient management because of non-availability of top executive personnel; the appointment of civil servants who, for want of proper training, run the units in a bureaucratic manner, ministerial interference in the day – to –day, affairs of the units; no proper delegation of authority so essential for quick decisions; labour troubles which have plagued the management (these labour troubles have stemmed form a hampering of labour)the absence of scientific inventory control and so on. The numbers of management employed in public sector undertakings was 50,000 in 1976. this rose to nearly 70,000 at the end of the fifth plan. As the public sector grows in size and complexity, professional managers of a very high caliber would be required to cope the challenges of economic development.

(iii) Lock of Incentives : One of the most vital problems of the growing public sector in India is the inefficiency of its operation. Here, incentives which lead to additional efforts have special significance. The problem of incentives has two faces. Incentives to workers and incentives to management. It is well known that in the private sector the rule universally followed is a "big carrot; and a tough stick" salary is commensurate with a person's initiative and efficiency. But in the public sector neither the carrot nor the stick has been effectively applied. The enterprise, unlike in the matter of pay scales. It is therefore, in national interest that initiative be kindled with the offer of appropriate incentives.

(iv) Lack of Co-ordination Among Various Public Sector Units : The need for coordination among various public sector units is vital for the attainment of greater efficiency and for maximizing returns on investment. As the output of one unit is the input of another the operations of same enterprise have an important bearing on the efficient functioning of other public undertakings. For instance, the performance of power houses and steel plants depends on coal production itself is dependent on supplies of heavy equipment, machinery and power. A co-ordination in the production programmes of public undertakings at various stages would help reduce excess stocks and shortages of vital input and this co-ordination can also be worked out in such areas as personnel management, inventory control, finance, research, welfare and industrial relations. This aspect of the national convention on public enterprise held in New Delhi in 1976.

(v) Lack of Research and Development : Yet another aspect that needs attention is research. Research and development efforts in the public sector need pepping up to achieve better production costs all with a view to attaining international competitiveness. In this connection, it is worthwhile noting that the production of offshore drilling rigs and many other highly technical products has been taken by public sector units.

7.7 Form of Organisation and Management : The efficiency and the effectiveness of public enterprise depends among other factors, on the form or organization and management chosen to organize the enterprise. The important forms which are currently in use for managing the public enterprise may be mentioned as follows

7.7.1 Undertakings Run the Ministry : An undertaking which is managed by the ministry of the Government comes under this category. The Indian Railways which is managed by the ministry of railways through the Railways board is a typical example of this variety. The ministry is headed by a minister of railways and the body of management consisted of the railways board which has a chairman, three members and a financial commissioner, all of whom technically have the status of a secretary to the government of India. The railways board under the overall direction of the minister for railways manages all the investments and enterprise connected with the railway system of the country. The railways being in the nature of public utility have to be able to parliament which consists of the elected representatives of the people. The minister is the link between the parliament and the undertaking, namely, the Indian railways. On the one hand, his success as minister depends on how well and efficiently of the central government, and the extent to which the parliament is satisfied that the railways is fulfilling the needs and aspirations of the importance in national life, this perhaps is the most suitable form of organization. However, the chief weaknesses of this form lie in the fact that the bureaucracy at times regions supreme which may stand in the way of Indian railways functioning in an efficient manner.

7.7.2 Departmental Undertakings : Departmental undertakings are those which are technically under a minister but they do enjoy, relatively speaking, some amount of operational freedom as compared to one undertakings which is operating directly under the

ministry as pointed out above. The important undertakings which come under this category are ordnance factories such as the army clothing factory etc. the last two are under the ministry of railways and the other ones are under the Ministry of Defence. Other examples of departmental undertakings are the post and telegraphs, the milk schemes of union territories, the electricity departments of union territories, the atomic power projects, the government printing press and the mint, etc. these undertakings are self-contained; they have external delimitations and have a management in charge of and responsible for the undertakings.

7.7.3 Corporations : A Statutory or Public Corporation is set up by a Special Act of Parliament or State Legislature as the case may be. The Act setting up such a corporation defines its powers, duties, privileges and also prescribes the pattern of management. The statutory corporation is a kind of compromise. Between public interest on the one hand and the flexibility of business operation characteristic of a company in the private sector on the other. To quote late president Roosevelt of the U.S.A. in the regard. "a public corporation is clothed with the powers of Government, but possessed of the flexibility and initiatives of private enterprise".

7.8 Let Us Sum Up : In this lesson we have discussed meaning, features, objectives and problems of public enterprises in India.

7.9 Lesson End Activities :

1. What do you understand by the term public enterprise? State the characteristics of public enterprise.
2. Discuss the rationale of public enterprise in India.
3. What are the objects of public enterprise?
4. What are the problems faced by the public enterprises in India?
5. Briefly explain the various forms of public enterprises in India.
6. What is meant by a government company? What are its features? Enumerate the merits and demerits government company.
7. Enumerate the merits and demerits of departmental undertakings in India.
8. Enumerate the merits and demerits of public corporations in India.

7.10 Model Answers to Check your Progress :

Question No. 1 Refer para (7.2 & 7.4)

Question No. 2 Refer para (7.3)

Question No. 3 Refer para (7.5)

Question No. 4 Refer para (7.7)

Question No. 5 Refer para (7.9)

Question No. 6 Refer para (7.8.4)

Question No. 7 Refer para (7.8.2)

Question No. 8 Refer para (7.8.3)

7.11 References

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LESSON - 8

CHOICE OF FORM OF ORGANISATION

- 8.0 Aims and Objectives
- 8.1 Introduction
- 8.2 Features of a good Form of Business Organization
- 8.3 Factors Determining Choice of Organisation
- 8.4 Conversion of Sole Proprietorship into Partnership Firm
- 8.5 Conversion of Partnership Firm into Private Company.
- 8.6 Let Us Sum Up
- 8.7 Lesson End Activities
- 8.8 Model Answers to Check Your Progress
- 8.9 References

8.0 Aims and Objectives : In this lesson we are going to discuss

- Character istics features of an ideal form of business organisation .
- Factors determining choice of organisation

After reading this lesson you should be able to understand the basic working knowledge of all above-mentioned topics and to answer lesson end activities given at the end of the chapter.

8.1 Introduction: Choice of a suitable form of ownership organization is an important problem with which an entrepreneur is confronted while launching a new business enterprise. It is a form of ownership organization which determines the power and responsibility of the entrepreneur. Once a form of organization is chosen, it is very difficult and costly to switch over to another form of organization. Hence, the form of ownership should be chosen after considerable thought and deliberation.

8.2 Features of a Good Form of Business Organization:

The following are the characteristic features of a good or ideal form of business organization:

(i) Ease of Formation : The comparative ease or difficulty with which a business can be brought into existence makes one form preferable to another. The question of finding suitable business partners/associates, promotion expenses and legal formalities are some of the components which make the formation easy or difficult depending upon the fact whether they are required to be gone through or not.

(ii) Scope for Finance : Another important feature of a good form of organization is its capacity to raise adequate finances. Generally speaking, an investor while investing his money looks to the safety of his investment, reasonable return on investment, transferability of investment and limited liability. Safety of investment, transferability of investment and limited liability are all present if the investors choose to invest their money in the form of company shares or debentures. But the return on investment is ordinarily relatively higher if the capital is invested in a sole proprietary or partnership business.

(iii) Extent of Liability : Modern business is surrounded by risks and uncertainties. Obviously the form of organization which can reduce the risk is to be preferred to others. Except sole proprietorship and partnership, in all other forms of business organizations, the liability of the owner(s) is limited to the extent of investment in shares; but in case of sole proprietorship and partnership, the liability of the owner(s) is unlimited in the sense that his personal estates (personal property and belongings) can be used to pay off the debts and losses sustained in the business. But unlimited liability has one great merit in that it provides the spur for initiative, drive and involvement in business. The absence of this spur may lead to weaknesses, inefficiencies and even dishonesty on the part of the persons managing the business.

(iv) Stability or Continuity : The long life of business concern is desired both by the owners and the employees because the owner is able to reap the fruits of his investment over a long period of time and the employees find a source of continuous employment if the business continues for long. Besides these two, the society is also interested in the continuity of business because it is a stable source of providing employment to the members of the society, instrument of innovation and technological change, and a regular supplier of goods and services to meet the needs of the consumers. From this point of view i.e., stability, company form is the ideal form of organization because it remains unaffected by the continuance or discontinuance of its members, whereas sole-proprietorship and partnership get affected immediately if the partner or the sole proprietor ceases to exist

(v) Effectiveness of Management : Management constitutes one of the most crucial factors in business success: It is the effectiveness of management which can bring business prosperity and success and its ineffectiveness may push the business to the door of bankruptcy. The effectiveness of management depends upon three factors: (i) Motivation, (ii) Skill, and (iii) Flexibility. Motivation for effective management is highest where ownership and management go hand in hand because of the direct relation of the rewards to the efforts put in. So far as the skill and flexibility are concerned, in case the owner is unable to contribute them he brings in these by introducing outside talents either as partner (s) or as hired managers.

(vi) Freedom From Government Regulations : A form of organization which does not attract too many Government regulations in its day-to day working is preferred to a form in which there are frequent Government regulations. Some of the Government regulations apply on the basis of the size of the business enterprise rather than on the basis of the form of its ownership. But still a company form of organization is subjected to more regulations by the Government than any other form. Sole proprietorship and partnership to that extent are in a preferable position.

(vii) Business Secrecy : Ordinarily a form of organization which enables retention of business secrets is preferred to the one wherein business secrets are difficult to preserve. From this point of view, the sole proprietorship is the most ideal form of organization. In case the partners have been chosen carefully, partnership form comes next to proprietary form of organization in this respect. On the contrary, the company form is under legal obligation to

put forward a number of important information by way of disclosure to the shareholders and the general public.

8.3 Factors Determining Choice of Organization : The choice of the form of organization at the time of launching a new enterprise depends upon the nature of business activity, volume and area of operations, degree of control desired, initial capital requirements, extent of liability, continuity of business, Government regulation and tax burden. It is important to point out that these factors are inter-related and interdependent. The relationship between the various factors must be clearly identified. The impact of various factors on the choice of the suitable form of organization is discussed below:

(i) Nature of Business Activity : Initially the entrepreneur has to decide about the kind of business activity he is going to undertake, namely, trading activity, manufacturing activity, service activity etc. and then decide in favour of a particular form of organization. A trading activity proposed to be undertaken on a small scale can be done through sole proprietorship. The same will be the case if he wants to render service as a hair dresser, as a tailor, or a jeweler. But if he wants to undertake a manufacturing business, then he will have to think of either partnership or company form of organization.

(ii) Expected Volume of Business : If the goods to be produced and sold are going to be on a large scale, then a company form of organisation would be suitable. But if the volume of business proposed to be handled is small then a sole proprietorship or partnership form of organisation will do.

(iii) Area of Operation : In case a widespread area is proposed to be covered through the business operation, a company form is better suited than any other form. But if the area of operation is confined to a particular locality or small person, sole proprietary or partnership form of organisation will be adequate.

(iv) Degree of Control Desired : If a businessman aims at having a direct control over his business operations, the preferable form would be sole proprietorship, but if he is not interested in direct control and is instead interested in a large size of operation, it would be preferable to go in for a company form or co-operative form of organisation.

(v) Initial Finance Required : If the finance required to start the business is quite huge, then there is no choice except to start it in the form of a company organisation. But if the initial finance proposed to be invested is small then a sole proprietary form or a partnership form of organisation would be suitable.

(vi) Liability : If the entrepreneur is not deterred by unlimited liability if the business runs into losses, then he would not mind starting the business as a sole proprietary one. But in case of his hesitation to shoulder the entire risk single-handedly or bear the unlimited liability, he would like to go in for either partnership or company form of organisation.

(vii) Continuity of Business : If the entrepreneur wishes the business to continue indefinitely, he would decide to start it in the form of company or co-operative organisation. But if he is not interested in its long life, he may start as a sole proprietary business or as a partnership business.

(viii) Government Regulation : If the entrepreneur wishes to remain independent of too much Government control and regulations to business, he would prefer sole proprietorship or partnership. Business undertaken through company and co-operative form of organizations

are subjected to a lot of Government control and regulations through the Companies Act and the Co-operative Societies Act.

(ix) Tax Burden : There is a single (or flat) rate of tax on corporate profits which is quite high. The rate of tax remains the same irrespective of the volume of corporate profits. But sole traders and partnership firms are subjected to a progressive rate of income tax, i.e., the rate of tax goes on increasing with the increase in the volume of profits. That means the income tax payable will be lower in cases of lower slabs of income of sole traders and partnership firms.

8.4 Factors to be Considered in Conversion of Sole Proprietorship Into Partnership Firm.

A sole proprietor whom is willing to expand his business may either appoint a salaried manager or assistant or may take one or more partners. He should analyse the merits and demerits of these alternatives in the light of the following factors:

(i) Reorganisation : If a manager is appointed, there is no change in the form of ownership organisation. Only a contract of service is to be entered into with the manager. But if a partner is to be taken, a partnership agreement must be entered into and a partnership deed must be drafted to lay down the terms and conditions of the partnership agreement. In addition, finding a suitable person who may be taken as a partner is a very difficult job. But it is relatively easier to appoint a manager.

(ii) Capital : A manager is an employee of the proprietor and he is not bothered with the procurement of capital for the business. The proprietor has to raise funds from his own resources or from his friends and relatives for the purpose of investment in the business. But if he takes a partner, the new partner will bring in additional capital. The sole proprietor will be saved from the trouble of raising the amount of capital which has been brought by the new partner.

(iii) Control and Management: When a manager is appointed, the ultimate control remains with the sole proprietor. But if he takes a partner, he will have to share the control of the business with him unless the partner is a sleeping partner who contributes capital but does not take part in management. Since a manager is a paid employee and is concerned with the security of his job, he will show greater interest in his job. But a partner may not take full interest in the partnership business or may not have the required knowledge and skill. In order to secure greater interest of the partners, they are generally paid salary and a commission on profit of the firm.

(iv) Risk: When a manager is employed, the proprietor bears all the risks of the business himself. But in case of a partnership firm, risks are shared by all the partners. Every partner is jointly and severally liable for the acts of other partners and for the entire debts of the firm.

(v) Secrecy : The proprietor can keep all the important business secrets with himself by appointing a manager. He is expected to disclose the business secrets in case he takes one or more partners. These secrets will remain safe so long as partners act in good faith and have good relations among them.

(vi) Continuity : A sole proprietorship business comes to an end with the death, insolvency or insanity of the proprietor. But a partnership firm can be carried on by the remaining partners in case of death, insolvency or insanity of a partner. However, the chances of

survival and growth of a partnership firm are more because it has more funds and more capacity to undertake business risks.

(i) State Regulation : Employment of a manager involves no compliance with any legal regulation. In case of a partnership also the amount of State regulation is minimal. Thus, no alternative is better on this count.

(ii) Tax Burden : The salary paid to the manager is a charge against profit. That means proprietor saves income tax on the amount of salary paid to the manager. But in case of partnership, the share of profit payable to the partners is liable to tax in the hands of the firm in case the firm is not registered under the Income Tax Act.

From the above discussion, it can be concluded that a sole proprietor will find it better to appoint a manager rather than take a partner. If he wants to share the risks and profits and expand his business which is beyond his capacity, it will have to joint hands with one or more partners.

8.5 Factors to be Considered in Conversion of Partnership Firm into Private Company:

A sole proprietor has also the alternative of forming a private company. Similarly the partners of a partnership firm may decide to form a private company rather than increasing the number of partners. While selecting between the two forms of organization, the following factors should be taken into consideration:

(i) Reorganisation : It is easier to form a partnership because registration of the firm is not compulsory. But a private company must be registered under the Companies Act. For the incorporation of a company, a large number of legal formalities have to be observed. A large amount of expenditure and time has to be spent to form a company.

(ii) Capital : Both the partnership firm and the private company can raise sufficient funds to meet the capital requirements of a medium size firm. However, a private company can raise more funds because the maximum limit on the number is 50 as compared to the partnership firm where maximum limit of partners is 20. The credit standing of a partnership firm is more because of the unlimited and joint and several liability of the partners.

(iii) Liability : The liability of the members of a private company is limited to the nominal amount of the shares held by them, whereas in partnership the liability of each partner is unlimited. A partnership organization is suitable only for those ventures where business is of stable nature and the risk is not very high.

(iv) Control : If a partnership is created, the proprietor has to share the control with other partners unless the other partners are sleeping partners. In a private company, the promoter-owner may be able to retain effective control over the business of the company by working as the managing director of the company.

(v) Management : In case of partnership, every partner has a right to be consulted with regard to the management of the affairs of the firm. This may lead to inefficient management because of misunderstanding and conflict among the partners. This problem does not arise in case of a private company where management is in the hands of a small group of directors. Decision can be taken by the majority of directors, whereas incase of a partnership, approval all the partners is a must in case of any policy decision.

(vi) Secrecy : A partnership firm can maintain greater secrecy since it is not required to file its audited accounts with the Registrar Companies as is required by the private company.

(vii) Flexibility and Continuity : A partnership firm is more flexible than a private company because old partners can retire and new partners can join very easily. In case of a private company, a numbers of legal formalities have to be observed for this purpose. Similarly, the objectives and authorized capital of a private company can be changed by following cumbersome procedure only. But there is no such problem in case of partnership firm. A private company having a separate legal entity goes on irrespective of the death of a member. Shares are transmitted to the heir on the death of a member whereas in case of partnership, death or retirement of a partner dissolves the partnership unless there is any agreement to the contrary. Hence a private company is more stable than a partnership firm.

(viii) State Regulations : A partnership firm is subject to the minimum of State Regulation even if it is registered. But a private company has to file several returns with the registrar of Companies and comply with various other legal formalities. A private company has to incur a huge expenditure on its creation and winding up because of the requirement of following the prescribed procedures.

(ix) Tax Burden : At income below Rs. One lakhs, the burden of tax is lower in case of partnership firm. Tax liability works out to be lower in case of private company if the profits are quite high because a company is subject to a fixed rate of income tax and a partnership firm is liable to pay income tax at a progressive rate. The rate of tax remains the same irrespective of the volume of profit of the company and it goes on increasing with the increase in the volume of profits of the partnership firm.

8.6 Let Us Sum Up : In this lesson we have discussed their features of ideal organisation and determinants of a suitable form of organisation and guidelines for conversion of sole proprietorship into partnership firm into private company.

8.7 Lesson End Activities :

1. What are the essentials of a good form of organisations?
2. Briefly discuss the various factors to be considered in selecting a suitable form of organisations.
3. What are the factors to be considered while converting sole proprietorship into partnership firm?

8.8 Model Answers to Check your Progress :

Question No. 1 Refer Para 8.2

Question No. 2 Refer Para 8.3

Question No. 3 Refer Para 8.4

8.9 References

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UNIT - II

LESSON - 9

LOCATION OF BUSINESS

- 9.0 Aims and Objectives
- 9.1 Introduction
- 9.2 Meaning
- 9.3 Factors affecting Location
- 9.4 Government Policy on Industrial Location
- 9.5 Let Us Sum Up
- 9.6 Lesson End Activities
- 9.7 Model Answers to Check Your Progress
- 9.8 References

9.0 Aims and Objectives : In this lesson we are going to discuss

- Meaning of location of business.
- Factors to be considered in determining location
- Government Policy towards location

After reading this lesson you should be able to understand the basic working knowledge of all above-mentioned topics and to answer lesson end activities given at the end of the chapter.

9.1 Introduction : In the previous chapters, we have discussed the various matters relating to selecting a suitable form of organisation from varieties of alternatives. In the present chapter, we are going to discuss the various factors about the location of business.

9.2 Meaning : The location of an industrial enterprise is an important problem which its promoters have to deal with. It is the responsibility of promoters to search out that location at which the enterprise will have easy access to raw materials, labour, power, markets and certain services like banking, transportation, communication, insurance and warehousing. As far as possible, the location must be optimum so that the costs of production and distribution are the lowest. If the location of a plant is not suitable, it may cause many types of problems. For instance, transportation cost may be higher and right type of labour may not be available. It may also restrict the growth of the firm.

The problem of location is faced not only by new concerns but also by the running concerns which have growth potentials. The growing concerns have to take decisions about location of their new plants and sometimes, they are also faced with the problem of shifting the entire operations to a new place because of limitations of existing location and accommodation. Therefore, the new concerns should also take into consideration the growth factor and the possibility of changes in the environmental conditions while selecting the location.

There are no hard and fast rules with regard to location of plant. In practice, a large number of factors have to be considered while choosing a suitable location. Moreover, these factors differ from situation to situation and from time to time. That is why different economists have taken into consideration different factors to formulate their theories of location to explain the mechanism of location of industries. The study of these theories will help in determining the most suitable location of a new plant and also analyzing the tendency of certain industries to locate in particular regions of the country.

9.3 Factors Affecting Location: one of the important problems of launching an industrial enterprise is the choice of suitable location which will help in minimization of production cost and maximization of profit. In order to select an optimum location, the promoters must carefully study the impact of the following factors.

(i) Availability of Raw Materials : The availability of the required quantity of raw materials at a reasonable cost is an important factor for determining the location of an industrial unit. In most of the industries, the cost of raw materials forms more than 50% of the total cost of their products. The impact of raw materials on location depends upon their nature and the source of their deposits. Weber classified raw materials into ubiquitous and localized materials. Generally, ubiquitous like water, clay, and sand which are found at all places have very little influence on location. That means the place of production would be fixed independently. But in some cases materials of ubiquitous nature may so vary in quantity and quality that are in fact regarded as fixed. For example, paper manufacturing plants require a regular supply of a large quantity of pure water and they are, therefore, located near the banks of rivers.

Localized raw materials may be further sub-divided into pure materials such as raw cotton and wool and gross materials such as sugarcane, iron ore and coal. The latter type of materials lose their weight in the process of production. If a large quantity of weight losing material is to be used during production, it is better to locate the plant near the source of material because there will be greater savings of transportation costs. For instance, iron and steel industry, which uses coal and iron ore as raw materials has localized near the coal and iron ore mines.

(ii) Labour Supply : Every plant requires an adequate supply of labour with appropriate skills. Weber deduced that an industrial unit will deviate from the point of minimum transportation cost to the cheaper labour centre if the additional cost of transportation at the new centre is more than compensated by the savings in labour cost. But this hypothesis has lost its significance in the recent years because of many reasons. Labour is easily mobile and there is a level of minimum wages fixed by law below which an industrial concern cannot go. Moreover, certain industries are capital intensive and they require less labour. Therefore, it can be said that supply of labour, particularly in a country where there is large scale unemployment, is not as important as it used to be half a century ago.

(iii) Proximity to the Market : Industrial units using non-weight losing raw materials tend to locate near the market because of so many advantages. A manufacturer can improve his customer relations and render rapid services to his customers. Industries producing perishable commodities and those producing for a local market are also drawn towards the market, because it would reduce the cost of transport in distributing the finished products. The industrial units tend to disperse only if they find a new market for their products.

(iv) Transport Facilities : Transport services are required for assembling of material and distribution of products. While selecting the location it should be seen that transportation facilities are easily available at reasonable rates. The junction points of waterways, roadways

and railways have the tendency to become industrial centers because of this reason only. If an industrial unit is directly linked with the means of transportation, its transportation costs are lower. Besides transportation, communication service also plays an important role in the location of industrial units. Every business firm requires information as regards raw materials, finished goods and market price which can be made available only when there are communication facilities. Since transport and communication facilities are not adequately available in rural areas, entrepreneurs are reluctant to start their operations in those areas.

(v) Power and Fuel : An Adequate supply of power and fuel is an important factor for the un-interrupted operations of any enterprise. In the initial days of industrial revolution, industrial units were located near coal deposits because coal was the major source of power and fuel and was of weight losing nature and quite bulky. But with the introduction of other sources of power like electricity, gas, oil, etc., the power factor has become more mobile. This has helped in dispersal of industries. The industrial units which mainly depend on electric power tend to shift from a place if they do not get its regular supply. But iron and steel industry where coal is still the major source of fuel is located near the coal mines.

(vi) Climatic Considerations : Natural and climatic considerations like level of ground, topography (hilly and rocky surface) of a region, and drainage facilities influence the location of industries in certain cases. For example, cotton textile mills require a humid climate. The humid climate of Bombay offered greater scope for the development of cotton textile industry. But the development of artificial humidification and air-conditioning has reduced the importance of climate to some extent. Entrepreneurs do not prefer to locate their units in hilly and rocky areas because of increase in transport cost. Similarly, regions which are subject to frequent floods, earth-quakes, etc., do not attract industrial units.

(vii) Supply of Capital : Finance is the life-blood of any industrial venture. Availability of adequate funds at low rates of interests is an important factor influencing industrial location. But in these days capital has become a highly mobile factor of production. Despite this fact, availability of funds at cheaper price is an important consideration. For instance, there are State Financial Corporation in various states which offer loans at a very low rate of interest if the entrepreneurs start their projects in the specified areas. Similarly, technocrat entrepreneurs who do not have sufficient capital to implement their projects will naturally be attracted towards these areas where they can get sufficient supply of finance.

(viii) External Economics : Sometimes industrial units are located in those centers where other industrial units are already located. It is because of the fact that transportation, warehousing, banking, communication and other services are easily available. Secondly, the raw materials may be easily available at cheaper rates. For instance, by-product of one unit may be the raw material for distilleries another. Distilleries are located near sugar factories because molasses which is the by-product of sugar industry is the raw material for distilleries.

(ix) Personal Factor : Personal preference and prejudice of an entrepreneur may also play an important role in the choice of location. For instance, Mr. Ford started manufacturing motor cars in Detroit because it was his home town, and Lord Nuffield selected Cowley because the school in which his father was educated happened to be for sale. The success of the entrepreneur in such a location depends upon his extra personal efforts.

(x) Strategic Considerations : Strategic considerations like law and order; political stability and safety also influence location. Naturally, entrepreneurs will like to locate their units in those areas which are safe and where there are least disturbances on account of law and order problems.

(xi) Government Policy : In planned economies, the role of government policy with respect to location of industry is crucial. In India, the Central Government follows the policy of balanced regional development of the country which is necessary from the point of view of defence and social problems like slum, disparity of income and wealth and optimum use of resources. In order to implement this policy, the Government encourages industrialists to invest their money in backward areas by giving various tax incentives in the form of remission of excise duty or sales tax. Government also offers certain non-tax incentives like loan at cheaper rates, factory, sheds, etc., to attract the entrepreneurs. The Government has also announced that in future generally no license will be given to industries to be set up in metropolitan cities with a population of more than 10 lakhs and urban areas with more than 5 lakhs population as per 1971 census.

(xii) Miscellaneous Factors : Miscellaneous factors like historical incidents and attitude of the community also influence location of industries. In mughal days, cottage industries thrived near the courts of rulers due to the patronage of State. Industrial relations atmosphere also affects the location. Facilities like housing, medical, recreation, banking and credit also attract the location of certain industrial units.

9.4 Government Policy on Industrial Location: In a planned economy like India location of industries is an important factor in the creation of a climate for the balanced economic growth of various regions. In the absence of regulation of industrial location by the Government, industrialists are generally attracted towards the places where the industries are already developed. They do so because they will get a large number of external economies from those places. The private entrepreneurs decide the location by keeping in view the economic considerations only. They do not think in terms of social cost-benefit. This leads to the concentration of industries at particular places. There are many disadvantages of concentration of industries in particular areas from the point of view of the society. Concentration of industries gives rise to problems of housing, transport, health and other social services. It gives rise to congestion of traffic, overcrowding and other problems also. Concentration of industries at particular places takes place at the cost of other areas. Thus, backward areas remain backward. Moreover, concentration of industries is not equitable because people living near the industries places will enjoy many benefits of industrial development including employment opportunities. People living in other areas are deprived of these benefits. Hence, Government regulation becomes necessary for the dispersal of industries to achieve balanced regional development and to avoid the problems caused by concentration.

9.4.1 Positive Approach : The adaptation of positive approach is likely to give more satisfactory results as compared to the negative approach. Under this approach, the State provides certain incentives for the establishment of industrial units in the selected areas. These incentives may take the following forms:

- (i) Provision of public utility services in selected areas. These services include electricity, water, gas transport, etc.
- (ii) Provision of socio-economic amenities like recreation, education, health, etc. In addition, the Government has also extended certain ancillary economic facilities in these areas like institutions for imparting technical knowledge to the workers and marketing organizations for the benefit of localized industries.
- (iii) Granting of direct and indirect subsidies. Direct subsidies may be in the form of price subsidization, supply of raw materials and machinery at low prices, etc. Indirect subsidies may be in the form of reducing the cost of certain services to offset the influence of unfavorable factors.

- (iv) Granting of income tax exemption to the units set-up in backward areas.
- (v) Giving assurance by the State to purchase the products of the industrial units established in backward areas.
- (vi) Providing adequate and cheap financial facilities directly by the Government or through the financial institutions.
- (vii) Establishment of industrial estates in industrially backward regions. The main objectives of industrial estates is to enable a large number of small scale units to have the advantages of common services and other facilities. Being located near one another, they may also be to the goods and services of others.
- (viii) Liberal issue of licenses on a preferential basis for setting up industrial units in backward areas.

9.4.2 Negative Approach : The negative approach includes certain deterrents designed to prevent establishment of new units in concentrated areas. The State may introduce the following deterrents.

- (i) Enhanced rates of local taxes may be introduced. A levy may be imposed on the industrial units in the concentrated areas which may be spent for the benefit of units in the backward areas.
- (ii) Licensing policy may be so designed that it discourages new units in highly developed regions.
- (iii) Absolute prohibition to set up new industries in particular areas may be followed. For instance, the Industrial Policy, 1977 stated that no more licenses should be issued to new industrial units within certain limits of big cities having a population of more than ten lakhs and urban areas with a population of more than 5 lakhs.

9.5 Let Us Sum Up : In this lesson we have discussed the determinants of location of a business and Government Policy regarding selection of location.

9.6 Lesson End Activities :

1. What is the significance of location of business? What factors affecting location of a Business?
2. Describe Government approach towards location of industry in India.

9.7 Model Answers to Check your Progress :

Question No. 1 Refer Para 9.2

Question No. 2 Refer Para 9.3

9.8 References

Business Organisation and Management-Y.K.Bhushan-Sultan Chand & Sons
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LESSON -10

SIZE OF THE FIRM

- 10.0 Aims and Objectives
- 10.1 Introduction
- 10.2 Meaning
- 10.3 Measurement of size
- 10.4 Factors affecting size of the firm
- 10.5 Optimum Firm
- 10.6 Large Firms
- 10.7 Small Firms
- 10.8 Let Us Sum Up
- 10.9 Lesson End Activities
- 10.10 Model Answers to check your progress
- 10.11 References

10.0 Aims and Objectives : In this lesson we are going to discuss

- Meaning and measurement of size of the firm .
- Determinants of optimum size
- Merits and Demerits of Large Firms
- Merits and Demerits of Small Firms

After reading this lesson you should be able to understand the basic working knowledge of all above-mentioned topics and to answer lesson end activities given at the end of the chapter.

10.1 Introduction: After locating the place of business, we shall have to decide the level of activities of our proposed business which is technically called as size of the firm. The present chapter deals with this concept.

10.2 Meaning : The term size may be defined as scale it may be scale of production. Output or operation. While talking of size, it is essential to be clear as to whether we mean plant, a group of plants or any manufacturing group under one management, ownership or control. Very often three terms plant, firm and industry are used in a confused way. These terms have been explained below in order to understand the concept of size in a better way.

(i) Plant : A plant is an aggregate of physical facilities like building, machines and equipments and a body of persons working together at a certain time and place.

(ii) Firm : A firm is the business unit which owns, controls and manages the plant of plants. Such a business unit may be an individual, partnership, a company or a cooperative enterprise.

(iii) Industry : An industry may be defined as a group of firms producing and distributing similar products and services. We can classify various manufacturing units or firms into different industries on various criteria. The criteria may be the same type of product, the use of the same type of raw material and the use of the same process of manufacturer.

10.3 Measurement of Size : The measures commonly used to determine the size of business firms are discussed below.

(i) Net Worth : The net worth of a company is the aggregate of its paid up capital and free reserves. But it is very difficult to calculate the net worth of a firm because of the obvious difficulty of obtaining the accurate data. However, if accurate data are available, net worth can be used to determine the rate of growth of a firm and to compare the size of different firms at a particular moment of time. This criteria does not work in practice because of different stages of growth of the firms and different methods of financing employed by them. The paid up capital of a company may be less but its size may be higher as compared to other similar enterprises because of accommodation from commercial banks and financial institutions.

(ii) Total Assets : Size of different firms can be compared by taking the value of their total assets. For instance, in America, the Fortune Magazine ranks every year the top 200 corporations of the world on the basis of their total assets and in India, the Economic Times uses this criterion for its study for the Corporate Giants of India. Total assets also provide a defective measure of size because of a number of factors. Firstly, there is generally a wide difference between the book value and the market value of the assets. Secondly, depreciation policy varies from firm to firm. Thirdly, the size of the assets per unit of product varies from industry to industry. Fourthly, the firms started during inflationary periods will appear to be bigger in size as compared to the older firms.

(iii) Number of Workers Employed : According to this standard, the higher the number of workers employed the larger is the scale of operations and vice-versa. But this standard can be used to compare the size of those units which are using the same degree to mechanization. Firms using capital intensive techniques have a small number of workers even though their scale of operations is large.

(iv) Quantity of Power and Materials Used : Sometimes, the amount of power used and the raw materials used serve as a good standard to measure the size. However, it is possible that a firm is of a smaller size as compared to other firms, but is using more power and materials because of greater inefficiency at various levels.

(a) **Volume of Output :** The quantity of output produced or sold may be used as a yardstick of comparison between different firms. But this standard is applicable only if the output of different firms is uniform or homogeneous in nature. But these days, every firm attempts to differentiate its products from those of other firms. Therefore, volume of output or sales cannot be used as a basis of comparison.

(b) **Value of Output or Sales :** Value of output or sales expressed in monetary terms is sometimes used to measure the size of a firm, comparison of firms in terms of the value of

their output is simple. But difficulty arises incases where comparison is to be made over two periods of time. The price level generally keeps on changing. So the value of the same quantity of output will be higher during boom period and it will be lower during depression period. However, the value of output during two periods can be compared by making adjustments according to the index of the purchasing power of monetary unit.

(c) **Capacity of Plants :** The plant capacity may be used as a basis of comparison when units produce a wide variety of products and when other standards of measurement cannot be suitably employed. For example, in case of Jute and Cotton Textile firms, the number of spindles and looms may be taken to be a measure of size.

All the above discussed standards of measurement are only approximate and have limited applicability. The measure to be used will differ from one firm to another. It will be influenced by the type of industry nature of product, type of equipment and the purpose of measurement. However, volume of output seems to be a better measure of comparison when output of two or more firms is similar in quality. And in other cases, value of production may be taken as the standard of measuring the size of the business unit.

10.4 Factors Affecting Size of the Firm : There are many factors, which operate to expand or restrict the size of a firm. These factors are discussed below:

(i) Type of Industry : The nature of industry determines the size of a firm. The size of the firm will be large in those industries in which the product or the productive machinery is physically very large as in steel making and ship building and in those in which final product is highly complex as in the manufacture of typewriters, watches, cash registers, etc. The size of firms in an industry will be small where the product is both small and simple as in the case of manufacture of cutlery, weaving of standard cloths or the baking of bread.

(ii) Nature of Product : When a complex and large product is to be manufactured, the size of the firm will be higher. Size of a firm producing less standard and more fashionable product will be smaller.

(iii) Size of the Market : If the size of the market is sufficiently large, large firm may come into being to have the benefit of large scale production and distribution.

(iv) Capital : The need of capital and the ability of the management to raise capital also influence the size of a firm. If the management of a company can raise capital conveniently, there will be a tendency towards large scale operations.

(v) Attitude of Promoters and Management : The ability and attitude of the promoters and the management also influence the size of a business firm. If they are intelligent, foresighted, enterprising and ambitious, the size of the firm will tend to grow as the time passes.

10.5 Optimum Firm:

10.5.1 Meaning : A business unit may be launched on a small scale and then expanded gradually. With the increase in the scale of operations, it can enjoy various economies in regard to production, marketing, financing and management. But it must not be presumed that these economies will be available in increasing measure with every growth in the scale of operations. The law of diminishing return applies after a certain level of production. In other words, a point will come beyond which further expansion of business operations may lead to inefficiency. This point indicates the optimum size of firm.

The optimum size denotes the size of a firm at which there is maximum efficiency in operations. Efficiency will be reduced whenever the size is reduced below the optimum level

or expanded beyond the optimum level. The concept of optimum firm was developed by E.A.G. Robinson “ By the optimum firm, we must mean that firm which in existing conditions of technique and organising ability has the lowest average cost of production per unit when all those costs which must be covered in the long run are included.

10.5.2 Factors Determining Optimum Size : E.A.G. Robinson has divided the factors or forces which determine the optimum size of a firm into the following five categories.

(i) Technical Forces : According to Robinson, technical forces fix a minimum scale of operations. They do not fix maximum scale beyond which growth will lead to progressively increasing average cost per unit. If other considerations require a scale larger than the technical optimum, the technical scale of production can be increased by the mere multiplications, until it coincides with that scale which those other considerations would demand. In other words, “In every industry and for every method of production within each industry, there is more or less a fixed minimum size of plant below which production is technically impossible or economically profitable. There is also a production capacity beyond which the operation of a factory is less efficient and unprofitable.”

(ii) Managerial Forces : Economies in the sphere of management accrue with the increase in the size of the firm. Optimum managerial unit is also the result of the economies of division of labour and integration of processes in the managerial functions. A large firm can divide the functions of management into separate categories, so that specialized and skilled persons can be employed to look after each area of management. When this is done, rare and expensive abilities are not wasted on routine work. Division of labour in the sphere of management will help in appointing specialist for different managerial tasks. A specialist is able to increase his knowledge of the particular task which is assigned to him. Division of labour is not possible in case of small firms. However, they can hire the services of consultants in selected area

(iii) Financial Forces : The stability and growth of the firms depend to a large extent on their ability to procure capital required for the conduct of their business. Firms having no assured access to financial facilities are unable to expand and may even find it difficult to stay in business. The ability of the firm to raise the capital necessary for its activities is an important factor for the efficiency of business.

(iv) Marketing Forces : The optimum size in respect of marketing operations is attained by a firm through the conduct of its marketing operations on sufficiently large scale consistent with production capacity and sales potential. According to Robinson, marketing forces are concerned with both buying and selling. There are definite economies in large scale buying and selling. The importance of efficient buying of materials can hardly be exaggerated. A large firm has more bargaining power as compared to the small firms. It can afford the services of purchase experts. Economies in the form of lower prices higher discounts lower transport charges, etc., are also obtained. On the selling side also, there are many economies. A large firm can elaborate and expensive sales organisation and can employ good sales persons. It can undertake marketing research and make use of advertising.

(v) Permanent Changes : Permanent changes relate to the tastes of consumers or improvements in the techniques of production caused by improved technology. In such cases the firm which can best face the problems of reorganization and adaptation will be the strongest one. A large firm by virtue of its huge investment on plant and equipment finds it difficult to reorganize and adapt to the changes. But a small firm has an advantage over a large firm in this regard. It can adapt to the changes in the tastes and fashions of the consumers by making changes in the technique of production.

(vi) Cyclical Changes : Cyclical variations in the demand for the products occur due to the existence of trade cycles. When the depression occurs in an economy, demand for almost all the goods shows a decline. However, the extent of decline is different for different products. Usually, the essential consumer products show the least decline and products for which the consumption could be temporarily postponed show a greater decline. And capital goods show the greatest decline. In such situations, firms will continue to produce goods as long as price covers average variable cost plus a part of the average fixed cost. The effect of depression on demand could be overcome by a new adjustment between capacity and demand. Depression may lead to make adjustment between capacity and demand.

(vii) Seasonal Changes : These changes occur due to changes in the season. A firm can fight seasonal fluctuations by the manufacture of goods at the mean rate of consumption, accumulating stocks in seasons of low consumption and reducing stocks in seasons of high consumption. This remedy is available where goods can be stored without deterioration of cost. If this is not so, there are two alternatives for a firm.

(viii) Irregular and Erratic Changes : Irregular fluctuations in demand are likely to occur in industries where products are not manufactured according to standardized pattern, but are manufactured on the basis of individual orders and design. For instance, shop sign boards, jewellery special furniture, etc., are produced as per demand. In such cases, it is preferable to combine the manufacture of some irregularly produced speciality with the manufacture of some standardized secondary product.

10.6 Large Firms :

10.6.1 Meaning : It may happen that, when a firm has reached the optimum size with respect to one set of forces, it has reached the optimum in relation to all other sets of forces. Some industrial units have greater advantages in this respect than the others because in other cases the various optima set by technical, managerial, financial, marketing and risk and fluctuation forces lead to the almost same optimum and there is hardly any problem for the management. But it is not always the case that a firm will attain optimum size in all aspects of its operation and administration. In some respects, optimum size might have been attained, while, on other sides, there may remain many untapped economies. The final size of the firm will depend on the compromise between the optimum set by various forces. The firm will have to expand until the average costs are minimum on the whole.

10.6.2 The Growth of Firms : There is generally a tendency for the business firms to expand the scale of their operations. This tendency is the result of a large number of economies of large size. The economies of large scale operation can be classified under the following four heads:

10.6.2(i) Economies in Production : The effect of the economies in production or technical economies arising out of large operations is the reduction in the cost of goods produced as compared to the cost of production of small firms. Economies in production are as follows:

(a) **Large Scale Buying :** A large firm buys raw materials and other things in bulk and so it has greater bargaining power. It will be in a position to procure raw materials of better quality at lower prices.

(b) **Economies in Transport :** A large firm obtains economy in freights because of the transport of raw materials in large quantities. The freight rates are lower if a lower if a full truck, wagon or ship is hired.

(c) **Division of Labour** : A large firm can achieve the benefits of division of labour and specialization. Division of labour is not possible in case of small firms because of the lesser volume of work.

(d) **Use of Capital Intensive Techniques** : A large firm can afford to install the latest capital intensive techniques of production. This will further reduce the cost of production.

(e) **Research and Development** : Because of its huge financial resources a large firm can spend money on research and development activities to develop new techniques and new products to provide higher satisfaction to the customers.

(f) **Repairs and Maintenance** : A large firm can make proper arrangement for repairs and maintenance. It need not depend on the outside agencies for this work.

(g) **Linked Processes** : A large firm can undertake different stages of production. This will decrease overall costs and increase efficiency. It will also help to use the wastes and scraps for the manufacture of byproducts.

10.6.2(ii) Economics in management: Following are the managerial economies available to a large scale business unit:

(a) **Professional Managers** : A large firm can appoint professional managers who are specialists in different areas. The specialists, because of their expert knowledge in their fields, will help in efficient planning and organisation. Complicated problems of marketing, financing and administration can be tackled effectively. Only the large firms can introduce specialization at the top management level, because they have sufficient funds to pay for their services. A specialist manager in charge of a function will be better placed in the matter of coordination of his function.

(b) **Mechanical Devices** : Large firms can introduce modern appliances like accounting machine and computers for the management of information. It may be pointed out that quality of managerial decision is influenced to a large extent by the quality of information on which it is based. A large firm can take better business decisions quickly with the help of the readymade information provided by the modern mechanical instruments.

(c) **Lower Overhead** : Administrative overheads of big enterprise are lower because the distribution of administrative expenses over a large area of operations.

(d) **Better Co-ordination** : Better coordination is facilitated because of the employment of expert managers and making them available with the up-to-date information. The efficiency of the control systems is also improved.

10.6.2(iii) Economies in Finance: A large scale firm obtains the following economies in financing:

(a) **Financial Reputation** : A large firm commands greater credit worthiness in the capital market because of its better credit standings and reputed management. Such a firm has no problem in borrowing from the general public or the financial institutions. It can also raise money easily by issuing securities.

(b) **Economical Financing** : Since a large firm generally raises huge amounts of funds, the cost of raising the finance is lower. The fixed expenses required to be incurred for raising

the capital are spread over the large amount of capital. A large firm can also borrow money on lower rates of interest.

(c) Trading on Equity : A large firm can borrow more by issuing debentures carrying lower rates of interest. The benefit of economical financing can be transferred to the equity shareholders.

(d) Ploughing Back of Profits : A large firm can invest a part of its earning into the business every year. This is the most economical method of financing. This will also strengthen the financial position of the firm.

(e) Financing Strength : A large firm is a stronger position to survive during long periods of depression by making use of its accumulated resources.

(f) Stability of Income : A large firm carries on the production and distribution of a number of produces. The loss in one line can be made up by gains in the others. This will also act as an insurance cover against loss in a particular line of production. Only a large firm can survive in case of reduction in the demand of a line of product.

(g) Financial Control Devices : A large firm can appoint financial experts for the administration of finance function. Latest techniques of financial control like budgeting, management accounting etc. can also be employed.

10.6.2(iv) Economies in Marketing: The economies associated with distribution of produces on a large scale are discussed below:

(a) Control Over Distribution : A large firm is in a position to choose the distribution channels because of the popularity of its product. It can even open its own retail depots and provide goods to the customers at lower prices. It can also provide after sales services, home delivery and other services to the customers.

(b) Services of Experts : A large firm can appoint talented sales personnel to organize various areas of marketing.

(c) Advertising : A large firm can spend sizable amounts on advertising because of its higher capacity. Since production is carried on a large scale, advertisement and other sales promotions activities will prove to be economical.

(d) Competition : A large firm can meet competition in the market by quoting competitive prices, carrying on competitive advertising and so on.

(e) Economy in Sells : A large firm sells a number of product lines in large quantities, it can have its own brand names and can popularize them. Because of large scale distribution, the distribution overhead per unit is comparatively less as compared to a small firm.

10.6.3 Disadvantages of large firms: Large firms are not always in a position to reap all the economies of large scale production. They suffer from the following weaknesses.

(i) Large firms tend to be bureaucratic in administration.

(ii) There is lack of personal contact with the customers.

(iii) There are greater business risks because of huge investment. A large firm cannot easily adapt because of the high cost involved in changing from one technique to another technique.

- (iv) There may be problems of effective coordination and control.
- (v) There may be difficulty in getting talented personnel to man various positions.

10.6.4 Evils of Large Firms: The expansion of big firms may lead to the following evils:

- (i) A big business firms may tend to achieve monopoly. Monopoly is bad from the point of view of their business houses and the consumers.
- (ii) A large firm may give rise to concentration of economic power in a few hands. This may lead to oligarchy in the management of the firm.
- (iii) A large firm may exploit the consumers by charging higher prices and by creating artificial scarcity.
- (iv) Big business firm may not allow the small and cottage firms to survive in the market.
- (v) There is a greater possibility of industrial unrest in case of a big firm because of informal contacts between the employer and the employee. A big employer may have a greater tendency to exploit the work- force.

10.7 Small Firms:

10.7.1 Meaning : Since there are many disadvantages and weaknesses of large scale firms which have already been discussed above, many business men prefer to operate on the small scale. Small scale firms also enjoy certain economies as compared to the large scale firms. In addition there are a number of sectors which make the individuals to operate on a small scale. That is why small scale firms have been operating along with the large scale firms in different fields of business activities.

10.7.2 Merits :

(i) Personal Motivation : Business is a traditional symbol of independence. For an enthusiastic wage earner, the alternative of self-employment in a small business is an important morale booster as it means a sense of independence. A small businessman is directly in touch with his business, and can take quick decisions. He is motivated to work harder because of almost direct relationship between his hard work and profits. This factor outweighs the economies of large size.

(ii) Ease of Formation: It is very easy to set up a business on small scale. Less funds are required and less legal formalities have to be observed. The gestation period is also very small.

(iii) Greater Flexibility : A small scale business is more flexible than a large scale business. A small business firm can adapt to changes in fashions and technology very quickly, and reap the advantages of new market and technology. Since the capital investment is small, there will be less wastage in adapting to changes.

(iv) Limited Market : When the market for a product is limited, it is preferable to operate on a small scale. A small scale firm can start production quickly and also adapt itself to changes required due to change in the size and composition of the market.

(v) Introduction of New Ideas or Products : When new ideas or product are to be tried out, it is preferable to start on a small scale because the new idea or product requires sufficient market testing. The management and financial requirements are uncertain and unknown during the initial period of a firm engaged in new products.

(vi) Personal Services to Customers : Where personal services are important from the point of view of the customers, small scale firms are more suitable. In television repairing, interior decorating photography, painting, etc, small firms allow personal contact with the customers.

The proprietors of a small business firm can know their customers and emphasize personal services which may not be possible in case of large enterprise.

(vii) Support to Large Firms : Small firms act as complementary to large firms. It is very common that the large producers or manufacture to get the supply of small components, which they cannot manufacture economically, from the small manufacturer or producers.

(viii) Employment : Small firms use labour intensive techniques and provide gainful employment to a large number of persons. Capital investment is also small. Since labour is easily available, small firms continue to survive even with the help of labour intensive-techniques.

(ix) Social Benefits : Small firms offer large scale employment and help in checking monopoly and concentration of economic power. They exploit the locally available resources and lead to balanced regional development.

(x) State Patronage : In many countries, encouragement by the State is given to the small scale firms. In India, more than five hundred Items have been reserved for the small scale firms. Large scale manufacturer cannot enter in the manufacture of these items. The Government is also providing a large number of facilities to the small entrepreneurs because small firms generate more employment, avoid concentration of economic power and lead to balanced regional development.

(xi) Relations with Employee : There are certain lines of business in which close report with the employees is essential to provide high quality service to the customers. The proprietors of small scale business can know the problems of their employees from daily contacts and can satisfy their workers more easily than the owners of large scale firm.

10.8 Let Us Sum Up : In this lesson we have discussed meaning and determinants of size of business, optimum size and factors determinants. The concepts of large firm and small firm.

10.9 Lesson End Activities :

1. State the measures of size which can be employed in a study of size of business undertakings.
2. Discuss briefly the various factors determining the size of business unit.
3. What is meant by optimum size firm? What factors determines it.
4. Enumerate the merits and demerits of large firm and small firm.
5. What are the factors contributing the survival of small firms in India.

10.10 Model Answers to Check Your Progress :

Question No. 1 Refer Para 10.3

Question No. 2 Refer Para 10.4

Question No. 3 Refer Para 10.5

Question No. 4 Refer Para 10.6 & 10.7

Question No. 5 Refer Para 10.7

10.11 References

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LESSON - 11

SOURCES OF FINANCE

- 11.0 Aims and Objectives
- 11.1 Introduction
- 11.2 Meaning of Sources of Finance
- 11.3 Long Term Sources of Finance
- 11.4 Short Term Sources of Finance
- 11.5 Let Us Sum Up
- 11.6 Lesson End Activities
- 11.7 Model Answers to check your progress
- 11.8 References

11.0 Aims and Objectives : In this lesson we are going to discuss

- Various elements of Long Term Sources
- Meaning and types Preference Shares
- Meaning, Merits and Demerits of Equity Shares.
- Meaning and types of Debentures.
- Comparison of Shares and Debentures
- Sources of Finance for working capital

After reading this lesson you should be able to understand the basic working knowledge of all above-mentioned topics and to answer lesson end activities given at the end of the chapter.

11.1 Introduction : So far we have discussed various concepts such as objectives, form, location, and size of a business organisation. The next step is to think about the sources of funds required for the commencement of business.

11.2 Meaning of Sources Finance : Every company requires funds for investment in the form of fixed capital and working capital. While estimating the need for funds, the period for which they are required is also to be ascertained. Funds may be required for long-term, medium-term and short-term period. It is the period of finance which determines the source or sources of finance to be tapped and the method of financing to be used. The term 'source' implies the agencies from which funds are procured and the method of raising finance is linked with period for which funds are required and it deals with the mode of raising finance.

11.3 Long Term Sources of Finance : It is required for investment in fixed assets like land, building, plant and machinery, and for financing extension programmes. Long-term funds are raised for a minimum period of 10 years. The following are the sources of long-term financing: (a) shareholders; (b) Debenture Holders; (c) Financial Institutions; and (d) Retained Earnings.

11.3.1 Preference Shares :

(i) Meaning : Section 85 (1) of the Companies Act defines preference shares as those which carry preferential rights as to the payment of dividend at a fixed rate either free of or subject to Income Tax, and as to the repayment of capital. Thus, preference shareholders enjoy two preferential rights over the other category of shares. Firstly, they are entitled to receive a fixed rate of dividend out of the net profits of the company prior to declaration of dividend on equity shares. Secondly, the assets remaining after the payment of debts of the company under liquidation are first appropriated for returning the capital contributed by the preference shareholders.

(ii) Types : The preference shares are classified into different types as follows :

(a) Cumulative and Non-Cumulative Preference Shares : The holders of cumulative preference shares are entitled to arrears of dividend on their shares to be paid out of the profits of subsequent years, if in any year the dividend on them cannot be paid. Thus, they are sure to receive dividend on the preference shares held by them for all the years out of the earnings of the company. If in a particular year they are not paid the dividend, they will be paid such arrear in the next year before any dividend can be distributed among equity shareholders. But the dividend on Non-Cumulative Shares do not accumulate if dividend is not paid in any year.

(b) Participating and Non-Participating Preference Shares : The holders of participating preference shares are entitled to a share in the surplus profits if they remain after paying dividend to preference shares and equity shares. Thus, participating shareholders obtain return on their investment in two forms: (i) fixed dividend; and (ii) share in surplus profits. The preference shares which do not carry the right to share in the surplus profits are known as non-participating preference shares.

(c) Redeemable and Irredeemable Preference Shares : Redeemable preference shares are those which in accordance with the terms of their issue, will be repaid on or after a certain date. The preference shares which cannot be redeemed during the life time of the company are known as irredeemable preference shares.

(d) Convertible and Non-convertible Preference Shares : If the preference shareholders are given a right to convert their shares into equity shares within a fixed period of time, such shares will be known as convertible preference shares. The preference shares which cannot be converted into equity shares are known as non-convertible preference shares.

(iii) Merits : The issue of preference shares has the following benefits:

(a) The preference shares attract funds from those investors who prefer safety of their investment and a fixed rate of return on their investment.

(b) The management can retain control over the company by issuing preference shares to outsiders because the preference shareholders have only restricted voting rights.

- (c) Preference shareholders are entitled to a fixed rate of dividend which enable the equity shareholders to get higher dividend.
- (d) Preference shares do not impose heavy burden on the company because they carry a fixed rate of dividend.
- (e) Redeemable preference shares may be issued to bring flexibility in the financial structure of the company as they can be redeemed whenever it is desired.
- (f) A company can raise finance for a long-term without creating any charge over its assets.

(iv) Demerits : There are certain limitations of raising funds by issuing preference shares. The investors may not like these shares because preference shareholders have restricted voting rights only. The issue of preference shares is costlier than the issue of debentures because these shares have to be given a rate of dividend which is higher than the prevailing rate of interest on debentures. The existence of preference shares in the capital structure of a company may also affect credit-worthiness of the company.

11.3.2 Equity Shares:

(i) Meaning : Under the Companies Act, shares which are not preference shares are called equity shares. They are also called ordinary shares. Equity shares provide initial capital on permanent basis to the company. Equity shareholders are the real owners of the company and they bear the risk of business. They get dividend only after the dividend on preference shares is paid out of the profits of the company. At the time of winding up, equity capital can be paid back only after every claim including that of preference shareholders has been settled. Since equity share holders bear higher risk, they also stand a chance of getting higher dividend if the company's earnings are higher. Equity share holders control the affairs of the company as they have voting right in the general body meeting of the company. They elect the board of directors of the company and frame policies of the company in general meeting.

(ii) Merits : Equity shares are regarded as the cornerstone of financial structure of a company as they offer the following advantages:

- (i) Equity share capital constitutes the permanent resources of the company. The company is not bothered by the problem of refunding the capital raised by issuing equity shares.
- (ii) Equity shares do not impose any obligation on the company to pay fixed dividend to their holders.
- (iii) A company with sufficient paid up equity capital is viewed with considerable favour by the lenders.
- (iv) Equity shares do not create any charge over assets of the company. The assets may be utilised as security for further financing.

(iii) Demerits : Equity share capital has certain drawbacks also. If the equity shares are issued excessively, it may result in over-capitalisation which may be difficult to cure. In such a case, the company will also lose the benefit of trading on equity. Since the control of the company is with the equity shareholders, affairs of the company may be manipulated by a powerful group of equity shareholders.

11.3.3 Debentures:

(i) Meaning : Debentures are creditorship securities which provide funds to the company on loan basis rather than on capital basis. A debenture may be defined as an acknowledgement of a debt by a company. The debentureholders are entitled to periodical payment of interest at a fixed rate and are also entitled to redemption of their debentures as per terms of debenture issue. The debentureholders are the creditors of the company. Their rights depend upon the type of debentures issued by the company.

(ii) Types : A company may issued the following type of debentures.

(a) Secured and Unsecured Debentures : Secured debentures represent the fixed or floating charge on the assets of the company. When the particular assets are charged by way of security, it is known as fixed charge. Such debentures are also known, as mortgage debentures. When the charge is created on assets which are of general nature like stock it is called a floating charge. Under floating charge, the company is free to deal with the property forming the subject matter of the charge until the said charge becomes fixed by default of company in paying the interest or some other event stipulated in the deed of charge. Unsecured debentures, also known as simple or naked debenture, do not carry any charge or security on the assets of the company.

(b) Registered and Bearer Debentures : In case of registered debentures, the name of the debenture holder is entered in the debenture certificates and books of the company. They can be transferred by filling in the transfer deed. But bearer debentures can be transferred by mere delivery without any notice to the company. Debenture coupons are annexed with such debenture certificates. The bearers of the debentures can fill in the coupons and claim interest after sending them to the company. But in case of registered debentures, the company pays interest to the registered debenture holders.

(c) Redeemable and Irredeemable Debentures : In case of redeemable debentures, the companies reserve the right of paying off the principal on or after a particular date. In case of irredeemable or perpetual debentures, the company does not fix any date by which they should be redeemed and the holders of such securities cannot demand payment from the company so long as it a going concern.

(d) Convertible and Non-convertible Debentures : The convertible debentures can be converted into equity share of the company after the expiry of a specified period. But non-convertible debentures cannot be converted into equity shares. In the recent years, the practice of issuing debentures which are partially convertible into equity shares has gained momentum.

(iii) Merits : Debentures offer the following advantages:

- (a) Debentures are liked by the investors who give weightage to safety of principal and a continuous fixed rate of income on the principal.
- (b) Debenture holders do not possess voting right. They do not weaken the control of existing shareholders.
- (c) Debentures offer an opportunity to the company to trade on equity and there by increase the return of equity shareholders.
- (d) Debentures provide financial flexibility as they can be redeemed when the company has surplus funds.
- (e) Interest paid on debentures is deductible from the profits of the company for income tax purpose. Thus, the company enjoys tax benefit by issuing debentures.

(iv) Demerits : Debentures are also not free from drawbacks. Debentures require a company to bear a fixed burden of interest every year irrespective of profits earned. If a company does not have stable earnings, this liability will create problems. Debenture holders prefer safety of their investments and so they like secured debentures. A company which is not willing to offer its assets as security may not be able to raise finance by issuing debentures. If the capital structure of a company is loaded heavily with debentures, banks and other institutions do not show a favourable attitude towards the company.

(v) Reasons for Popularity : Despite their limitations, issue of debentures as a method of raising long-term finance is gaining popularity these days. The response of the investors, both individual and institutional, has been encourage because of following factors.

(a) Debentures with more attractive terms, particularly having a convertible clause have been issued. The conversion of debentures into equity shares encourage investor to invest in debentures.

(b) Statutory restriction on the institutional investors like the institutional life Insurance Corporation and industrial Finance Corporation have been relaxed. They can have more debentures in their investment portfolio. Debentures are issued by the flourishing companies also to have the benefit of trading on equity. This has changed the attitude of banks and others towards the companies having issued debentures were considered to be less credit worthy concerns.

(c) Companies prefer to issue debentures because of low cost of financing through debentures. Less formalities have to be observed while issuing debentures. Moreover the interest paid on debentures is allowed as deductible expenditure against the profits of the company.

(d) The development of underwriting facilities has also increased the popularity of debentures.

11.3.4 Distinction Between Shares and Debentures: Bring out the differences between shares and debentures between shareholders and debentures holders.

(i) Shares are a part of the company's capital and as such a shareholder is a part-owner of the company. Debentures, on the other hand, constitute only loan to the company and as such a debenture-holder is only a creditor of the company.

(ii) A shareholder being a member of the company enjoys the right to receive notice of general meeting, the right to attend and vote at the meeting etc. But as per Section 117, no company can issue debentures carrying voting rights. Thus the rights and privileges of membership are not available to a debenture-holder.

(iii) A shareholder can get dividend only when there is profit, and has to forgo it during periods of losses because no dividend can be paid out of capital. Even when there are profits, payment of dividend depends upon the discretion of the Board of directors. But a debentures-holder will get his interest periodically regardless of profits. Directors have no discretion in the matter. This is because interest on debentures is a debt – a charge on the profit.

(iv) The rate of dividend in the case of equity shares depends on the level of profit and the dividend policy pursued by the directors. Therefore it fluctuates from year to year. But debentures carry a fixed rate of interest.

(v) Shares cannot be issued at a discount unless the conditions of Section 79 of the Companies Act are complied with. But there are no such restrictions on the issue of debentures at a discount.

(vi) Debentures are generally secured (they have a charge on the assets of the company). But shares have no such security.

(vii) Shares are non – repayable during the life – time of the company except in the

case of redeemable preference shares, whereas debentures are redeemable either on a fixed date or at the option of the company during its life time itself. Even in the case of irredeemable debentures, they become immediately repayable when the company makes default in the payment of interest.

(viii) A company cannot purchase its own shares in the normal course (Sec. 77) (except for capital reduction purposes as per the Act or under the order of Court to prevent oppression). But a company can purchase its own debentures either for cancellation or for keeping them as investment.

11.3.5 Retained Earnings :

(i) Meaning : Retained earnings are an important source of internal financing company used by established companies. Retained earnings act as a stabilizer in the capital structure of a firm. It enables the firm to face the fluctuations whether seasonal or due to working of trade cycle. It is an important source of working capital also. The process of accumulating corporate profits gradually and utilization business is technically termed as retained earnings or internal financing. As such, it emanates from profits not distributed to the share-holders in the form of dividends. Such earnings can be retained in the business either in the form of credit balance of profit and loss or in general reserves, etc. This policy of using retained earnings in the business is generally known as 'Internal Financing', 'Self-Investment', 'Self Financing', 'ploughing back of profits', etc. The retained earnings, in the long run, at the option of the management, can be converted into the permanent capital of the firm. This process is known as 'Capitalization of Profits' or 'Issuing of Bonus Shares'.

(ii) Determinants of Ploughing Back of Profits or Internal Financing:

Saving of a corporate body is highly influenced by numerous factors. Some are as follows:

(a) Total Earnings of the Enterprise: The question of saving can arise only when there are ample profits. Profit is determined by various factors as-demand and supply of the goods and services produced, cost of production, technique use, quality of management and employees, position of raw materials and labour force and government attitudes and policies. So larger the earnings larger the savings, it is a common principle and it can be supported by Psychological law of Consumption put forth by famous economist J.M. Keynes. Again, it is subject to the philosophy and attitude to top management.

(b) Taxation Policy of the Government : The report submitted by Taxation Enquiry Commission has brought into light that taxation policy of the Government tells upon it the taxes are levied at high rates. Hence, it is also an important determinant of corporate savings.

(c) Dividend Policy : It is policy adapted by the top management (board of directors) in regards to distribution of profits. A conservative dividend policy is essential for having good accumulation of corporate savings. But, dividend policy is highly influenced by the income expectation of shareholders and by general environment prevailing in the country.

(d) Government Attitudes and Control : is not only a silent spectator but a regulatory body of economic system of the country. Its policies, control order and regulatory instructions-all compel the organizations to work in that very direction for example compulsory Deposit Scheme which had been in force. From July 1995 to May 1977 affected the capital formation capacity to a large extent.

(e) Other Factors : Other factors affecting the retained earnings are:

- (a) Tradition of industry.
- (b) General economic and social environment prevailing in the country.
- (c) Managerial attitudes and philosophy, etc.

(iii) Merits: This method of financing has proved to be the most useful method not only for Indian Companies but also to big companies the world over. These can be profitably employed for expansion arrangements, replacement and to withstand seasonal reactions and business fluctuation. This practice can be analysed from three classes point of view-companies, shareholders and society.

(a) Best and Cheapest Source of Finance : Retained earnings are an important source of financing. Using retained earning for expansion is the best and free of cost source of financing for companies, because there is no immediate pressure to pay a return on this portion of the stock holders equity. Expansion for retained earnings also has the advantage of avoiding the cost of investment banker's services that would be in current stock or bonds were sold to the public.

(b) Stable Dividend Policy : Company can follow a stable dividend policy if earnings are retained in the business. In the periods of short points the management can use retained earnings to pay uniform dividend. It acts as a cushion to absorb shocks of business hazards. It creates greater residency power for the industry to face depression.

(c) Increase in Efficiency : The retained earnings increase the operating efficiency of the concern. The deficiencies of depreciation, depletion and obsolescence can be made up by utilising the retained earnings.

(d) Increase in Morale of Management : The policy of retained earnings boosts up the morale of the management. The decisions relating to the expansion and replacement, etc., can be taken boldly.

(e) Safety from Trade Cycles : It creates necessary funds in the business to provide safety against the trade cycles. It maintains the liquidity of funds and working capital.

(f) Increase in the Credit-Worthiness of the Firm : It enhances the credit-worthiness of the company because it increases the owner's equity. Lastly, the retained earnings can also be used for retiring the bonds or debentures or for redeeming the debts, the company can thus be relieved of the fixed burden of interest charges.

(g) Increase in the Value of Share : Thought in the short run they lose dividend but in the long run, though retained earnings the market value of their shares goes up and then they can take advantage of it by selling shares at high prices.

(h) Increase in Equity: The retained earning increase the amount of equity in the company. They are provided an opportunity of having their investment secured against the business variations. They gain from the enhanced credit standing of the company also. The practice of retained earnings fetches them a reasonable return without causing them hardship.

(i) Increase in the Collateral Value of Share: The policy of retained earning increase the value of their securities as collateral enables them to borrow at better terms.

(j) Capital Formation: The policy of retained earnings increases the rate of capital formation in the national economy as it is a major instrument of corporate savings. The rate of financial system of the country improves resulting in supply of cheap capital for the balanced Industrial growth.

(k) Increase in Social Welfare: The use of retained earning helps the allocation of national resource in the most desirable channels. It contributes towards national prosperity, stability, growth and expansion. The use of retained earning by newly successful small business helps removing disparities and ensures equitable distribution of wealth.

(iv) Demerits : The policy of self financing is not unmixed blessing. It is just like double-edged sword. It should not be carried too far as the policy of excessive ploughing back is detrimental not only to the interest of corporate management and shareholder but also to the whole nation. Following are some apparent disadvantages of the policy:

(a) Danger of Monopoly : The policy of retained earnings helps the big firm to grow bigger and it may lead to the monopoly. It restricts the proper use of limited financial resources of an economy.

(b) Fear of Over-Capitalisation : Accumulation of profits and then capitalizing them may result in over-capitalisation of a company. An over capitalized company cannot make efficient and economical use of capital. Thus, it leads to waste of capital. The management may also be tempted to misuse the funds.

(c) Loss of Shareholders : In the pretext of ploughing back of profits a discriminatory dividend policy can be followed by the management. The presence of enormous accumulated earnings provides a greater scope to the management in the value of shares by keeping the rate of dividend low. It is also not possible always that the savings will be used by the firm the best interests of its share-holders.

(d) Misallocation of Capital : The policy of retained earnings brings about the misallocation of capital among firms which is not good firm social point of view also. It may be quite possible that a firm having sufficient retained earnings may not have any expansion plan while on the other hand, a sound project may starve for capital.

11.3.6 Public Deposits :

(i) Meaning : Now a days, public, deposits have become an important source of raising finance for the private sector and public except sector companies. Prior to independence, the practice of receiving public deposits was prevalent mainly in Cotton Industry of Mumbai, Ahmedabad and Sholapur and Tea Gardens of Assam and Bengal. It gained importance because of lack of adequate banking facilities at the time. But during the last decade, it has become popular with of the Indian industries due to various reasons. Public deposits are term deposits made by public with companies of 1/2 or 3 years. Under this method, the general public is invited to deposit their savings with the company for varying periods or rates of interest which are higher than those allowed by commercial banks. Companies generally received public deposits for different periods ranging from 6 months to 3 years. Depending upon the period of deposits and reputation of the company. The terms of deposits are mentioned in the 'Deposit Receipt', an acknowledgement of debit by the company.

(ii) Merits : The method of financing through public deposits has the following advantages from the firm's point of view.

(a) It is economical source of finance as the company receives funds at lower rates of interest as compared to rates charged by banks.

(b) Since public deposits are received at lower interest rates, they help in trading on equity. The company can pay higher dividends to their shareholders and thus raise its reputation.

(c) The company need not provide any security against the public deposits. Thus it can use the assets for raising secured loans from other sources.

(d) Financing through public deposits does not hamper the control pattern. The depositors cannot interfere with the internal management of company as depositors are not entitled to vote.

(e) The cost of administering public deposits is also low. The company has to fulfill less formalities as compared to issue of shares and debentures.

(f) It is a good source of medium-term and short-term financing. Public deposits are good source of providing working capital.

(g) Acceptance of public deposits brings flexibility in capital structure of a firm if they can be repaid soon (in one, two or three years).

(iii) Demerits : The method of raising finance through public deposits have some limitations also. For instance, this method is not dependable, as it is difficult to predict whether public deposits would be forthcoming to the desired extent. Such deposits are termed as fair weather friends. The depositors may not respond when the conditions in the economy are uncertain. Depositors may think it better to deposit their savings with the banks. They may even withdraw their funds when they visualize, even on false grounds, the shaking position of the company. Moreover, such deposits are generally available for a short period and they cannot be used for financing long-term requirements. In India, public deposits can be raised for a maximum period of three years only.

11.4 Short Term Sources of Finance :

11.4.1 Meaning : Short term funds are required for meeting working capital requirements of business enterprises. These funds are usually required for a period of less than one year. They are managed from sources which can provide funds only for short period, quickly and at reasonable cost. In present time, the requirements of these funds are usually met by taking short-term loans or getting the bill discounted from the commercial banks. The important sources of short term finance available to business are explained.

11.4.2 Trade Credit : Credit is the soul of business. Without credit no business can be run. Trade credit financing is a short term financing common to almost all businesses. It is one of major spontaneous sources of short term financing. It may be of three types: open account, bills payable and trade acceptances. Each of these source results from normal business operations and their magnitude is primarily a function of the activity level of a company. For example, if the firm's sales increase, accounts payable also increase in response to the increased sales. The open account arrangement is the most common method of obtaining trade credit. In this case, the buyer does not sign a formal debt instrument evidencing the amount he owes to the seller. Trade creditors for supplies, sundry creditors are the common nomenclatures that are used for it. In case of bills payable, the buyer is asked to sign a promissory note or accept a bill of exchange that evidences his debit to the seller. The trade acceptance is also a kind of trade

credit almost similar to bills payable. In this case also the buyer formally recognizes his indebtedness to the seller. Trade credit is an important source of short-term finance. It is an important constituent of current liabilities. Trade credits increase with production and bear a close relationship to the volume of trade. The magnitude of its financing depends on purchasing plans production cycles, etc., of the unit. There are several advantages of trade credit. The major advantages are:

- (i) Ready availability
- (ii) Absence of any formal agreement,
- (iii) Flexibility in financial structure,
- (iv) Lack of rigidity in relationship, and
- (v) Zero cost normally.

11.4.3 Installment Credit: Business firms may get credit from equipment suppliers. The supplier may allow the purchase of equipment with payments extended over a period of 12 months or more. Some portion of the cost price of the asset is paid at the time of delivery and the balance is paid in a number of instalments. The supplier charges interest on the instalment credit which is included in the amount of instalment. Sometimes, instalment credit is granted by financial companies or commercial banks which have special arrangements with the suppliers. Equipment may also be supplied on hire purchase basis. Under this system the ownership of the equipment remains with the supplier until all the instalments have been paid by the buyer.

11.4.4 Accounts Receivable: Under this arrangement, the accounts receivable of a business concern are purchased by a financing company or money is advanced on security of accounts receivable. The finance companies usually make advances up to 60 per cent of the value of the accounts receivable pledged. The debtors of the business concern make payment to it which in turn forwards to the finance company. If there is any bad debt, it is to borne by the business concern itself.

11.4.5 Customer Advance: A firm may meet its short-term financial requirements by taking advances from customers. It happens some time that manufacturer or seller of goods receivable part or full payment of the goods in advance. This amount remains with the seller till the goods are not delivered without any interest. Hence, it important to note that only that business firm can take advantage of this facility having business prestige in the market

11.4.6 Bank Credit: The commercial banks in India have been established as a joint-stock company mostly modeled on the lines of the British Banks which are purely commercial in nature. Due to short-term nature of deposits and limited financial resources these banks abstained themselves for a pretty long-time for industrial financing. Before independence of India, their main contribution to industrial sector was the provisions of short-term credit just to finance its working capital requirements. However, after independence and nationalization, the frontiers of their working have amply enlarged and Commercial banks have started to play leading role in this direction. Banks have become the primary source for financing working capital of industrial houses in India now-a-days. In India the primary sources for financing working capital are trade credit and short-term bank credit. According to an estimate, both these sources together finance about three fourths of the working capital requirements of industry. The Commercial banks provide short-term credit to the companies in the following ways:

(i) Loan Arrangement of Cash Loan : Under this arrangement the entire amount of loan is creditors by he bank to the borrower's a. In case the loan is repaid. In case the loan is repaid instalments, interest is payable on actual balances outstanding.

(ii) Overdraft Arrangements : A client company having a current with the bank is allowed overdraft facilities in times of need also. With the overdraft on his current with the bank up to stipulated limit. Within this limit any number of drawings is permitted. Repayments can be made wherever desired during the period. The interest liability of the borrower is determined on the basis of the actual utilised or overdraft.

(iii) Cash Credit Arrangement : It is also a popular form of financed assistance. This form of credit is operated in the same way as the overdraft arrangement. The borrower can draw up to a stipulated limit based on the security margin. He has to pay 1% as commitment charges on the unutilized balance during the period. Cash credit is usually allowed against pledge or hypothecation of goods and the borrower can provide alternative securities from time to time in conformity with the term of advance

(iv) Bills Purchased and Bills Discounted Note : Method of bank accommodation is discounting of bills. This arrangement is of relatively recent origin in India. With the introduction of the new Bill Market Scheme in 1970 by the Reserve Bank of India, bank credit is being made available through discounting of bills by banks. In brief, under the scheme, the Reserve Bank of India envisages the progressive use of bills as an instrument of credit as against the current practice of using the widely-prevalent cash credit arrangement for financing working capital by the cash credit and overdraft limit. Before discounting the bill the bank satisfies itself about the credit scheme, the discount rates are fixed at lower rates than those of cash credit, the difference being about 1-1-5%. The discounting banker asks the drawer of the bill (i.e., seller of goods) to have his bill accepted by the drawers (buyers) bank before discounting it. The latter grants acceptance against the cash credit limit, earlier fixed by it, on the basis of the borrowing value of stocks.

(v) Hypothecation : Under this mode of security, the banks provide credit to borrowers the security of movable property usually inventory of goods. The goods hypothecated, however, continue to be in the possession of the owner of these goods i.e., the borrower). The rights of the lending bank (hypothecated) depend upon the terms of the contract between the borrower and the lender, although the bank does not have physical possession of the goods, it has the legal right to sell the goods to realize the outstanding loan.

(vi) Pledge : Pledge, as a mode of security, is different from hypothecation is that in the former, unlike in the latter, the goods which are offered as security are transferred to the physical possession of the lender. An essential pre-requisite of pledge, therefore, is that the security is, called a "Pawnor" while the bank is called the "Pawnee". The lodging of the goods by the Pawnor to the Pawnee is a kind of bailment. Therefore, pledge creates some liabilities for the bank it must take reasonable care of goods pledged with it.

(vii) Lien: The term lien refers to the right of a party to retain goods belonging to another party until a debt due to him is paid. Lien can be of two types: (i) particular lien, and (ii) general lien. Particular lien is a right to retain goods until a claim pertaining to these goods is fully paid. On the other hand general lien can be applied till all dues of the claimant are paid. Banks enjoy general lien.

(viii) Mortgage : It is the transfer of interest in specific immovable property for securing the payment of money advanced. The person who parts with the interest in the property is called mortgagor and the person in whose favour the transfer takes place is the mortgagee. Mortgage is, thus, conveyance of interest in the mortgagor property. The mortgage interest in the property is terminated as soon as the debt is paid.

(ix) Charge : Where immovable property of one person is by the act parties or by the operation of law made security for the payment of money to another and the transaction does not amount to mortgage, the latter person is said to have a charge on the property and all the provisions of simple mortgage will apply to such a charge.

11.5 Let Us Sum Up : In this lesson we have discussed various sources of finance both long term and short term in details.

11.6 Lesson End Activities :

1. Briefly describe the various methods of raising of long term finance in India.
2. What is meant by preference shares and what are its various types?
3. Enumerate the merits and demerits of Preferences Shares.
4. What is meant by debentures and what are its various types?
5. What are the various sources available for working capital needs in India?
6. Write short note on :
 - (i) Advantages of Equity Shares ;
 - (ii) Reasons for popularity of debentures in India.
 - (iii) Differences between shares and debentures
7. What are the factors determining the amount of source of retained earnings?
8. Discuss the role of commercial bank in financing short term financial need.

11.7 Model Answers to Check your Progress :

Question No. 1 Refer Para 11.3

Question No. 2 Refer Para 11.3.1

Question No. 3 Refer Para 11.3.1 (iii) & (iv)

Question No. 4 Refer Para 11.3.3

Question No. 5 Refer Para 11.4

Question No. 6 Refer Para (i) 11.3.2 (ii) 11.3.3 (v) (iii) 11.3.5 (ii)

Question No. 7 Refer Para 11.3.4

Question No. 8 Refer Para 11.4.6

11.8 References

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UNIT - III

LESSON - 12

OFFICE FUNCTIONS AND SIGNIFICANCE

- 12.0 Aims and Objectives
- 12.1 Introduction
- 12.2 Meaning of an Office
- 12.3 Definition of an Office
- 12.4 Characteristics of an Office
- 12.5 Requisites of an Ideal Office
- 12.6 Importance of an Office
- 12.7 Nature of an Office Functions
- 12.8 Functions of an Office
- 12.9 Types of Office
- 12.10 Size of an Office
- 12.11 Let Us Sum Up
- 12.12 Lesson End Activities
- 12.13 Model Answers to check your progress
- 12.14 References

12.0 Aims and Objectives : In this lesson we are going to discuss

- Meaning, Definition, Features of an Office.
- Nature and Elements of Office functions
- Various types of offices

After reading this lesson you should be able to understand the basic working knowledge of all above-mentioned topics and to answer lesson end activities given at the end of the chapter.

12.1 Introduction : The structure of modern business has become very complex owing to increased number of business transactions. This has led to the establishment of a number of departments such as purchasing, production, sales, accounting, financing, personnel and so on. To facilitate these departments to function efficiently and economically, there arises a need to coordinate the activities of all these departments. This is ensured by establishing a separate department in a business known as office. An office occupies the central position in a modern business. Therefore, it is rightly said that an office is the nerve centre of the whole undertaking.

12.2 Meaning of an Office : In simple terms, an office is a place where some business is transacted or services are provided. It may be defined as a central place where all types of clerical work are done and all kinds of papers (letter, correspondence, files, records, etc.) are maintained to coordinate and control the affairs of the organization as a whole.

12.3 Definition of an Office : Office work is concerned primarily with the records of the enterprises making records, using records and preserving them for future reference. The office is the administrative centre of a business. The purpose of an office has been defined as the providing of a service of communication and record. Office is a unit where relevant records for the purpose of control, planning and efficient management of the organization are prepared, handled and preserved. Office provides facilities for internal and external communication and coordinates activities of different departments of the organization. An office is a place where the control mechanisms for an enterprise are located; where records are initiated for communication, control and efficient operations of the enterprise. An office is the place where work in connection with the preparing and furnishing of information is done. The acts of collecting, processing, storing and distributing information comprise the functions of the office.

12.4 Characteristics of an Office : On an analysis of the above definition of office, the following features become evident :

(i). Location : An office is established in a particular locality so as to coordinate the functions of various departments of a business. Several factors affect the selection of an appropriate locality for establishing an office. This is discussed in a subsequent chapter separately.

(ii) Accommodation : Spacious accommodation is required for carrying out the functions of office smoothly. Provision of sufficient accommodation requires careful layout of office building.

(iii) Departmentation : A modern office performs a number of activities relating to the business. All activities of the office cannot be performed by the same people. The activities are grouped under different types and assigned to people working under different departments. This facilitates specialization in office.

(iv) Work Conditions : For increasing the efficiency of the office staff and to meet statutory requirements, it is necessary to provide good working conditions such as lighting, ventilation, air-conditioning, etc.

(v) Clerical Staff : Owing to increased volume of office work, we come across several types of clerical staff in an office. The clerical staff in a large sized office may be classified into (a) office superintendent who relieves office manager from supervising routine office work, (b) clerks of various grades such as first division clerk and second division clerk, (c) private secretary to assist office manager and (d) typist.

(vi) Equipment : To increase the speed of the office work, the office is equipped with modern office appliances and equipment like computers and fax.

(vii) Information Service : The office is rightly described as a producer of information. The office is responsible for the effective flow of information through appropriate channel to all level of management. In the words of George R. Terry in Office Management and Control man's greatest tool today is information...information is required by all members of an enterprise. Retaining, analyzing and furnishing the appropriate type of information for

various purposes to various people and from time to time is one of the important objectives of a modern office.

(viii) Organization : With a view to achieve the above object, an office is to be organized on a systematic basis. Clear cut relations are to be established between superiors and subordinates. The duties and responsibilities of every staff must be clearly laid down.

12.5 Requisites of an Ideal Office :

- (i) To maintain a good flow of work without any bottlenecks.
- (ii) To prevent duplication of work and records.
- (iii) To ensure movement of staff to the minimum.
- (iv) To prevent unnecessary correspondence.
- (v) To divide the work among staff so as to derive the benefit of specialisation.
- (vi) To keep paper work to the minimum.
- (vii) To apply the principle of management by exception.
- (viii) The exceptions to the rules must be kept at minimum.
- (ix) To prevent unnecessary checking of records and documents.
- (x) To use modern office appliances to reduce monotony in office work.

12.6. Importance of an Office : The modern commercial office is an indispensable department of every business undertaking may it be big or small, trading or manufacturing. The office exists to provide clerical services needed by all the departments of a business unit. In fact, without an efficient and well organized office, business activities can not be carried on systematically and efficiently. Professor Dicksee has aptly said that “the office is to a business what the mainspring is to a watch”. The importance of office will become evident from the following:

(i) It Helps in Identification of Business : In undertakings such as bank, insurance companies, etc., office is identified with business. Office enables the investors, customers, public, government, tax authorities, to deal with business undertakings. For enquiries, complaints, etc., people visit only the office but not other departments of the business.

(ii) Facilitates Preparation of Records and Report : The formulation of business policies to a large extent depends upon the reports and records which reflect the success or failure of the business. Management requires information in the form of reports frequently. Some such reports are prepared weekly and some monthly. It is in the office; such records and reports are prepared and furnished to the management. So, office serves as a store room of all records which serves as the basis for the preparation of reports.

(iii) Aids Management in Carrying Out its Functions : It is through office, managerial functions such as planning, organisation, coordination and control are performed. In the words of Leffing Well and Robison “a well organised office makes it possible for management to plan its operation intelligently, to put its plan into effect surely, to follow their progress currently, to determine their effectiveness promptly, to appraise the results without delay, and to coordinate all the activities of the business”.

(iv) It Provides Employment Opportunities : With the increase in the size of business, the office work also increases. To cope up with the increased office work, more number of office staff is required. Thus, existence of office department provides gainful employment opportunities to many people.

12.7 Nature of an Office Functions : The nature of an office function in a business can be discussed as follows.

(i) Office Occupies Primary Position in a Business : In olden days, the position of office in a business unit was considered to be secondary in importance. The primary position was assigned only to production departments. The traditional view with regard to the nature of office work was that of non-productive. This is so because office work is not directly concerned with production of goods or services. When a clerk records the entries in a book, it does not involve in the production of goods or services directly. Therefore, it was considered that office staff belongs to the category of non-producers. But in modern days the office staff is treated on par with producers of goods. Although they do not actually engage in the production of goods directly, they help the production to continue. To identify the product for the office-worker, we must look beyond the particular piece of work done and consider the result that is accomplished. If there is no result, there is no product just as rejected manuscript ceases to be a product when it cannot serve as raw material for furnished product (i.e., book) for which it is intended. In this context, the office staff is non-producers. On the other hand, if a useful result is accomplished, i.e., where the work of office staff is used in subsequent stages as raw materials for desired results, then office staff constitute producers. This is justified as economists say any agency that contributes to production is production in the economic sense of the term. However, the following conditions must be fulfilled to consider office work as productive work: (a) The result must be anticipated and believed to be advantageous. (b). It must make possible the performance of one of the primary functions of business. (c). It must do this economically, i.e., at a cost which that function can bear.

(ii) It is Complimentary to the Business : The modern commercial office is inevitable for the efficient functioning of a business. Today's business, with the existence of a number of departments is ever expanding. There arises a needed to coordinate the work of all these departments and this task is performed in the office through a network of office staff. A business unit without an office is incomplete by itself. The establishment of an office makes the business unit a complete undertaking.

(iii) Office Job is an Art : An art refers to a performance aspect requiring a certain skill and so is an office job. It is a place where several staff and clerks are engaged to perform various jobs such as recording, filing, accounting, typing and so on. The performance of all these types of jobs requires basic skill which is to be possessed by office staff. Above all, job also implies the art of getting the work done through the subordinates by the superiors.

(iv) Office Management is a Discipline : The study of office organisation at one time was considered to be a part of the study of business organisation. At one time was considered to be a part of the study of business organisation. But today it is considered to be a separate discipline by itself. It is a branch of knowledge which involves the application of the modern principles of management to office department in order to carry out its function efficiency.

(v) Office Management is a Profession : The profession of office management is as old as the history of business. But in recent times the profession of office management has assumed greater importance. This is partly because of the specialisation of office function on one hand and the aspirations by many unemployed youth for the office job on the other hand. Recognizing the importance of this profession, many universities and private institutions are offering courses in office management. Some courses are offered as full time courses and others on part time basis. These courses have attracted many young boys and girls, expecting a job opportunity in the office of many business organisations.

12.8 Functions of an office :

12.8.1 Primary Functions : The functions of an office is mainly concerned with the recording of the business transaction, i.e., making, using and preserving records for future reference. Some of the records and books are to be statutorily maintained as per the requirement so far while other records are maintained to meet the needs of management. The primary functions of an office are :

(i) Receiving Information : Receiving information relating to the business from various sources is the major function of an office. An office receives information either from internal source or from external source. Information received from internal source is from the departmental heads and from other levels of management. The chief forms of such information are reports, letters and telephone messages, Customers, Suppliers, government, tax department, and investors constitute the external source from which information is received. Information from external source taken the form of letters, orders, invoices, enquiries, telegrams, etc.

(ii) Recording Information : Having received information from various sources and in different forms, the second primary function of an office is to record them in appropriate books. The first step in recording the information is to sort them out. Then, it involves entering the information in ledgers concerned as, for example, all orders received are recorded in an order book, all communication relating to enquiries in an enquiry book and so on. This helps not only in easy identification, but also enables quick reference. Recording of information is also obligatory for meeting legal requirements.

(iii) Processing Information : Usually the information received by an office is not in a form which can be used directly by the management for decision making. Therefore, it involves arranging and processing the information systematically by trained staff. Very often it may involve calculation, condensation and simplification which meet the immediate requirements of management. Instances of processing information relates to costing report, statistical statements, financial statements and other reports of performance in the business.

(iv) Retrieval of Information : The office provides such information to the management as and when needed from its records. The information to be provided may be of routine nature or special nature and it may be verbal or in writing. Examples of information provided by office are orders, estimates, invoices, progress reports, financial statements and instructions issued on behalf of management.

(v) Protecting Assets : This involves safeguarding the assets of the business. By far the most important intangible assets to be protected by an office are the business secrets. The other asset to be safeguarded is cash. Surplus cash which is not required for immediate use is to be deposited in the bank. Necessary steps must be taken to collect outstanding debts and minimize bad debts. All the valuable assets must be insured against probable risk of loss. Contract deeds must likewise be properly protected.

(vi) Arranging Funds : If the business undertaking happens to be a public limited company, the office has to arrange for funds by the issue of shares, debentures, public deposits, etc. It must arrange for payment of dividend and interest thereon.

12.8.2 Secondary Functions : The secondary functions arise in course of business and are incidental to primary function. These functions may be classified as following :

(i) Communication : Communication constitutes the core of the secondary function of the office. The office deals with two types of communication, viz., internal and external. The internal communication takes place between the management and individuals within the

business through conference, interviews, telephone calls, instructions and circulars. The external communication takes place between the business enterprise and outsiders through letters, telephone, telegrams, orders and so forth.

(ii) Computation : This function involves ascertainment of cost incurred in manufacturing goods, checking the invoices, computation of wages and salaries payable to employees and assessing the value of by-products, wastes and scraps obtained in the production process.

(iii) Statistical Work : The statistical work in an office comprises of classifying, analyzing, summarizing and interpreting the report. It involves the preparation of comprehensive report accompanied by charts and diagrams as a recommendation for prompt action.

(iv) Planning and Scheduling : The planning function of office is concerned with determining what is to be done, who is to do it and where it is to be done. Scheduling is concerned with the time at which the events planned are to take place, i.e., both planning and scheduling functions are based upon records.

(v) Coordination and Direction : One of the functions of office is to coordinate the working of other departments by issuing necessary directions from time to time. This increases the overall efficiency of business enterprise.

(vi) Supervision and Control : Office is also concerned with supervising the work performed in various departments and maintain pace of work in those departments which lack efficiency. This is ensured through control techniques.

12.9 Types of Office :

An office can be classified into the three types on the basis of function, location and requirement by law. The following chart depicts the types of office.

12.9.1 On The Basis of Function : On the basis of function performed by an office, it can be classified into two types. Head Office and Branch Office. A big business will have a number of branches spread over different places. The head office is an office which coordinates the work of all such branches established in different localities. The parent establishment is known as head office and its off-shoots are turned as branch offices. The best examples of a business which follows this type of classification are banks in our country which function with a net work of several branches spread all over the country.

12.9.2 On The Basis of Location : On the basis of location, office can be classified into two types : regional office and local office. A regional office is set up at the regional level to look after the business of that region. Indian Railways offer an example for this basis of classification where in it has eight zonal or regional offices. A local office confines its business to the local area where its operations are carried out.

12.9.3 On the Basis of Legality : According to the provisions of company Act every joint stock company must necessarily have a registered office to enable those interested in a company to communicate with it. A registered office may be established in a place other than actual place of business. An administrative office is situated to carry out the control and supervisory business near the place of business.

12.10 Size of an Office : Very often it is felt that an office is necessary only for a large sized business concern, but not for a small one. The reason is that modern business makes use of different types of office equipment which are needed for a large sized business. But this argument is not correct. Firstly, in modern days, hand operated machines are manufactured

and made available to suit the requirements of small business. By using this equipment the efficiency can be maintained in office. Secondly, most of the functions which are to be performed by a large sized business are also common to small sized business, so the degree of mechanization and number of equipment can be minimized in a small business but office as such cannot be dispensed with. Thirdly, at one time, office equipments were considered very costly and they were thought to be luxury to a business. But in modern days these equipment have become ordinary and are within the reach of most of the small businesses.

Measurement of the size of office : The size of an office depends upon the nature and organizational set up of a business. The following denominators are used to measure the size of business :

(i) Number of Office Staff : The number of employees working in an office serves as one of the basis to measure the size of an office. Larger the number of employees, larger is the size of office and vice versa. But the presence of a large number of less efficient workers as compared to more efficient ones will not provide the correct basis for measuring the size of the business.

(ii) Investment Made on Office Appliances : The capital invested on modern office appliances serves as another basis for measuring the size of office. Usually a large sized office alone can afford to invest huge amount on these office equipments. Hence, this offers a good basis for measuring the size of business.

(iii) Payroll : This serves yet another basis for measuring the size of office. But in some business, mechanical-office work is simplified to a large extent by using mechanical equipment in place of manual labour in which case the salary bill may be less. However, this will not serve as a correct index to measure the size of an office.

(iv) Total Administrative Expenses : The expenses incurred in maintaining office and administration department offer a basis for measuring the size of the office. But then the question of rented office pose problems as huge amount of administrative expenses are in the form of rent. So unless the ownership of office building is acquired this cannot offer a correct basis for measuring the size of an office.

12.11 Let Us Sum Up : In this lesson we have discussed meaning, nature, function and types of office.

12.12 Lesson End Activities :

1. What is an office ? What are its characteristics ?
2. What are the requirements of an ideal office?
3. Briefly explain various functions of an office.
4. Discuss various types of offices.

12.13 Model Answers to Check your Progress :

Question No. 1 Refer para (12.2 & 12.4)

Question No. 2 Refer para (12.5)

Question No. 3 Refer para (12.8)

Question No. 4 Refer para (12.9)

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LESSON - 13

OFFICE MANAGEMENT

- 13.0 Aims and Objectives
- 13.1 Introduction
- 13.2 Meaning of Office Management
- 13.3 Scope of Office Management
- 13.4 Steps in Scientific Office Management
- 13.5 office Manager
- 13.6 Process of Organising an Office.
- 13.7 Let Us Sum Up
- 13.8 Lesson End Activities
- 13.9 Model Answers to check your progress
- 13.10 References

13.0 Aims and Objectives : In this lesson we are going to discuss

- Meaning, and Scope of Office Management.
- Steps in Office Management
- Qualities and Duties of an Office Manager

After reading this lesson you should be able to understand the basic working knowledge of all above-mentioned topics and to answer lesson end activities given at the end of the chapter.

13.1 Introduction : Office management is that phase of management which is concerned with the application of the Principles of Management to the communication problems of business. It is an inseparable branch of Management as it exists not for itself, but to serve the needs of other departments of business. Further, those who are concerned with office management are also concerned with the overall operations of a business. Office management is the planning, organizing and controlling of records by the administrators of an organisation. Hence, it forms a part of general administrative management. Office management implements the policy of a business through various departments and hence it is a service and facilitating division of Business Management.

13.2 Meaning : Wyle and Brecht in their book office Organisation and management define office management as “the manipulation and control of man, methods, machines and materials to achieve the best possible results of the highest possible quality with the best possible effort and expense in the shortest practicable time and in a manner acceptable to the top management.

13.3 Scope of Office Management : The scope of office management refer to the areas of study included in this subject. The following topics fall under the purview of office management:

(i) Office Planning and Layout : A careful planning and layout of office is necessary for securing maximum efficiency and economy. This topic deals with three aspects, viz., (a) selecting an appropriate location for setting up an office (b) making suitable arrangements for providing physical facilities such as lighting, ventilation, air conditioning and (c) designing the layout of office so as to utilize the available space to the fullest extent.

(ii) Office Organisation : Office organisation is concerned with classifying the various office jobs, assigning them to the concerned staff, fixing the responsibilities on the executives, departmentation of office premises for securing specialisation, coordinating the efforts of all personnel so as to avoid confusion in the office.

(iii) Office Furniture and Equipment : Good office furniture and equipment enables smoother and speedy functioning in the office. Systematic arrangement of office furniture enables less movement of staff, effective supervision, and increases the efficiency of office staff. The use of modern office equipment has considerably reduced the stress and the strain on the part of office staff. The installation of computers has made office job more interesting and lucrative.

(iv) Office Communication and Correspondence : Communication refers to the act of conveying information or giving instructions. Communication may be internal or external. The chief modes of communication are oral, written and visual. Office correspondence is mostly concerned with establishing relationship between the office and outsiders. The organisation of correspondence department, drafting correspondence and mailing them are the important activities which fall under this topic.

(v) Records Management : By far, the largest proportion of time in the office is spent on recording. Records management is concerned with preparing and preserving new records and destroying the old records once they serve the purpose for which they were meant. The chief areas of study here include filing system, indexing, micro filing and information retrieval.

(vi) Personnel Administration : This area of office management is concerned with selection, training, placement, fixation of salaries, control of labour turnover, personnel counseling, personnel safety, implementing benefits to employees, dealing with office trade unions and personnel research.

(vii) Office Systems and Procedures : Office system refers to a network of procedure developed according to an integrated scheme for performing an activity of an office. Office procedure is a sequence of clerical operations, usually involving several staff in one or more departments established to ensure uniform handling of a recurring function of an office. To ensure whether systems and procedures are properly adopted, the technique of O & M is applied in modern offices. O & M is the scientific checking of the efficiency of office work.

(viii) Office Control : Office control ensures whether performance of work in office is as per the schedule. It is also concerned with quality control and cost control aspects of office.

13.4 Steps in Scientific Office Management : Scientific Office Management is the science of management which is applied to the office practice and procedure. In olden days, much of the office work was performed without applying the scientific principles of management. Consequently, it resulted in considerable waste of time and energy. Scientific management, when applied to office management involves the following steps.

(i) Stating the Problem and Defining the Purpose : The first step involved in the scientific office management is to find out clearly, definitely and specifically the work to be undertaken

and its purpose. The office manager has to find out the answers for the questions such as, what is his work?. What is its purpose? What results are desired so as to complete the work satisfactorily? Unless the problem is properly defined and its purpose stated, the office manager may spend too much of time to complete it. This is based on the maxim “a problem well stated is half solved”.

(ii) Analysing the Problem : literally, ‘analysis’ means the splitting of account thing into its constitute parts of elements. So, analysis of a problem means to find out its elements through organised thoughts. In addition to splitting up of the problem, each element must be given its relative importance, i.e., whether it is a major or minor element, an isolated problem or does it include other subdivisions in it. This process of analyzing, facilities the next step namely searches for the facts related to the problem.

(iii) Finding the Facts of the Case : In order to improve the existing method of performing account task it is necessary to collect all the facts concerning it. For example, if the existing method is time consuming to perform account task, it is necessary to find out the cause. Some of the factors which may be responsible for delayed production are difficulty in obtaining tools, equipment, materials, employees and so on. However, it is desirable to study all factors without overlooking any of them. Those factors which are desirable must be related and the undesirable must be eliminated. The facts can be found out by the following means (1) information from others (2) one’s own inference and (3) by actual test.

(iv) Finding the Right Method : This step includes selecting the best method to perform account given task. The selection of the best method depends upon four elements, viz., space, time, energy and materials. Account best method is characterized by economy of space, a saving of time, conservation of energy and judicious use of materials. In other words, the best method to be selected is one which eliminates wastages in each of the elements mentioned above.

(v) Finding the Right Person : Unless account competent person is recruited, the steps of scientific management will go waste. The selection of right person depends upon personal and the aptitude of employees.

(vi) Training the Right Person : Although account right person is selected scientifically, it should not be presumed that he can perform the work efficiently. The person so required must be carefully and thoroughly instructed in the standard method of doing the work. This implies training the employees which is an essential principles of scientific management.

(vii) Planning : No work can be performed efficiently unless it is properly planned. As a principles of scientific management, the essence of planning is to do the work thoroughly and accurately. Since office work is numerous and diversified, it is impossible to carry it out unless, well-planned.

(viii) Getting the Work Done or Co-operating : This step calls for joint efforts of all the members concerned to achieve the objective effectively. Cooperation is said to have been extended when the employees give their ‘will’ freely, fully and intelligently to accomplish the objective. The cooperation of employees to a large extent depends upon the treatment they get. Good treatment refers to the scientific method of handling both, employees and their work.

13.5 Office Manager :

13.5.1 Meaning : At the outset it is to be understood that office manager is not a member of the top management team which formulates the overall policy. The position of an office manager in a modern office is two-fold. Firstly, he serves as a line officer, as he is the last link in the chain of command from top management. In this capacity, his task is to see that

the policy of management is properly implemented. It has been rightly said that the position of office manager is 'Man in the middle'. This implies that he has to face both ways, i.e., to represent the workers to the management and at the same time it represent the management to workers. Secondly, the position of office manager is that of staff officer. This position will become evident when the office manager renders useful advice to various departmental clerks in the business. Under this situation the office manager will have no direct control over the clerks of other departments, but he merely renders advice to them with regard to organisation and controlling the activities of those departments.

13.5.2 Qualities : The essential qualities of a successful office manager are as follows :

(i) Leadership : Account good office manager must possess the quality of leading the office staff rather than driving them. Although leadership ability is inherent it can be developed by training and experience.

(ii) Sound Judgment : Sound judgment is required under two circumstances (a) Whether the person to whom work is to be delegated, has the ability to do the work and (b) In dealing with disciplinary matters with workers.

(iii) Impartially : The office manager must treat his staff impartially in order to gain their confidence and respect.

(iv) Shrewdness : This quality refers to the ability to deal with a situation and to take appropriate action.

(v) Courage : This implies backing the shrewdness by courage. He should not contradict his own judgment.

(vi) Methodical : This quality implies orderly performance of office work. He must organize the work of his staff systematically.

(vii) Good Character : An office manager must stand firm to his decisions. However, firmness should not be taken to mean stubbornness.

(viii) Forward Looking : An office manager must keep himself up to date in relation to office system, methods and techniques so as to improve the efficiency of the office.

(ix) Personal Qualities : Personal qualities of an office manager is a combination of personal traits such as honesty, sincerely, initiative, self discipline, punctuality, humorous, tact, persuasiveness and an attractive personality.

(x) Professional interests : In addition to the usual knowledge in the field of office management, an office manager must also have interest in professional fields such as Management Science, Cost Accountancy, Financial Management, Secretarial Procedure, knowledge relating to law and so on. These professional interests make him to become a wholesome office manager.

13.5.3 Duties : The duties of an office manager can be outlined under the following :

(i) Duties Towards Top Management : To advise top management on all aspects of office matters in formulating policies. To report to top management on such matters as employee grievances, incomplete work and difficulties in executing the work. To work in close coordination with O & M (Organisation and Methods) department.

(ii) Duties Towards the Office Work : To ensure that work is carried out as per scheduled time. To ensure that the quality of work is maintained throughout till its completion. To devise best method of doing office work. Where work can be done more efficiently and

economically with the help of office equipment, manual labour should not be resorted to.

To ensure control over both quantity and quality of work. It is also the duty of office manager to utilise the office equipment to the maximum extent and to arrange for repairs and maintenance in case of need.

(iii) Duties Towards Subordinates : To assist the subordinates in carrying day to day activities. To solve the problems faced by his subordinates. To recommend for promotion and for higher pay. To train the subordinates especially when new office equipment is installed.

(iv) Duties Towards Associates : To have frequent discussion with his associates so as to have common policies throughout the organisation. To coordinate and cooperate with the activities of his associates in order to maintain a high level of efficiency.

13.6 Process of Organising an Office :

(i) Planning : The planning of an office depends upon the nature, size and volume of activities. Planning of office is essential to avoid wastage of time, money and efforts. While planning, it is also desirable to prepare a budget involving both capital and revenue expenditure. Planning an office is by no means a simple task. It involves a combined judgment to be exercised by Office manager, and Industrial Engineer. The planning of an office involves consideration of other factors such as (a) selection of site (b) layout of office and (c) working conditions on which the efficiency of work largely depends.

(ii) Recruitment of Staff : Recruitment of office staff is based on job specification and job grading. Job specification implies preparation of account list of various jobs that are involved in the office. Corresponding to each job, a list of specific type of staff required to perform such job is also prepared. Job grading enables the recruitment of right type of staff. The American Management Association has listed six types of grade from A to F. A higher grade of work involves a person with high thinking than doing and vice versa. In determining the jobs in the office, the following factors must be taken into consideration (a) education (b) skill and (c) experience. Having recruited the staff they must be trained in different areas so as to work independently.

(iii) Procuring Equipment : The performance of office work involves the use of furniture, machines, appliances and stationery. Proper purchase of these equipments, and continuous supply of stationery ensures smooth functioning of an office. If possible, a separate department may be established for his purpose.

(iv) Departmentation : The process of grouping allied jobs is functionally called a department. As example, the account department consists of all jobs such as maintenance of books, preparation of financial statements, and calculation of cost of production and so on. Similarly, other departments such as Filing Departments, Finance Department, Correspondence Department are set up depending upon the need for such departments. Departmentation of office is based on number of factors and the extent of centralization and decentralisation desired by the management.

(v) Assignment of Jobs : It involves the allocation of jobs to the staff in the office. Proper distribution of jobs avoids confusion and creates a sense of responsibility among the staff. Assignment of jobs creates duty consciousness among all employees.

(vi) Delegation of Authority : Authority refers to the power to take decisions and to order others to get the decision executed. Mere allocation of jobs among the staff does not serve the purpose of organisation. Every assignment of job is to be accompanied by granting power by the superior to the subordinate to perform such job. Authority flows from top to bottom while assignment of the jobs.

(vii) Creation of Responsibility : Creation of responsibility implies holding the persons accountable for performing their duties satisfactory. Responsibility clearly lays down as to whom a subordinate owes an obligation for fulfilling the job. Responsibility always moves upwards i.e., from subordinate to superiors in the hierarchy of organisation.

(viii) Preparation of an Organisation Chart : The organisation chart is a graphic device for portraying the organisation structure. It is issued to analyse and assess the existing structure, to identify weaknesses and to plan organisation improvement. It establishes a kind of relationship between superior and subordinates and clearly lays down which subordinate is under whose control.

(ix) Preparation of Organisation Manual : The organisation manual defines the nature and extent of the authority and responsibility assigned to each member so that he knows his duties and relationship with other members. The functions of organisation manual are as follows :

- (a). To set out clearly the general framework of the organisation.
- (b). To state the various divisions and department of the organisation.
- (c). To state different levels of authority, departmental heads etc.
- (d). To indicate the difference between line authority and staff function.
- (e). To give titles of different positions and to establish their relationship to the immediate superior and subordinate and the range of responsibility, authority and duties carried under the title.

(x) Preparation of Standard Practice Instructions : In order to complete the design of an organisation structure, it is necessary to write up standard practice instructions to cover the established procedures for carrying out the detailed authority within the office. When it is properly reorganised, it constitutes a written code of practice giving the best method known for permanent record and is applied to secure uniformity of performance throughout the office. The standard practice instruction describes how and when a function is to be performed.

13.7 Let Us Sum Up : In this lesson we have discussed meaning and scope of office management and qualities and the duties of office manager.

13.8 Lesson End Activities :

1. Explain the scope of Office Management.
2. What are the steps involved in scientific Office Management ?
3. Discuss the various qualities and duties of an Office Manager.
4. Describe the process of Organising an Office.

13.9 Model Answers to Check Your Progress :

Question No. 1 Refer para (13.3)

Question No. 2 Refer para (13.4)

Question No. 3 Refer para (13.5)

Question No. 4 Refer para (13.6)

13.10 References

Office Organisation and Management - C.B.Gupta - Sultan Chand & Sons
Office Management Principles – Prasanna - Sultan Chand & Sons

LESSON - 14

OFFICE ACCOMMODATION

- 14.0 Aims and Objectives
- 14.1 Introduction
- 14.2 Meaning of Office Accommodation
- 14.3 Importance of Office Accommodation
- 14.4 Factors affecting of Office Accommodation
- 14.5 Let Us Sum Up
- 14.6 Lesson End Activities
- 14.7 Model Answers to Check Your Progress
- 14.8 References

14.0 Aims and Objectives : In this lesson we are going to discuss

- Meaning and factors of Office Accommodation
- Determinants of Office Location
- Urban and Sub – urban Locations
- Owned and leased accommodation

After reading this lesson you should be able to understand the basic working knowledge of all above-mentioned topics and to answer lesson end activities given at the end of the chapter.

14.1 Introduction : In the previous chapters we have discussed about the meaning, objective and functions of an office and Office Management. The next step is to learn about the office accommodation, layout etc. For which the present chapter is provided.

14.2 Meaning : The term office Accommodation refers to the space that is available or to be procured to do office work. One of the important problems that confront the management of every business organisation is the selection of an appropriate place for the establishment of an office. This is so because the success of a business depends upon the efficient functioning of an office. This in turn depends upon the location, layout, and physical environment of an office. As large part of the office work relates to mental work, the efficiency of office staff depends upon the availability of good office accommodation and better working conditions. In fact, the provision of good office accommodation is the primary consideration of office management. Recognising this fact, in Western countries, the services of professional experts are engaged. But in our country, this aspect has not received much attention though in recent times utmost importance is given by large sized business units.

14.3 Importance of Office Accommodation : The importance of a good office accommodation is reflected by the following points. (i). It offers protection to office staff and office equipment from bad weather. (ii). It provides healthy and pleasant working conditions by the installation of lighting, ventilation and air-conditioning facilities. (iii). It facilitates performance of office work effectively and continuously by eliminating work stoppages and interruptions. (iv). It enables in maintaining the business secrets. (v). Account well planned office accommodation saves area of land through multi-storey and mezzanine floor space. (vi). It increases the morale of the employees and thus reduces labour turnover. (vii). It creates favourable impression on visitors and general public. (viii). It increases flexibility in the use of office for future growth and varying needs of the business. (ix). It has self advertising value.

14.4 Factors affecting Office Accommodation: The selection of an appropriate location enables the office to operate smoothly, efficiently and with minimum cost. Wrong location leads to wastage in efforts and talents of office manager with consequent uncertainty in result. The location of an office has a great effect on the success or failure of the operation of a business unit. If the selection of the site is not proper, then the investment on such office will go waste. The cost of transferring it from one location to another would prove very costly affairs. Therefore, while selecting a site, the management of an undertaking must consider financial and employee factors.

14.4.1 Factors Affecting Office Location : The selection of actual site depends upon the availability of the following factors.

(i) Value of Land : Then cost of land determines the location of offices premises. The cost of land will be very high in urban areas when compared to suburban areas. Therefore, the trend in office is to establish it near suburban areas.

(ii) Cost of Construction : The cost of construction affects the selection of a locality for an office. It is high in urban areas than in rural areas.

(iii) Expansion Potential : The additional space available for future expansion of an office is an important consideration in office location.

(iv) Climatic Condition : The health and efficiency of office staff depends to a large extent on the climatic condition of the locality. Hence, this factor must be given top priority in locating an office.

(v) Availability of Parking Facility : Ample space is necessary for parking the vehicles of office staff as well as visitors. The facility is available in suburban areas when compared to towns and cities.

(vi) Availability of Banking Facilities : For arranging financial requirements of the business and for prompt deposits of cash from daily collections it is necessary to establish office in a locality where banking facilities are readily available.

(vii) Availability of Postal and Communication Service : As office is the place where communication is exchanged, it is necessary to select such a site where postal and communication facilities are readily available.

(viii) Availability of Transport : The availability of various modes of transport enables office staffs to reach the office in time. Such facilities are found mostly in urban areas than in suburban areas.

(ix) Availability of Housing : To enable office staffs to attend to office work promptly and punctually, the area to be selected must be such that it provides housing facilities to them.

(x) Availability of Shopping and Recreational Facilities : To provide entertainment for the staff of the office and to make all their purchases at one common place, it is desirable to select an area which has shopping centers and recreational facilities.

(xi) Adequate Police and Fire Protection : To avoid disturbances arising out of political, sociological and economical reasons, it is better to select such an area where police protection is readily available. So, as to protect office records and office furniture from the occurrence of fire, it is necessary to select an area which is accessible by fire brigades.

(xii) Tax Rates : The local taxes levied by municipality and local authority determine the location of an office. Urban localities always involve payment of heavy taxes as compared to rural areas.

(xiii) Availability of Quality Labour : The success of office work, to a large extent, depends upon the availability of efficient staff. Hence, this factor plays an important role in the site selection for an office.

(xiv) Nature of Streets : It is better to avoid neglected areas and instead select popular streets of a locality for establishing an office. Similarly street which distracts with more noise and which pollute the environment must also be avoided.

14.4.2 Urban and Sub Urban Location : One of the fundamental decisions in the choice location is whether the office building should be located in an urban area (large city or town) or in a suburban area (out of the way locality). Certain organisations like banks, insurance companies, transport and finance companies prefer a central location in a big city or town. But in recent years there has been a trend towards the location of offices in semi urban areas or small towns. The relative merits and demerits of the two types of locations are given below

(i) Merits and Demerits of Urban Location :

Merits	Demerits
1. Proximity to related trades/offices	1. High cost of land
2. Nearness to service facilities	2. High rents
3. Availability of transport and communication facilities.	3. High rates and taxes.
4. Easy access to customers	4. Traffic congestion and overcrowding
5. Municipal and recreational facilities	5. Noise, dust and fume-unhygienic environment
6. Prestige value	6. Less scope for expansion.
	7. Higher cost of living.

(ii) Merits and Demerits of Suburban Location :

Merits	Demerits
1. Cheap land	1. Away from related trades / offices
2. Low rents	2. Lack of service facilities.
3. Low rates and taxes	3. Lack of transport and communication facilities.
4. Less congestion and overcrowding	4. Difficult access to customers
5. Quiet and hygienic environment	5. Lack of municipal and recreational

facilities.

6. Scope for expansion

7. Lower cost of living.

In choosing between urban and suburban locations, a balance should be struck between their relative merits and demerits. In addition to the cost factors, the attitude and preference of top management are also important. Ultimately that site should be selected for the location of office building where the efficiency staff will be the highest possible where the efficiency of office staff will be the minimum possible.

14.4.3 Owned and Leased Accommodation : Once the location of office is decided, it becomes necessary to secure a suitable for carrying out office work. The office building should be of adequate size and proper shape. Its design and arrangement should be such that it adequately serves the requirements of the organisation. Therefore, the management must decide whether to buy or construct its building or to get it on rent or lease. The relative advantages of owned and rented accommodation are given below:

(i) Owned Accommodation :

Owned or freehold building offers the following advantages :

- (a) The building can be planned and designed to fit exactly the present and future requirements of the organisation, building can be altered and adapted whenever necessary. Thus, best possible use can be made of office space.
- (b) Own building lends prestige to the organisation and enhances its reputation with the staff, customers and the public.
- (c) If a part of the building is spare, it may be rented out to others.
- (d) Own building lends permanence as the address need not be changed again and again.

Own building suffers from the following disadvantages :

- (a) It requires huge capital investment which small firms may not be able to afford.
- (b) It involves high costs of maintenance which may be beyond the capacity of small firms.
- (c) Owned buildings involve problems of paying local taxes, settling disputes with tenants, if part of it is rented, safety of building, etc.
- (d) Location becomes rigid and can not be changed easily.

(ii) Leased Accommodation : Leased or rented building has several advantages. No capital investment is involved and no maintenance expenses are to be disputes with tenants, etc. It is very easy to change the location and, therefore, greater flexibility in location is possible. Whenever, a change in office location is necessary another building at a location can be taken on lease.

Leased building suffers from many drawbacks: The building can not be fitted exactly to the requirements of the office. Some area or space or space may go waste in the process of layout. Rents are generally high for urban locations. There is lack of permanence of address.

Owned building is desirable when (a) the business is large and well established ; (b) the demand for the company's products or services is of a stable nature ; (c) account specially designed building is required ; and (d) there is a cost saving in the construction of office premises. However, small firms can better meet be requirements by hiring a building and it may not be worthwhile for them to construct their own building due to financial constrains.

14.5 Let Us Sum Up : In this lesson we have discussed meaning of office location, determinants of office location, comparative study of owned and leased accommodation.

14.6 Lesson End Activities :

1. Explain the importance and elements of office accommodation.
2. What are the factors affecting office location ?
3. Enumerate the merits and demerits of Urban location and Sub – urban location.
4. Enumerate the merits and demerits of Owned accommodation and leased accommodation.

14.7 Model Answers to Check your Progress :

Question No. 1 Refer Para 14.4

Question No. 2 Refer Para 14.4.1

Question No. 3 Refer Para 14.4.2 & 14.4.3

Question No. 4 Refer Para 14.4.4 & 14.4.5

14.8 References

Office Organisation and Management - C.B.Gupta - Sultan Chand & Sons
Office Management Principles – Prasanna - Sultan Chand & Sons

LESSON - 15

OFFICE LAYOUT

- 15.0 Aims and Objectives
- 15.1 Introduction
- 15.2 Meaning of Office Layout
- 15.3 Importance of Office Layout
- 15.4 Factors of Office Layout
- 15.5 Principles of Office Layout
- 15.6 Steps in Office Layout
- 15.7 Types of Office Layout
- 15.8 Trend in Office Layout
- 15.9 Let Us Sum Up
- 15.10 Lesson End Activities
- 15.11 Model Answers to check your progress
- 15.12 References

15.0 Aims and Objectives : In this lesson we are going to discuss

- Meaning and Importance of Office Layout
- Determinants of Office Layout
- Meaning, Merits and Demerits of Open Office
- Meaning, Merits and Demerits of Private Office

After reading this lesson you should be able to understand the basic working knowledge of all above-mentioned topics and to answer lesson end activities given at the end of the chapter.

15.1 Introduction : After the office accommodation is decided, it becomes necessary to begin planning of office space. Different departments, equipments and personnel should be so arranged within the available floor space so that office space is utilized fully and the efficiency of operations is the highest. This is the problem of office layout. Office layout refers to the arrangement and placing of personnel, equipment and furniture within each department or section of the office with a view to make the best possible utilization of available space.

15.2 Meaning : The term office layout is used in a broad sense to include location of departments in an office as well as systematic arrangement of furniture and equipment within each and every department. Office layout is a plan or the act of planning to obtain an optimum arrangement of office facilities, including personnel, equipment, storage space and all other supporting services along with the design of the best structure to contain these facilities.

15.3 Importance of Office layout : The importance of office layout can be discussed under the following headings :

(i) Increase the Efficiency of Office Work : When a proper arrangement of furniture and equipment is provided, it enables the office staff to confine to their places and carry out their activities without moving from place to place. This increase their concentration and the chances of committing errors are very less.

(ii) Enhances Utilization of Office Space : By a systematic arrangement of all equipments and furniture, it is possible to utilize the space to the maximum extent as haphazard arrangement will occupy too much of space.

(iii) Facilitates Supervision : Account good layout of an office enables the office manager to supervise the work of all the staff and to enforce discipline among them. This increases the speed of performing office work.

(iv) Facilitates Inter Communications : Office layout facilitates quick communication of message, if the departments or sections are properly arranged.

(v) Provides Good Working Environment to Staff : Account well arranged office department permits the utilization of physical facilities and enables the employees psychologically to feel that they are working in good working conditions.

(vi) Helps in Utilizing Office Assets to Maximum Extent : By orderly arranging the various sections in an office, it is possible to utilize the available services and assets to the maximum extent. For example, instead of installing a telephone for every room, it may be kept in a common place where it is accessible to every one. Similarly, instead of providing with an adding machine can be provided to be used by both the sections by mutual understanding.

(vii) Provides Flexibility in the Use of Space : Account well planned office will facilities future expansion and thus avoids the problems arising from non-availability of enough space for future use.

(viii) To Meet Statuary Requirements : In U.K., Offices, shops and Railway premises Act 1963 has a more powerful influence over the functioning of an office. In India, we have Factories Act of 1948 which lays down the provisions relating to area to be provided, floors, passages and stairs, first aid, cleanliness, fire precautions, etc. The layout of office must be such that it meets the legal requirements of a country.

(ix) To Avoid noisy and Distracting Departments : As large part of office work relates to mental work, some of the departments of the office must be kept aloof from disturbing sections. Especially typing section and communication department must be segregated from other departments.

(x) To Office Security and Privacy : Office is the place where all confidential matters are dealt with. So, it is necessary that filing sections, cash sections, etc., are to be properly safeguarded.

(xi) To Create Favourable Impression on Customers and Visitors : The office is identified with business both by customers and visitors. Hence, the layout of office must be such that it gives better impression on all who visit the office.

(xii) To Provide Balanced Capacity of Equipment and Personnel at Each Stage in Work Flow : The work to be performed in all sections of an office is not same. Whereas, some sections require more of space, equipment, furniture and personnel, other sections may require less space and personnel. So a good layout is one which provides balanced capacity of space and equipment in different sections of an office.

15.4 Factors in Office Layout : The factors to be considered in planning a layout are as follows :

(i) Feasibility : The feasibility study is a useful tool in planning and designing office layout. A feasibility study helps in deciding best layout among various alternatives. The items usually included in a feasibility study are as follows.

- (a) The financial position of the company and the anticipated growth in the near future.
- (b) An analysis of present space available and projection of future space requirements.
- (c) The system and procedure of work flow pattern of the organisation.
- (d) Relationship among various departments.
- (e) An analysis of the communication pattern among individuals and groups.
On the basis of the above information, it is possible to select the most appropriate alternative type of layout.

(ii) Departmental Relationship : The relationship between various departments depends upon the flow of work between such as cash and accounts departments must be located near one another. Similarly, those departments which are frequently visited by customers and others must be located near the entrance of the office building.

(iii) Flow of Work : This is a very crucial factor in determining the efficiency of office layout. It refers to the movement of information either vertically (between superiors and subordinates) or horizontally (between employees of same responsibility).

In order to secure efficient work flow, the personnel and equipment be arranged in such a way that the information flows in a straight line. A most effective means of studying the work flow is to allow the movement of the document through the department. An effective layout depends, upon inter relationship among equipment, paper and personnel, an analysis must be made in terms of work flow in the organisation.

(iv) Space Requirements : The space required for office staff depends upon such factors as the equipment to perform a work, type of furniture, structural pillars and columns, nature of work ,etc. The total space requirements is known by taking into account the actual space required for various levels of office managements and space for different rooms such as reception room, conference room and so on.

(v) The organisation Chart : The organisation chart helps in knowing the relationship between superior and subordinate and therefore helps in knowing the space required by superiors and subordinates. In other words, it enables to know the existence of number of departments or sections in an office and how much space is to be provided for each such section.

(vi) Protection of Employees Needed in Future : The development of an organisation in the near future demands increase in the number of office staff. The recruitment of additional staff requires more space which is to be considered while deciding the layout of an office. The other factors which determine additional staff are increase in size of business, introduction of

a new line of products and change in the methods of performing office work. All these factors go to determine the extent of space required for the future.

(vii) Communication Network : Where face to face contact among office staff is considerably involved, it is more appropriate to set up such departments close to one another .this avoid unnecessary movements from one departments to another and thus saves time of office staffs.

(viii) Identifying Specialized Areas : Yet another factor that is to be considered while planning office layout is identifying the specialized work areas. Some of the important work areas which deserve special consideration are (i) reception area (ii) conference room (iii) computer room (vi) secretary's office (v) mail room and (vi) the records area. The location of each room is in turn determined by other factors.

(ix) Safety Consideration : the design and layout of office should not impede the movement of employees from one area to another. The path ways should not obstruct the movement of employees and force them to take short cut routes, interfering with other's work. The doors and staircases must not hinder the movement of office staff.

(x) Expansion Potential : Keeping in mind the future expansion potential of office accommodation, it is necessary to prepare a space analysis chart indicating the probable need of additional space in future. This also increases the flexibility in the use of office accommodation.

(xi) Environment Conditions : The layout of an office is also affected by the physical facilities such as lighting, air-conditioning and noise control which are to be provided in office building.

(xii) Equipment and Furniture : The size and number of furniture and equipments to be used also affect the layout of an office. Large sized and more number of furniture and equipments demand more space.

15.5 Principles of Office Layout : While planning the office layout, the following guidelines should be observed :

(i) Interdepartmental Relationships : The location of various departments and their relations with each other should be studied. The departments closely related to each other must be placed adjacent to each other. The 'general office which provides centralized services to other departments must be located at a central place. Departments and sections dealing with the public and customers should be located near the entrance. Departments using noisy machines like typewriters, duplicators, etc. should be segregated from other departments with the help of noise proof walls or partitions.

(ii) Office System and Routines : The systems and procedures set up for doing various office operations must be carefully considered. As far as possible the flow of work must be continuous, smooth and straight without backward movements. This is possible only which the placement of clerks and equipments is such that they fit in which the system and routines in operation.

(iii) Space Requirements for Staff and Equipment : Adequate space should be provided for each individual clerk and his equipment. This will enable him/her to perform his job efficiently and allow free movement from one part of the room to another. The space required for each clerk should be determined on the basis of type of work to be done, size and shape of

furniture equipment and machines, number of private offices and general facilities for employees, width of space to be provided between desks to allow free movement of personnel, etc.

(iv) Number of Private Offices : Private offices are rooms or cubicles which are separated or partitioned off from other parts of the office. These are generally provided to senior executives and other important persons in the office. Private office may also be necessary where work is of confidential nature or requires much mental concentration. However, the number of private offices should be minimum because such offices occupy much space, cut out natural light and ventilation and make supervision of work more difficult. One reception room may be provided for all visitors and interviews. Movable partitions may be used to ensure privacy and secrecy without interrupting the flow of work, ventilation and lighting.

(v) Service Facilities : While planning office layout, adequate provision of service facilities for employees should be made. These include internal communication, lifts, drinking water, canteens, wash rooms clock rooms, etc. These facilities are essential for the efficient performance of office work as well as for the physical comfort of the office staff.

(vi) Flexibility and Expansion : As the business conditions are dynamic, provision for expansion and adjustments should be made in the layout plan. The office layout should be so planned that the additional staff and equipment needed to cope with the increased volume of work maybe accommodation with little adjustments.

15.6 Steps in Office Layout : The layout of an office involves the following steps :

(i) Entrusting the Job of Office Layout to a Competent Person : In western countries, the planning and arrangement of office layout is considered as a full time job which is entrusted to a competent person. Such a person must possess complete a comprehensive knowledge of the needs of the organisation. The office manager can take the assistance of a draftsman from the engineering department and an office superintendent in carrying out this responsible job.

(ii) Planning : The person to whom the job of office layout is entrusted will discuss with the departmental head of each section to know the space required and the direction of work flow on all operations in the office. He will also take into consideration the various principles of office layout discussed earlier.

(iii) Preparation of a Blue Print : The steps involved in measuring the existing arrangement and equipment and showing the exact present location. This also provides for the position of doors, airless, furniture and equipment at their appropriate places. The tools used in preparing blue print are (a) template and (b) plastic models. Templates consist of scaled versions of furniture and equipment and are typically constructed of cardboard. The template is used in tracing the various items on the layout. Plastic models are scaled versions of various pieces of office furniture and equipment. As the plastic models can be easily re-positioned on the floor plan, their use facilities exploring various layout possibilities.

(iv) Getting Approval From the Section Head : Before the blue print is adopted it is necessary to get the approval of the concerned section head. This avoids unnecessary relay out of office space from time to time.

15.7 Types of Office Layout : The layout of an office may be classified into two types namely open office and private office. Let us discuss these types in detail in the following paragraphs.

15.7.1 Open Office :

(i) Meaning : While planning office layout, the office manager has to decide whether to have one open office or several private offices. An open office refers to a large room or hall in which all the sections of the office are located. Each section or department is allotted a separate space in the same room or hall which is often demarcated by counterhigh filing cabinets or shelves. The modern tendency is to adopt the open office instead of private offices for different sections. However, some private offices have to be provided to top executives and also for work requiring privacy and concentration.

(ii) Merits : Open offices provide the following benefits :

(a) **Economical :** An open office makes better utilization of office space because unnecessary partitions and corridors are avoided. It is a common experience that walls and corridors consume about 25 per cent of floor space. Therefore, open office creates savings in space and reduces the cost of operations. Costs of decoration, cleaning and maintenance are also lower.

(b) **Effective Supervision :** In an open office, clerks face the supervisor. Therefore, there can be better inspection and coordination of work. A lesser number of supervisors is required.

(c) **Better Communication :** An open office facilitates inter departmental communication. A clerk need not go to another room for consultation, advice or instruction. It ensures smooth flow of work.

(d) **Economy in Lighting and Ventilation :** As the unnecessary walls and partitions are removed, open offices allow a free flow of air and natural light. There is economy in lighting, heating and cooling.

(e) **Joint Use of Equipment :** Open office makes possible the sharing of machines and equipment by different sections. Joint use of machines and equipment ensures their fuller utilization and economy in costs.

(f) **Flexibility :** In an open office changes in layout can be made without much difficulty. This ensures a more effective placement of office machines and equipment.

(g) **Smarter Look :** The open office wears a better look and, therefore, creates better impression on the visitors.

(h) **Democratic Setup :** An open office is democratic because all grades of staff are placed in the same room.

(i) **Minimum Movement of Staff :** In open offices, employees need not move around because they can see who is absent or present. It is also convenient for the outsiders to locate the persons whom they want to contact.

(j) **Centralisation :** The open office facilitates centralisation of filing stationery, etc. Centralisation of essential facilities promotes efficiency and economy.

(iii) Demerits :

(a) **Lack of Secrecy :** As work is done in full view of all the staff, privacy cannot be maintained. Therefore, open office is not desirable when secrecy of work is required.

(b) **Lack of Concentration** : In an open office employees cannot concentrate on work due to frequent movement of staff and visitors. Noise created by telephones and typewriters also impair the efficiency of office staff.

(c) **Untidy Appearance** : The office has a shabby and unbusiness like appearance due to too many people working in the same room and scattered files. When efforts are made to maintain tidiness, there may be too much regimentation.

(d) **Impersonal Atmosphere** : In an open office clerk feels little attachment to his place or work. Employees of higher rank may feel insulted when asked to sit in the same place.

(e) **Unhealthy** : There tends to be congestion and overcrowding in an open office. Infectious diseases can be easily passed on from one person to another due to bad ventilation and overcrowding.

(f) **Low Morale** : The morale of office tends to be low due to loss of status and individuality. Individual needs are ignored and sense of belonging to a well defined group is reduced.

15.7.2 Private Office :

(i) Meaning : Private offices are small rooms or cubicles which are separated from one another by walls or partitions. Such offices are allotted to top executives and for work of confidential nature or requiring high degree of concentration. For example, private offices may be provided to accounting and statistical sections to avoid noise and to ensure secrecy.

(ii) Merits :

(a) **Privacy** : A private office provides greater security for confidential work and discussions.

(b) **Concentration** : Due to the absence of noise, greater concentration of mind is possible. Therefore, efficiency of staff can be higher.

(c) **Personal Atmosphere** : Private offices promote attachment to a particular group. They lend a sense of prestige and importance to the concerned staff.

(d) **Tidy Appearance** : Private office can be more tidy and less regimented. Overcrowding or congestion is eliminated.

(e) **Healthy Atmosphere** : There can be better ventilation and heating/cooling. There is less transmission of diseases from one person to another.

(iii) Demerits : Private offices suffer from the following drawbacks :

(a) **Uneconomical** : A lot of space is wasted in partitions and corridors. Therefore, the cost of office space tends to be very high. Greater expense is involved in decorations, cleaning and maintenance.

(b) **Expensive Supervision** : Supervision becomes costly and less effective. Clerks do not face the supervisor and the supervisor loses personal contact with workers. Therefore, more supervisors are needed.

(c) **Poor Lighting and Ventilation** : Flow of air and natural light is interrupted due to too many walls and partitions. Artificial lighting and ventilation becomes necessary resulting in higher cost of operations. Joint use of machines and equipment is not possible.

(d) Ineffective Communication : Internal communication and flow of work are hindered due to walls and partitions. Movement of files is delayed.

(e) Lack of Flexibility : Due to permanent walls and partitions changes in layout cannot be effected quickly and easily. Office layout becomes inflexible.

15.8 Trends in Office Layout : The office layout has undergone considerable changes in modern days with many improvements. These latest changes in office layout can be studied under the following headings :

(i) Office Landscaping : The concept of landscaped office originated first in Germany in 1960 and now used in other countries very frequently. It refers to the planning of office space, free of the traditional permanent wall, corridors and private offices, and the row after row arrangement of desks and other furniture. The special features of landscaping are as follows : (a) It utilizes only a minimum number of permanent walls. (b) Arrangement of furniture in an asymmetrical order according to the needs, though not in a define order. (c) Use of carpets, soft lighting, noise control and air-conditioning. (d) Interior decoration.

The office landscape offers the following benefits : (a) It results in savings in cost when changes in layout are required by expansion and organizational changes. (b) The area of floor space available for use is more since only partitioned walls alone are used in place of permanent walls. (c) It improves productivity because of greater efficiency in work flow, improved communication channels, improved worker morale and a greater feeling of worker involvement.

(ii) Movable Partition : Movable partitions are increasingly used in office layout owing to economy over permanent walls. Such partitions are available in variety of sizes and shapes made out of wood, metal, glass or plastic materials. Partitions can also be rewired with telephone and electrical connections and they can be installed with special sound absorbing materials.

(iii) Modular Furniture : The modular furniture is a multipurpose table which consists of desk space, file space and storage space. Such furniture is specially designed to meet specific needs of employees which results in greater productivity and efficiency. They occupy less space when compared to conventional furniture and in some cases, the modular furniture and movable partitions can be purchased as a single component.

15.9 Let Us Sum Up : In this lesson we have discussed meaning, determinants of office layout, evaluation of open and private office.

15.10 Lesson End Activities :

1. What is meant by office layout? What are the factors determining the layout of an office?
2. What are the essential principles of a good office layout?
3. What are the steps in determining office layout?
4. Briefly explain the meaning, merits and demerits of both open office and private office.

15.11 Model Answers to Check Your Progress :

Question No. 1 Refer para (15.4)

Question No. 2 Refer para (15.5)

Question No. 3 Refer para (15.6)

Question No. 4 Refer para (15.7)

15.12 References

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LESSON - 16

FILING

- 16.0 Aims and Objectives
- 16.1 Introduction
- 16.2 Meaning of Filing
- 16.3 Functions of Filing
- 16.4 Importance of Filing
- 16.5 Steps in Filing
- 16.6 Filing Systems
- 16.7 Essentials of Good Filing System
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16.0 Aims and Objectives : In this lesson we are going to discuss

- Meaning, Functions and importance of Filing
- Centralized Filing and Decentralized Filing
- Various methods of Filing

After reading this lesson you should be able to understand the basic working knowledge of all above-mentioned topics and to answer lesson end activities given at the end of the chapter.

16.1 Introduction : A large variety of records are found in modern offices – letters, reports, invoices, contracts, vouchers, circulars, minutes, notice, tax records, statistical records, price lists, catalogues, etc. These records constitute a written evidence of business activities and the memory of the entire organisation. Since human memory is limited and cannot recapitulate the numerous transactions taking place every day, records of business transactions must be maintained. All relevant papers and documents relating to the business must be kept in some order, so that, whenever they are needed, they can be produced for use.

16.2 Meaning of Filing : Filing refers to the systematic arrangement of keeping business correspondence and records so that they can be readily located whenever required. Stephenson defines filing as “a mechanism whereby business records may be stored may be so as to be readily available when required.

16.3 Functions of Filing : The process of filing is concerned not only with the sorting of records but also with their systematic arrangements so that they may be traced easily asked for. Filing therefore, has four major functions :

- (i) Library Functions, by sorting and arranging the records for future reference;
- (ii) Administrative Function, by maintaining records of previous decisions and thereby helping the executive in framing business policies;
- (iii) Information Function, by maintaining, protecting and supplying the various types of information for various uses and purposes;
- (iv) Historical Function, by preserving in a systematic manner the important records bearing on the progress of the organisation.

16.4 Importance of Filing : Filing is the core of records management. A large number of papers and documents cannot be preserved and handled without proper arrangement. Systematic preservation of various types of information is made possible only by a good filing system. An efficient filing system provides the following advantages :

(i) Efficiency : A good filing system enables the office staff to handle the records properly without any delay. It saves time and brings efficiency in office operations.

(ii) Ready Reference : Sometimes, customers repeat their past orders. Filing helps in finding their previous letters and re-executing the orders.

(iii) Planning : Management has to refer to past records for framing business policies. Old records serve as the basis for future actions. Filing enables executives to take correct and quick decisions at the proper time.

(iv) Better Control : Records help to control various operations in the organisation. A proper check is kept on incoming and outgoing letters. Letters requiring immediate attention are disposed of quickly.

(v) Protection : A good filing system protects the documents against possible loss or damage.

(vi) Evidence : Filing provides documentary evidence for use in the court of law in case of a legal dispute.

(vii) Legal Compliance : Filing helps to fulfill legal obligations by keeping the documents and records which are required to be preserved under the provisions of law.

(viii) Follow-up : Filing facilities follow up action in case of securing orders, collecting payments from customers and getting supplies from the vendors.

(ix) Goodwill : A good filing system enables the staff to handle correspondence correctly and quickly. This builds up the reputation of the organisation.

16.5 Steps in Filing : The filing system should be planned carefully keeping in view the objectives of filing and the nature of records. The main steps involved in installing a filing system are as follows :

(i) Listing of Documents : First of all, a list of all documents and papers to be filed is prepared. This list should be prepared keeping in view the requirements of the organisation. Only those documents should be filed which will be useful in future.

(ii) Determining Period of Storage : The time period for which the documents are to be preserved should be decided in consultation with the concerned departments.

(iii) Acquiring Storage Space : The storage space should be acquired keeping in view the filing needs of the organisation and the funds available for storage.

(iv) Layout of Filing Department : Proper layout of the filing department is necessary for preserving records in an easily accessible manner. The storage arrangement should be decided on the basis of the frequency of use of the documents and the officers who will need them.

(v) Determining Filing Equipment : Various types of equipment should be procured to store different kinds of documents. The choice of filing equipment depends mainly on the nature and importance of records. Fireproof equipment might have to be purchased for storing valuable documents and confidential records. Open shelf may be used for storing routine type of records.

(vi) Determining System of Classification : A suitable system should be selected for the classification of records.

(vii) Protection of Records : The arrangements to be made for protecting the records from loss or damage should be decided.

(viii) Training of Staff : The staff members employed in the filing department should be given sufficient training for handling various filing operations. Their duties and responsibilities should be clearly defined.

(ix) Issuing Procedure : Only authorized persons should be allowed to enter the filing department. Moreover, the files should be issued only to the authorized persons. A record should be maintained of the issues and receipts of all files.

16.6 Filing Systems : The office manager has to decide whether the filing should be centralized or decentralized. The merits and demerits of both the filing systems are given below.

16.6.1 Centralised Filing

(i) Meaning : Under centralized filing, the records of all the departments of the organisation are maintained at one place and they are controlled by a common index plan. A separate department known as 'filing department' is created and all the files are preserved in this department. The individual departments are relieved of the work of maintaining records. All files, filing equipment and filing staff are located at one central place.

(ii) Advantages : Centralised filing system offers the following benefits :

(i) It avoids unnecessary duplication of records. There is no need to make out several copies of orders, invoices, etc., for different departments. This saves time and effort.

(ii) Since the filing work is concentrated at one place, there is better utilization of storage space. Duplication of filing equipment is avoided and fewer filing cabinets are needed. As a result cost of filing operations is reduced.

(iii) It ensures uniformity and standardization in filing operations. Uniformity facilitates quick location and delivery of required documents. It also increases the efficiency of clerical operations.

(iv) Trained personnel can be employed to look after the filing operations. It results in greater accuracy and avoids delays in filing work. It permits specialization.

(v) Better supervision and control can be exercised on the retrieval retention and transfer of records. Follow up measures can be operated more efficiently.

(vi) Fragmentation of related documents at different locations is avoided. There is completeness of related documents as all records are stored at one place. Integrity of files can be maintained and loss of valuable records can be prevented by limiting access to file personnel only.

(vii) Heads of different departments are saved from the botheration of maintaining records. They can devote their time and attention to the main activities of their departments.

(viii) Location and cross referencing are easy.

(iii) Disadvantages : Centralised filing suffers from the following limitations :

(i) Since all records are stored at one place, the risk of loss due to fire, theft, etc. is increased.

(ii) Considerable time is wasted on frequent transportation of records from the central storage area to the user departments. This may cause delay and inconvenience to them.

(iii) Centralised filing may make it difficult to maintain secrecy of confidential documents.

(iv) Since the filing clerks may not be aware of the specialized work of certain departments, the chances of misfiling are increased.

(v) The central filing department may become a store of unwanted and unnecessary documents.

(vi) Centralised filing is not suitable where some departments are located in different geographical areas.

16.6.2 Decentralized Filing :

(i) Meaning : Under decentralized or departmental filing systems, every department maintains its own records. The documents and files relating to a department are arranged and preserved in that department itself.

(ii) Advantages: Decentralized filing provides the following benefits:

(a) It saves valuable time because the documents needed by a department are readily available in the department itself. Referring becomes easy and quick

(b) The secrecy or confidential nature of documents is maintained as they are retained in the department itself.

(c) Specialised knowledge about the department prevents misfiling. The safety of the papers is also ensured.

(d) When the departments are located in different geographical areas, it is the only viable method.

(iii) Disadvantages: Decentralized filing suffers from the following drawbacks:

(i) There is duplication of efforts, space and equipment which increases the cost of filing operations.

(ii) Specialised staff cannot be employed as the filing work in each department is not adequate enough to keep them fully occupied.

(iii) There is lack of uniformity and Standardisation of office operations.

(iv) Confusion may arise in filing documents concerning more than one department. This may cause interruptions in filing work.

(v) It is difficult to supervise, coordinate and control the filing operations performed in different departments.

16.6.3 Conclusion: Thus, both centralized and decentralized filing systems have their own merits and demerits. The choice between the two systems depends on the size and nature of the organisation. The following suggestions may be useful in this connection:

- (a) Decentralized filing is particularly suited to big and autonomous departments.
- (b) Decentralized filing is better in case of departments located in different geographical areas and for documents of a confidential nature.
- (c) Decentralized filing should be used for documents which are frequently referred to by different departments.
- (d) In case of all other documents, and departments centralized filing is useful.
- (e) A central cum decentral system may be used in practice. It is a combination of the two systems explained above.

16.7 Essentials of Good Filing System: The maintenance of an efficient filing system is one of the complex problems in an office. There is no one ideal filing system, and no one ideal type of filing equipment which will meet the requirements of every record in every office. However, a good filing system should have the following characteristics.

(i) Compactness : The filing system be compact. In other words, it should not take up unnecessary space because modern office space is costly.

(ii) Accessibility : The records should be readily accessible. The system should be such as to allow the making of insertions without disturbing the existing order of the files. The importance of accessibility is greater in situations where records are to be written.

(iii) Economy : The filing system should be economical. It should be economical in time, space, money and operation. The cost of the installation and operation of the filing system should be as low as possible.

16.8 Classification of Filing : The greatest difficulty is not in filing records, but in finding them. Records can be looked upon in different ways ; for instance, the sales manager may think in terms of the customer's name, the factory manager may think in terms of the customer's name, the factory manager may think in terms of the product ordered, the inspection clerk in terms of the job number. The answer to the problem of locating a record determines the system of the classification to be adopted. Classification is the process of selecting headings under which documents are grouped or classified on the basis of common characteristics before filing takes place.

16.8.1 Alphabetical Classification: An alphabetical classification is usually in accordance with the first letter of the name and is strictly in alphabetical manner in much the same way in which words are printed in alphabetical order in a dictionary. The telephone directory is another example of the use of the alphabetical order. On this basis, the letters and folders containing letters from various correspondents are arranged according to the first letter with which the name of the correspondent begins. For example, correspondence with those whose names or surnames begin with a will be classified and arranged together. If there are several names having the same first letter, the arrangement takes into account the subsequent letters also.

The alphabetical method of filing can be used in correspondence filing, contracts, orders, staff records, stock records, etc. This method can well be adopted for offices where the number of correspondents or subject files does not exceed 1,000.

(ii) Advantages :

- (i) It is easy and simple to understand and operate.
- (ii) It is self-indexing. No separate index is needed.
- (iii) It is elastic, i.e., new headings can be introduced at any point without disturbing the classification.
- (iv) It provides a direct reference and offers a quick check so that the chances of misfiling are minimized.
- (v) There is convenience of grouping papers in the name of a company, etc.
- (vi) Useful provision for miscellaneous papers can be made.

(iii) Disadvantages :

- (i) It takes a long time to find papers in large systems, and thus reduces the speed of operation.
- (ii) There may be congestion under common names.
- (iii) Papers may reasonably be filed under different headings or may be misfiled because of mis spelling of names.
- (iv) There may be difficulty in forecasting the space requirements under different letters of the alphabet.

16.8.2 Numerical Classification:

(i) Meaning : Under this method, each folder or record is given a number and the files are placed in a strict numerical order. Very often, such a system has to be supported by an index from which the file number may be obtained. But the index need not always be maintained only for this purpose. For instance, when copies of purchase orders are filed in a serial order, reference to the purchase ledger will provide the number of the purchase order relating to a particular transaction. Under the numerical classification, Mr. Ramesh Chander may be allotted number 251. All the papers relating to him will be placed in file No. 251. Thus each correspondent or subject is given a number and that number is shown on all the papers relating to that correspondent or subject. The numerical system is used in colleges, where each student is assigned a roll number and his file in the college is given that number.

(ii) Advantages :

- (i) It makes for ease in sorting papers prior to filing.
- (ii) There is greater accuracy in filing, so that the chances of misfiling are minimized.
- (iii) The system is flexible, for unlimited expansion is possible.
- (iv) The file number can be used as a reference in future correspondence.
- (v) The index is a complete list and can be used for other purposes as well, e.g, as an address list, for counting the total number of customers, for counting the total number of files, and so on.

(iii) Disadvantages:

- (i) More time is required for the index before a file is located.
- (ii) It is not easy to arrange files for miscellaneous papers.
- (iii) Greater care is required to avoid errors arising from a mental transposition of figures.
- (iv) The cost of the index and space taken by it makes this system expensive.

16.8.3 Alphabetical Numerical Classification :

(i) Meaning : The alphabetical numerical classification is a combination of the first two systems of classification. In this system, filing is alphabetical, but under each of the alphabetical letters there are numbered folders. Thus, in the alphabetical group 'R'

correspondence with Ramesh Chander may be given number R/I., with Ram Kumar R/2, and so on. This system is quite commonly in use in banks libraries, transport authorities, etc.

(ii) Advantages : This system has all the advantages of the alphabetical and numerical classifications, plus the following :

- (i) It is an elastic classification, since it can be expanded to an unlimited extent.
- (ii) It facilitates a quick reference.
- (iii) It avoids confusion of names of the same letter of the alphabet common in the alphabetical classification and has the exactness of the numerical system.

(iii) Disadvantages : The main drawback of this method is that it may become extra complicated in a large organisation.

16.8.4 Geographical Classification :

(i) Meaning : As the name indicates, this classification is based on the geographical origin of the papers or documents. When it is desired that the records should be maintained by territories or geographical area, this system of filing is most suitable. This is often essential for the maintenance of sales records or customers accounts. The classification may be town wise district wise, state wise, country wise or continent wise. The steps in geographical filing are :

- (i) Geographical limits are set and areas are defined which will make one unit
- (ii) All states are arranged in an alphabetical order for example, Andhra Pradesh, Assam, Bengal, Bihar, etc.
- (iii) Within each State, district wise or town wise classification may be made and an alphabetical arrangement, too, may be made.
- (iv) Within each sub division, the classification of different parties may be arranged alphabetically or numerically.

(ii) Advantages : The advantages of a geographical classification are :

- (i) It assists in speedy location of files.
- (ii) Direct filing is possible.

(iii) Disadvantages : The disadvantages of a geographical classification are :

- (i) The geographical location should be known, otherwise misfiling may result.
- (ii) Generally speaking, an index has to be prepared.
- (iii) For better results, this method should be combined with any other method of classification.

The method of geographical classification is useful for the filing of correspondence according to town or according to the customers, orders in a sales area.

16.8.5 Subject - Wise Classification :

(i) Meaning : Under this method of classification, all letters and documents relating to a subject are brought together in one file, even though they may have come from different sources and from different people. Letters, etc., may be classified and grouped on the basis of their subject matter and may be arranged alphabetically. The subject headings may again be sub divided into different sub groups, which may be alphabetically or numerically arranged. This basis of classification is adopted where the subject matter is of greater importance than the names or addresses of the correspondents. Sometimes this system is the best system and is adopted by professional firms as architects, engineers, purchasing officers, etc, where it is most convenient to file correspondence under contract or under the type of material bought.

(ii) Advantages : The advantages of subject classification are :

- (i) There is convenience of reference, if the subject is known.
- (ii) There is the possibility of unlimited expansion.

(iii) It is useful when it is desired to combine different papers on single subjects.

(iii) Disadvantages : The disadvantages of subject classification are :

- (i) Filing by subject is comparatively slow and difficult, for it requires that the filing clerk should understand the contents of papers, documents, etc., and should know in what connection they are likely to be required.
- (ii) Greater care has to be exercised in selecting the titles for the files. Titles must be descriptive; short and self explanatory.
- (iii) It is not very suitable for miscellaneous papers.
- (iv) Favourable cross reference is frequently required, this method is most time consuming.
- (v) An index may be needed, which makes this classification somewhat expensive.

16.8.6 Chronological Classification :

(i) Meaning : Under this classification, records are filed and arranged in strict date order. It is often employed in filing invoices and other vouchers associated with accounts, particularly when these constitute a journal. In correspondence filing, letters may be filed in order of the date of writing shown on them. But this system cannot be used independently. The records should be classified according to their subject and may then be placed in order of date inside the file relating to that subject.

(ii) Advantages : The advantages of chronological classification are :

- (i) When dates are known, it is a useful method.
- (ii) It is good for overall classification, e.g, correspondence in different years.
- (iii) It is very simple to operate.

(iii) Disadvantages : The disadvantages of chronological classification are :

- (i) It is useful only for a small business.
- (ii) It is not useful when the date is not known.
- (iii) Incoming letters might be separated from outgoing replies.

16.8.7 Factors in Selecting Classification :

The system of classification and arrangement of files greatly affects the speed of reference, accuracy in filing, flexibility and transfer to reserve storage. It is, therefore, important to make a right choice of the system of classification which an organisation wants to use. In making such a selection, the following factors may be considered.

(i) Convenience : What is the most convenient method of reference(or cross reference) ?

(ii) Size : What is the size of the system ? Larger systems should be numerical.

(iii) Simplicity : Which is the most simple system? Simplicity should be viewed in terms of filing, location and cross reference. The alphabetical system is generally the simplest.

(iv) Expansion : The system should facilitate expansion. The numerical system serves this purpose best.

(v) Speed of Reference : This too, is an important consideration. Some compound or combined system may achieve this objective.

(vi) Accuracy : Which system avoids the possibility of misfiling?

16.9 Methods of Filing : Various methods of filing may be classified into two broad categories (i) Conventional or old methods, and (ii) Modern methods.

16.9.1 Conventional Methods : The main conventional methods of filing are given below:

(i) Metal Holders : Under this method, papers and documents are placed in metal holders in chronological order. Metal holders are used for holding the papers together. This method is inconvenient and outdated. It is not of much use in practice.

(ii) Bound Book : All letters and documents are pasted in this book in chronological order. It avoids the possibility of loss or misplacement of any paper. But it is of limited use in practice.

(iii) Spike or Pillar File : A spike is a wire fitted with wooden stand. It may be kept on a table or hung on the wall. The papers to be filed are punched through the sharp point of the spike. They are put in the spike one above the other on the wooden base. This is a very cheap and simple method. But it does not protect the papers against damage by dust or insects. It is very inconvenient and time consuming to refer to a particular document. This method is suitable for a very small office only.

(iv) Concertina File : It is made of cardboard and contains a number of pockets usually sufficient to permit alphabetical classification and is readily portable. It is suitable for keeping only a small number of papers because its capacity is limited.

(v) Box File : It is a flat cardboard or metal box. Spring clips are fitted within the box to hold the papers. Papers are generally placed in manila folders which are numbered to facilitate quick reference. This method of filing is simple to operate and economical. It protects the papers from dust and damp. But it is not suitable for permanent storage of records in large organisations. Due to constant use the spring may become loose and unable to hold the papers firmly.

(vi) Pigeon Hole File or Docketing : It involves the use of a cupboard or special almirahs divided into a number of small compartments. The cupboard is open from one side and the compartments are square holes, called 'pigeon holes'. Each pigeon hole bears a letter of the alphabet. When the letters are received, they are sorted according to the alphabets and then put into the respective holes. For instance, the letter received from Ram is inserted into the pigeon hole marked with 'R'. Sometimes, on the folded letters or documents their brief particulars are also recorded. This recording is known as docketing.

(vii) Press Copy Book : Under this method, all outward letters are copied out in a book maintained for this purpose. Actually the practice is to get an extra carbon copy of each letter. The copies are then filed in the master file in chronological order. This helps to preserve documents which may become an evidence. But it is a very cumbersome and time consuming method. Location of documents and cross reference is difficult.

16.9.2 Modern Methods of Filing : Conventional filing methods are not suitable for modern and large offices. Therefore, the following sophisticated methods have been developed :

(i) Horizontal Filing : Under this method, the documents are inserted in files or folders. The files are kept in drawers in horizontal position i.e. one upon the other. The papers are filed in the folders in chronological order. When a file removed for reference, a guide card about its movement is kept in its place. The following types of files are used :

(a) Flat Files : These are covers of card board or thick paper fitted with metal hinges for fastening the papers together. A separate file is allotted to each customer or subject. All the letters relating to that customer or subject are kept in that file in chronological sequence. The document is punched and then inserted in the metal hinges of the file. The papers lie flat one above the other in the files. These files are placed horizontally in drawers. An index is generally displayed outside the drawers for quick reference.

(b) Arch Lever Files : These are strong cardboard folders containing strong metal arches. These arches can be operated by a lever. When a paper is to be filed, it is punched with two holes with punching machine. The lever is then moved upward which opens up the metal arches or springs. After the paper is inserted through the holes the lever is pressed down to close the springs. The papers in the file lie flat, one upon the other. This system is simple and economical. It helps to preserve the papers neatly. Any document can be referred to without removing the papers lying upon it.

(ii) Vertical Filing : Under this method, files are kept in a standing or upright position. The documents to be filed are firstly put into folders and then the folders are placed in drawers or cabinets in alphabetical or numerical order. The following types of equipment are used in vertical filing:

(a) Folders : These are the basis of vertical filing. Folders are made of manila paper, flexible plastic or rubber. The back of the folder is slightly higher than the front. The extended back is used to write the contents of the folders. When the folders are placed in the cabinet, the extended edges are visible in a sequence so that contents can be ready easily.

(b) Cabinets : Folders are kept vertically in a steel or wooden cabinet. A cabinet contains several drawers. The drawers are deep enough to hold the folders in vertical position. Each drawer is fitted with a spider which pushes it backward and forward. There is also a mechanism in the drawer to hold the folders together. In order to divide the drawer into convenient sections guide cards are inserted at appropriate places.

(c) Suspension Filing : Under vertical filing there is no device for holding the folders and they may slide down. Suspension filing has been developed to overcome this limitation. Under this method, folders are fitted with metal bars suspended on a metal frame which is fitted inside the drawer are special cabinets containing drawers fitted with metal frames to support the suspended folders are used.

(d) Lateral Filing : Under this method, files are arranged side by side on shelves or racks in upright position, Documents are put in folders which have hooks. The folders are hung on the railings of the shelves. The tips of folders are fitted with title indicators. All the files kept in the cupboard are simultaneously visible. Lateral filing has several advantages which are given below:

- (i) It is economical because it occupies less space.
- (ii) Removal and replacement of files is easy and less noisy.
- (iii) It facilitates sorting of a large number of files.
- (iv) It is highly flexible and offers ample scope for expansion.
- (v) It provides greater visibility so as to facilitate quick reference.
- (vi) It facilitates quick location of records. Even ordinary almirahs can be used.

(v) Open Shelf Filing : In this method, files are kept vertically or horizontally in the open shelves. Such shelves are used in libraries. Open shelves may be upto the height of the ceiling and ladders may be used for operators. It provides all the advantages of lateral filing. Open

shelves are cheaper and can accommodate more files. However, this method requires a dust free area in order to protect the life of the records.

(vi) Visible Card Filing : This method is becoming popular in larger organisations. A visible file shows all relevant information. The information is recorded on the edges of the cards. The cards are kept in open trays or filing cabinets. Each card is so arranged into a metal hinge that it overlaps the one before it and remains visible. Visible card filing can be used for maintaining records of inventories, customers, suppliers, shareholders, employees, etc.

The main advantages of visible filing are as follows :

- (i) Due to simultaneous visibility of all cards, reference to the stored information can be made at a great speed.
- (ii) Signals and tabs can be used to draw instant attention to specific cards.
- (iii) New papers can be easily inserted.
- (iv) Important information is available at a glance and it is not necessary to read the whole card.

(vii) Rotary Card Filing : Under this method, cards are attached to a belt or series of rings that surround the core of a rotating wheel. Card can be inserted or removed by rotating the wheel to a desired location. The wheels may be kept in vertical or horizontal position in specially designed desks.

(viii) Motorised Filing : In this method of filing, an electrically operated console is used. The operator sitting at a desk can get a view of the relevant file by pressing the button. The motorized filing equipment consists of a cabinet that houses a motorized push button, chain driven arrangement of fixed crades on which trays of record cards are revolved vertically. This method permits instant reference to the desired files. It is very convenient and reduces fatigue on the part of the operator. But equipment used in this method is very costly.

(16.10) Let Us Sum Up : In this lesson we have discussed meaning, function, importance, types and classification of filing system.

16.11 Lesson End Activities :

1. What is meant by filing? What are its functions?
2. Discuss the steps involved in installing a filing system.
3. What are the essentials of a good filing system?
4. What is meant by centralized filing? Explain its merits and demerits.
5. What is meant by decentralized filing? Explain its merits and demerits.
6. What are the various methods of filing?
7. Briefly explain the classification of filing.
8. Write short note on:
 - (i) Centralised filing.
 - (ii) Decentralized filing.
 - (iii) Alphabetical classification.
 - (iv) Numerical classification
 - (v) Geographical classification

16.12 Model Answers to Check your Progress :

Question No. 1 Refer Para 16.2

Question No. 2 Refer Para 16.4

Question No. 3 Refer Para 16.6

Question No. 4 Refer Para 16.5.1

Question No. 5 Refer Para 16.5.2

Question No. 6 Refer Para 16.8

Question No. 7 Refer Para 16.7

Question No. 8 Refer Para (i) 16.6.1 (ii) 16.6.2 (iii) 16.8.1 (iv) 16.8.2

16.13 References

Office Organisation and Management - C.B.Gupta - Sultan Chand & Sons

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LESSON - 17

INDEXING

- 17.0 Aims and Objectives
- 17.1 Introduction
- 17.2 Meaning of Indexing
- 17.3 Advantages of Indexing
- 17.4 Essentials of Indexing
- 17.5 Types of Indexing
- 17.6 Selection of Suitable Index
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17.0 Aims and Objectives : In this lesson we are going to discuss

- Meaning and advantages of Indexing.
- Various types of Indexing

After reading this lesson you should be able to understand the basic working knowledge of all above-mentioned topics and to answer lesson end activities given at the end of the chapter.

17.1 Introduction : After having acquired the basic knowledge about the system of filing, we are going to discuss about the technique of storing of various files in the systematic manner which is called as Indexing.

17.2 Meaning: An Index is anything that points out or indicates. It is a ready guide to the location of the required file record. It is process of determining the documents which are to be filed. It is an important aid to filing and filing because, when a large number of files are maintained for various purposes, they can be located or indicated by some sort of a guide, which is known as the Index. It is a reference list for locating a particular document in the file. It enhances the utility of the filing system because documents can be easily got at.

17.3 Advantages of Indexing : A good system of indexing offers the following advantages :

- (i) Indexing helps the filing clerk to locate easily the documents and letters concerning a particular correspondent. Thus it facilities locations.
- (ii) A good system of indexing ensures cross-reference, and so saves time and effort.
- (iii) Indexing improves the efficiency of the records administration.
- (iv) In order to achieve these benefits, a good system of indexing should be.
 - (a) Simple to operate and use.
 - (b) Economical in operation.
 - (c) Flexible to allow for expansion when required.
 - (d) Should go well with the system of filing in the organisation.

17.4 Essentials: A good system of indexing should possess the following essential features:

(i) Simplicity : A good system of indexing should be simple to understand and easy to operate. It should not be unnecessarily complex in operation.

(ii) Economy: A good indexing system should be economical in terms of space, equipment and effort.

(iii) Flexibility: The system should have sufficient scope for expansion. It should have multiple uses. e.g. to locate a file, to provide important information, etc,

(iv) Safety: It should protect the records against dust, insects, fire, rats, water, etc,. It should have a locking arrangement to prevent pilferage of records.

(v) Efficiency : It should be speedy in operation. It should take the least possible time to locate a card or to insert a new card.

(vi) Suitability : The indexing system should go well with the system of filing in the organization. The type of indexing should be selected on the basis of the nature of filing operations.

(vii) Cross Reference : Cross reference should be given under the head under which a document could be filed but has not been filed.

(viii) Signalling : A slip or tab should be attached to the exposed edge of a card or file to draw attention to certain facts reordering on the card.

17.5 Types of Indexing :The various types of indexes are also known as the methods or systems of indexing. Several types of indexes are used in various offices as aids to the filing system. Some of them are rather crude and rigid, while others are highly sophisticated and expensive. The choice of any system of indexing depends upon the nature and volume of the records to be indexed. Some of the important types of indexes are described below:

17.5.1 Page Index: An ordinary page index consists of a page for each letter of the alphabet, fitted with a tab showing the letter, and on each page are written the names beginning with that letter and quoting the relevant page numbers. This is the type of index most in use for minutes, and is comparable to the index given at the end of a book. This type of indexing may take the following forms.

(i) Bound Book Index: It is in the form of a bound book or register divided into alphabetical sections in which the names of persons or documents are entered. Each section has the leaves cut away at the right hand side so that the initial letters of all the sections are visible at a glance. All entries relating to a particular letter of the same letter of the alphabet are arranged in the same section or page order. The book index is very cheap and is good for maintaining a record for a long period. The pages cannot be lost or disarranged because they are bound. But alterations in the index is difficult and it accommodates a comparatively less number of entries. It is therefore an inflexible method.

(ii) Loose Leaf Index: A loose leaf index is one in which pages are not fixed permanently but are held by a device which makes it possible for one to take out some page or insert additional pages. The sheets of pages are fitted on to metal hinges and screwed. When a leaf is inserted or removed, the book is unscrewed and the relevant sheet is inserted or removed from it. This method, therefore, has the advantage of being flexible and adaptable. It offers

ample scope for expansion. The main drawback is that the sheets may be manipulated. Lost or damaged because of the leaning of punched holes.

(iii) Vowel Index: This is an extension of the bound book index. In big organizations, where the list of correspondents is very large, too much time is wasted in locating the name under reference. Therefore, to facilitate, quick reference, the book is maintained on the basis of a vowel classification. Under this method, the sections of the index book reserved for each letter of the alphabet are divided into six sub-sections which are reserved for the 5 vowels (a,e,i,o,u) and y. The names of the correspondents or the headings of the files are recorded on the page allotted to the letter of alphabet and the vowel sub section in that order. For example, the name of Mr. Ramesh will appear on the page allotted to R and sub-section 'a' for 'a' is the first vowel in the name of Ramesh. like book indexing vowel indexing, too, is less flexible and has a very limited use.

Advantages: Page indexing has the following advantages :

- (a) It is very simple method of indexing and can be under stood by everyone.
- (b) It is an inexpensive method.
- (c) Very little equipment is needed to put this method into operation.

Disadvantages : The following drawbacks should also be noted.

- (i) It is an inflexible method of indexing.
- (ii) Names not in use have to be deleted from the index. As a result, the appearance of the index book or register becomes very shabby.
- (iii) Names are entered in a chronological order in the book (the order in which they come.) A strictly alphabetical arrangement of names may not be possible.

17.5.2 Loose Index: A loose card index is used to overcome the difficulties (drawbacks) of an ordinary page index. It consists of a number of cards of small size (12 x 7 cms), each concerned with one item of the index. The reference heading is written along the top edge of a card, and the remaining space is devoted to indicating the place where the corresponding record may be found. Cards are arranged in an alphabetical or numerical order and placed in drawers or boxes of suitable dimensions. Each drawer may have a rod running from one end of it to the other to hold the cards in position. These drawers are divided into alphabetical section by means of guide cards. To facilitate the location of an individual card, tabbed guide cards may be inserted at intervals.

Uses : Card indexing has numerous uses, some of which are :

- (i) To keep particulars of employees
- (ii) To keep accounts of stock items
- (iii) To keep records of investments and assets
- (iv) To keep the names and adder of customers, dealers shareholders, creditors and debtors.
- (v) To keep records of different assets
- (vi) To keep records of instalment sales or sales on hire purchase basis
- (vii) To keep the specimen signatures of account holders (in a bank)
- (viii) To keep a catalogue of books (in a library)

Advantages : The card indexing offer the following advantages

- (i) The cards can be arranged in any order alphabetical, numerical, geographical etc., and order can be changed to suit the changing needs of the business.
- (ii) The system is quite cheap to install and operate. The equipment required includes cards and drawers of the desired size.
- (iii) The cards provide a complete list of the names, address, telephone numbers, etc., of the persons or firms with whom the dealing take place.

- (iv) The system is highly elastic : New cards can be inserted or dead cards removed at any time without disturbing the sequence.
- (v) The system is flexible. The number of cards can be increased or decreased from any group without disturbing the order of the cards.
- (vi) Each card may be ruled according to the particulars or information required.
- (vii) The system is simple to understand and operate. Every person in the organization can operate the system with great ease and without requiring any book.
- (viii) Cross reference is facilitated.
- (ix) Cards can be put to many uses. For instance, in a library two cards per book may be prepared, one for the author and the other for the title of the training.
- (x) The cards wanted for reference can be taken out without in any way holding up the work of recording of information as other cards are left behind.
- (xi) In a big business house, cards indexing is cheaper than ordinary indexing. Expenses of having a bound book and its occasional renewal, with addition, to existing correspondence are saved or an avoided.
- (xii) For special purpose, coloured cards can be used to facilitate easy classification of customers or sub groups.
- (xiii) Guide cards to tabs may be used to highlight certain information, etc., overdue accounts, stock items in short supply, etc.,
- (xiv) The index may be used by several persons may use the card index at the same time.
- (xv) Any information can be obtained or recorded quickly and without difficulty.

Drawbacks : The disadvantages of a vertical card index are:

- (i) The card index is blind, i.e., a large number of cards cannot be seen at a glance. It therefore takes a longer time to locate a particular card.
- (ii) There is a danger of separate cards being lost, mutilated or destroyed.
- (iii) Supervision or checking may be difficult if system provides for a free removal of the cards.
- (iv) Cards get torn or spoiled through constant handling and therefore have to be replaced.
- (v) The system is comparatively more costly than ordinary page indexing.

17.5.3 Visible Card Index: Under this system, the cards are laid flat in transparent covers in a shallow tray or in metal frame. Each card is fitted into a metal hinge so that it overlaps the one before it in such a way that a narrow strip at the bottom, containing the name or title, remains visible. The principal underlying the visible card index is that the cards overlap, so that one line of entry on each card projects and is visible, thus forming a one-line index. The cards tray may contain 50 cards and is fitted horizontally into cabinets or attached vertically to the metal stand. The trays are fitted with hinges which enable the operator to write on each card without removing it from its place. This saves time because a speedy reference to cards and the posting of cards become possible. The catchy advertisement slogan for the visible card index is; Look at the record not for it',

Advantages: The visible card indexing offers the following advantages:

- (i) It occupies less space and provides instant reference.
- (ii) Though visible indexing costs more, the saving in time and labour is so much that it offsets the additional cost. Studies have shown that it saves 75 per cent of the time required to took up card under the non-visible system.
- (iii) Additional information can be easily written on the cards without even disturbing the order in which they have been kept.
- (iv) Speedy reference is possible as the names of the customers or subject are all visible.

- (v) Posting of the cards is very speedy, which saves time.
- (vi) It helps listing of customers or subjects as a photograph of the tray one provide a ready list with minimum effort and expense.
- (vii) It aids the management in controlling purchases, inventories, sales, production and other functions of a business.

Disadvantages: The disadvantages of a visible card index are:

- (i) The requisite type of equipment is more costly than the equipment required for a non-visible indexing system.
- (ii) The training of the staff is necessary for the operation of the visible card indexing System.

Because of the advantages offered by this system, it is now used by all the modern offices.

17.5.4 Strip Index: In every office, whatever the organization, a list of the names addresses and telephone numbers. etc., of the correspondents has to be maintained. The strip index is especially designed for this purpose. It consists of a frame into which strips of stiff papers can be fitted in any required order. Each strip is devoted to one item. Frames containing these strips may be either fixed on the wall, or arranged on a rotary stand which can be turned round so that one can look at any part of the index. The strips can be protected from exposure or damage with removable transparent celluloid or plastic window sheets. Strip indexing offers similar advantages and suffers from the same drawbacks as those of visible card indexing.

17.5.5 Wheel Index: This is a modern method of visible indexing, popularly known for its providing instant reference. The method is a variation of the visible card index discussed earlier. Under this system, cards are arranged about the circumference of a wheel which may be portable or set in a cabinet or desk. A single wheel can hold as many as 5,000 cards and as many as six wheels can be set up within easy reach of a clerk sitting at his desk. The capacity can be further increased when wheels of a bigger diameter and arranged horizontally. In this system, cards can be withdrawn and inserted without disturbing the other cards and entries can be made on the cards without removing them from the wheel.

17.6 Selection of Suitable Index : Since every system of indexing has its merits and drawbacks, a selection of a suitable system of indexing becomes a very difficult task. Some methods are rigid, while others are flexible, though sophisticated and expensive; some are blind, while others are visible. In the circumstances, in deciding about the type of the indexing system to be used in the office, the office manager should consider the following factors :

- (i) The requirements of the filing system adopted by the organization.
- (ii) The objectives of keeping an index.
- (iii) The type and the extent of information needed.
- (iv) The frequency of withdraws or insertions.
- (v) The requirements of space for a particular system and the availability of space.
- (vi) The need to take out the card for the purpose of recording information.
- (vii) The cost of equipment, labour, stationery and supplies required for each system and the amount of money available for the purpose.
- (viii) The need for the use of signals.

Steps in filing and finding records : The following steps need be taken for filing a particular record letter or a document:

(i) Consulting of Index : The first step is to find out from the index the description and location of the folder concerning that document or record. Where files are arranged alphabetically; a separate index is not required. In such a case, only the files have to be referred.

(ii) Filing the Document : If a file folder is there, the document shall be placed there on top of the other letters since in the folders, documents are filed chronologically.

(iii) Making New Folder : If there is no file folder, a new one has to be opened for future needs. Where the document is not an important one and a new folder need not be opened, it may be placed in miscellaneous file in the alphabetical order.

(iv) Cross Referencing : If cross referencing is required, the document may either be filed at the chief place and reference to it is made at other places, or is copied out and a copy is fixed at each place of reference.

(v) Placement of Folder : After filing the document, the file folder is placed in its proper place in the filing cabinet.

The following steps need to be taken for finding a particular record :

(i) Tracing Out the File Folder : The first step again is to consult the index and locate the particular file folder for document now needed. Instead of index, files are directly referred in case of alphabetical classification.

(ii) Removing the File : When the file folder is traced out, it shall be removed from the filing cabinet and an out guide card inserted in its place to indicate the destination, if the file is sent to a particular person.

(iii) Miscellaneous File : Where the document is in a miscellaneous file, the file should not be removed. Instead, only the document shall be removed and an out guide card placed in the appropriate point. The document shall be placed in a temporary file and sent to the person who wants it.

(iv) Refiling : When the concerned file folder or document is returned to the filing section after reference to it has been made, the file or document should again be placed at its appropriate point by removing the out guide card placed there earlier.

17.7 Let Us Sum Up : In this lesson we have discussed meaning, advantages, essential of indexing system and various types thereof.

17.8 Lesson End Activities :

1. What is meant by indexing? What are its uses?
2. What are the essentials a good Index?
3. Briefly explain the various types of Indexing.
4. What are the factors to be considered on selecting a suitable type of indexing?
5. Write short notes on:
 - (i) Page Index.
 - (ii) Loose Index.
 - (iii) Wheel Index.

17.9 Model Answers to Check Your Progress :

Question No. 1 Refer Para 17.3

Question No. 2 Refer Para 17.4

Question No. 3 Refer Para 17.5

Question No. 4 Refer Para 17.6

Question No. 5 Refer Para (i) 17.5.1 (ii)17.5.2 (iii)17.5.5

17.10 References

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UNIT – IV

LESSON - 18

OFFICE MACHINES AND EQUIPMENTS

18.0	Aims and Objectives
18.1	Introduction
18.2	Meaning of Mechanisation
18.3	Objectives of Machanisation
18.4	Applicability
18.5	Advantages of Machanisation
18.6	Disadvantages of Machanisation
18.7	Factors in Selection
18.8	Classification of Office Machines
18.9	Types of Machines
18.10	Let Us Sum Up
18.11	Lesson End Activities
18.12	Model Answers to Check Your Progress
18.13	References

18.0 Aims and Objectives : In this lesson we are going to discuss

- Meaning and Objects of Mechanisation.
- Advantages and Disadvantages of Mechanisation
- Various types of Machines

After reading this lesson you should be able to understand the basic working knowledge of all above-mentioned topics and to answer lesson end activities given at the end of the chapter.

18.1 Introduction: So far we have discussed various matters regarding office functions, office management, office location, office accommodation, office furniture, office filing, and indexing. The next step is to discuss about the Office Machines and Equipments. In the modern world, the mechanization plays a vital role in office organisation.

18.2 Meaning of Mechanisation : The concept of mechanisation in the office refers to the process by which machines and equipments are introduced with a view to speeding up the administrative process. In other words, the mechanisation means the decision to shift from manual to machines in the operation of an office.

18.3 Objectives of Mechanisation: The following are the important objectives for which mechanization is introduced:

(i) Saving in Labour : The main reason for the installation of office machines is to reduced the labour cost. Savings in labour cost refer to annual savings in their wages, or an increase in the volume of work handled by the existing office.

(ii) Time Saving : Saving in time is another objective of mechanization. Machines should be used when ever it is important to save time. Time saved in office routine may be beneficially utilised in some other operations of the enterprise.

(iii) Accuracy : Office machines may be of special value in promoting accuracy, particularly in the operations of the Accounting and Sales Department. The machines also exercise a cheque on manual work, apart from locating errors and frauds.

(iv) Minimisation of Frauds: Certain machines, if installed, do not save time or labour, their values lies in the fact that they reduced the chances of fraud, embezzlements etc, by the employees. Examples of such machines are cheque writing machines, franking machines etc.

(v) Effects on Personnel: Many machine operations relieve manual drudgery, and reduce the monotony of work and fatigue. To that extent machines improve the morale of the employees.

18.4 Applicability:

The use of office machines is now so generally accepted that the principles which should govern a decision to use them are often lost sight of. In many cases, the decision to install a machine is governed by the desire to look modern. that is why offices have more machines than they investment in them cannot be justified except on the basis of the advantages they offer. An office appliance is economical when.

- (i) There is enough workload to keep the machine constantly employed; the greater the volume of work, the greater its economic justification.
- (ii) Machines achieve a considerable saving in labour and time.
- (iii) The reduction in salaries and overhead costs exceeds the cost of the operation of the machine.
- (iv) The machines reduce delays in submitting reports, returns, accounts, statement etc.
- (v) There are adequate facilities for training the existing staff to operate the device and for its regular maintenance.
- (vi) The type and quality of work produced by a machine is superior to manual work.
- (vii) By reasons of its accuracy, costly mistakes and frauds are eliminated.
- (viii) The machine is adaptable and flexible in use, i.e., it may be used to carry out a number of office operations.
- (ix) The cost of operations and maintenance of the machine is not high.
- (x) Factors like adequate power, facilities for the training of operators, for after-sales service and proper maintenance of the machine at reasonable cost are available.
- (xi) The risk of obsolescence is considerably less.

18.5 Advantages of Mechanisation: Since mechanization has become an important part of the modern office administrative process, a critical analysis of its advantages and disadvantages may be made. The main advantages of mechanization are.

(i) Better Quality of Work : The work performed by a machine is usually uniform, and is neat and more legible than when it is done by hand. An analysis can be obtained automatically at the time of entries in ledger accounts and stock record etc.

(ii) Lower Operating Cost: Office machines are labour and time saving devices. they lead to savings in wage-bills or release the staff for other work. Machines do require a large amount of initial capital investment; but, in the long run, their use is profitable.

(iii) Improved Efficiency: Machines bring speed and accuracy to all types of office work, and thus increase the efficiency of employees.

(iv) Facilitates Control: From the management point of view, greater control is possible and more information may be available than before; hence an extensive use of a machine would ensure that office work is performed efficiently.

(v) Greater Accuracy: Mechanisation ensures accuracy of work, especially in accounting, computation and statistical calculations. It prevents clerical errors and omissions.

(vi) Relieves Monotony: mechanization reduces the monotony of doing repetitive work, which is boring and time consuming. As a result, the employee who do a great deal of repetitive work are some what more contented than they would be if machines were not used.

(vii) Facilitate Standardization: Mechanization facilitates standardization of office routines and procedures, and therefore, a better co-ordination of work is achieved.

18.6 Disadvantages of Mechanisation : The disadvantages of mechanisation are.

(i) Workers Residence : Workers often disapprove of machines, particularly computers, partly because they fear that they might lose their jobs and partly because of various real difficulties which they have experienced with individual machines. But it is unwise to generalize from single and faulty. Machine installations art it is best to bear in mind the advantages which generally arise from their applications.

(ii) High Cost: A small firm cannot install accounting machines or computers because of their very high cost. The cost of the operation of certain types of machines and equipment is also high and beyond the resources of small offices. Moreover, the breakdown of big machines is often expensive, apart from the fact that this breakdown dislocates office work.

(iii) Uneconomical: If office machines are not used to their fullest capacity, they become uneconomical. Idle machine means idle capital.

(iv) Require Special Skill: Machines call for specialized skills for their operation. Moreover, the machines cannot perform the work which needs great intelligence. For instance, when an accounting machine is installed, an accountant is still; required.

(v) Risk of Obsolescence: some machines have a high degree of obsolescence; the machine and its methods may be out of date before it is fully paid for. To avoid this risk, it is better to purchase only those machines which have as wide and as universal an application as possible.

(vi) Surplus Staff: Some machines require trained and experienced operators when, therefore, an operator is absent work piles up. For this reason, two operators have often to be

employed in an office when there is work only for one, the second operator is required for relief purposes alone.

(vii) Dominance of Machine: Unless great care is taken, the machine will become more important than the work it performs and the human labour will be relegated to a subordinate position.

(viii) Other Problems : Machine usually create noise and space problems in the office.

18.7 Factors in Selection :

(i) Ease of Operation: Faster operation, less fatigue, and fewer errors go with the ease of operation. Here are some contributory factors; indexing the amounts, operating the motor bar or handle, operating the control keys, visibility of the printed result, recording of the answer simplicity of operations is an important factor in training operation efficiently and inexpensively.

(ii) Flexibility: Unless there is enough work to keep highly specialized machine busy, it is better to select one which can be used for different types of work. In the absence of this flexibility, the purchase of the machine would not be justified at all.

(iii) Durability; A machine is used by different people under varying conditions. Unless, therefore, it is strong and durable, it would be a poor investment.

(iv) Portability: A machine is frequently moved from user to user or from one place to another in the same work area. Compactness and ease of handling saves time and energy and increase the use of the machine. Modern machines have been reduced in size and weight without the sacrifice of quality.

(v) Adaptability : If a machine can be used without disrupting an existing system, it would be better to do so than to go in for one which necessitates a considerable rearrangement of the forms and records involved, of extensive recopying of information, and of adjustments in procedures.

(vi) Service : Reliable and continuous performance demands quick repairs and proper maintenance. The machine which can be serviced promptly has advantage over one which cannot be so serviced.

(vii) Operating Cost : This includes such things as supplies, the space occupied, the special equipment and forms required, repairs, etc.

(viii) Reputation of the Supplier : Few people have the expertise to judge the mechanical qualities of a machine, one has therefore, to depend upon the integrity of the manufacturer and the dealer to finish a good machine and to back up claims and guarantees.

(ix) Styling: Modern offices require machines which are pleasing in design and colour. Other design functions, such as are satisfactory from the point of view of touch and sound, should also be considered. These include a convenient keyboard, simple motor bars, proper control keys, uniform action of all the keys and levers, quiet operation, and neat, legible printing

(x) Cost: Cost, not necessarily the purchase price, is a major factor in buying a machine. Frequently, a machine whose purchase price is higher than that of another is a better buy in the long run. If two machines are comparable in terms of saving in labour and time.

maintenance costs, supplies and durability, the net purchase price should then be the deciding factor. The net price includes the trading allowance for present equipment and the expected residual values after depreciation.

18.8 Classification of Office Machines: Office machines have been classified in many ways. One writer has classified them as follows:

- (i) Machines for computing, such as adding machines and calculators.
- (ii) Machines for the creation and preparation of accounting records, such as book keeping machines and addressing machines:
- (iii) Machines for the handling of correspondence, such as dictating machines, scaling machines, and label pasting machines.
- (iv) Machines for handling money, such as cash registers, coin-changers, and cheque protectors.
- (v) Machines for inter communication, such as the telegraphic typewriter and electric alarm systems.

18.9 Types of Machines: The following are the various types of machines used in the modern office:

18.9.1 Typewriters: The typewriter is the most commonly used and best known of office machines. It is used not only for neat and clean letter and reports but also for the fact that a number of copies can be made with the use of carbons or stencils. Typewriters are available in different sizes and shapes and have different technological sophistications. Mention may be made of the following types of typewriters.

(i) Standard Typewriters: Standard typewriters are of standard size and are designed for use in typing correspondence and reports on quarto, fullscap or A4 size paper, and are satisfactory for most office work. The basic standard typewriter may be modified in a number of different ways to meet special requirement. Remington, Godrej and Facit are the different makes of standard typewriters available in India.

(ii) Portable Typewriters: These typewriters are light weight and smaller in size. They are ideal for personal use by business executives who often go on tours.

(iii) Noiseless Typewriters: Though not completely noiseless, these typewriters are much quieter than the standard typewriters. They utilize a special type of bar to reduce the noise of the impart of the bar on paper. They are of great advantage when the typist works in the same room with an executive or with other clerks. But they are not so good for multi-copy work as standard typewriters one, are rather expensive to maintain.

(iv) Electric Typewriter: An electric typewriter operates on electric power. It is a standard typewriters provided with an electric motor. A very light touch on the typewriter keys put them in motion. It has been established that the energy input for an electric typewriter is about 1/4 of that required for a standard typewriter. The following advantages may be derived from the electric typewriters:

- (a) In the hands of skilled typists, they are faster to operate than standard typewriters. They give uniformly good impression even when the touch of fingers is erratic.
- (b) They lessen the fatigue of typist and improve the quality of his work.
- (c) They can provide as many as 20 copies with the use of carbons as against five provided by standard typewriters.
- (d) They are good for cutting stencils and the typing of invoices.

(v) Automatic Typewriters : They are power driven machines which operate from a player piano type roll which has been cut on a standard typewriter. The matter to be typed is first punched on a paper tape or paper roll, or a special stencil is cut to serve as a master plate or record. The master is then placed on the automatic typewriter, which plays back or type out the matter, at a very speed (up to 200 letters can be produced in a single working day) at about 150 words per minute. When non-standard matter- name, address, special codes, etc. is inserted, the automatic device is switched off to insert this matter. One from of automatic typewriter can store a substantial number of standard paragraphs, from which routine letters can be composed by a push button selection.

(vi) Variable Type Machines: These are typewriters on which different sizes and styles of typefaces and type blocks may be interchanged according to need and without much difficulty. Spacing between letters can also be adjusted by fitting a special space adjustment device on the machine. A variable type machine is also known as a vari-typer. In vari-typers, the type, instead of being carried on bars, is mounted on a block or golf ball which is dropped into position on the machine. As a key is depressed, the block turns until the required character is in position, and then the printing action takes place. Type blocks can easily be interchanged without removing the paper from the platen, thus permitting a variety of type styles on one sheet of paper. Vari-types are of particular value in the cutting of stencils for printing office forms, and also for laying out statistical reports, when a range of type styles can be used to distinguish one set of figures from another, and to give whatever emphasis may be required.

(vii) Typewriters With Additional Attachments: A variety of type writer attachments have been introduced to do special purpose jobs. For typing continuous strips of office forms, a continuous stationery attachment may be fitted to a standard typewriter. By fitting a front feed attachment to the typewriter, certain papers for example, cheques and receipts-can be inserted in the front and typed. The card holding attachment enables the operator to insert stiff labels and cards in the machine and type them with ease. A typewriter fitted with carbon roller equipment makes copies without the use of carbons.

(viii) Special-Purpose Typewriter: Special purpose typewriters are available for special types of work; for example, tabulation, typing of scientific formulas, etc. The dual unit typewriter is used to type formats, tables, formulas etc. The hectograph carbon roll typewriter is used to produce master sheets for hectograph duplicating machine. The flat bed typewriter is capable of typing directly into bound books.

(ix) Electronic Typewriters: Electronic typewriter incorporate the latest micro-processor technology which makes it a technological marvel of supreme versatility and reliability, so much so that it is virtually a thinking machine. Every function on the electronic typewriter is automatic, and the machine obeys any command for alignment, proportional spacing, underlining and centering, to name just a few.

(x) Electronic Typewriters With Spell Check : An improvement over the traditional electronic typewriter is the introduction of spell check in it. The moment a mistake is made, the spell check stops the typewriter. It then refers to its mammoth, over 80,000 word dictionary and corrects the mistake. It thus improves the efficiency of the office by giving flawlessly typed documents.

18.9.2 Duplicators: It frequently happens that more than one copy of a letter or document is required. The simplest method is to make the copies at the same time as the original. This is

usually done by using carbons, carbon backing or carbonless copy papers, each of which will provide a small number of legible copies. For example, up to 4 copies may be obtained by hand, up to 6 copies on a standard typewriter, about 12 copies on a noiseless typewriter up to 20 copies on an electric typewriter. But when a larger number of copies are required, or cannot be made in the first instance, duplicating or coping processes are employed. The term copying is therefore used when one or a few copies are taken direct from the original and the term duplicating is used when a substantial number of copies are made from a prepared master copy. The different types of duplicating machines or processes are considered below:

(i) Gelatin Duplicator: This is the oldest type of duplicator. It consists of a tray containing gelatin on to which the master copy (prepared with a special aniline ink) is pressed. The copying paper is then pressed on the gelatin with a dampened roller to obtain a copy. This is not a popular method these days because the duplicating process is cumbersome, and only a limited number of copies (up to 20-25) can be obtained.

(ii) Spirit Duplicator: A spirit duplicator is also known as the hectograph and can reproduce typewriting, handwriting or drawing in a variety of colours. In the hectograph method, a master copy is prepared on a sheet of art paper by means of a hectograph carbon paper. The carbon paper is placed with the coated surface upwards, and the art surface of the paper is placed with the coated surface upwards and the art surface of the paper is placed on it. The matter to be reproduced is then written in pencil, with ball pen or on the typewriter on the exposed side of the art paper, causing a carbon impression in reverse to be obtained on the surface. The master copy is then fitted round a drum on the machine so that the carbon image is on the outside. To get the copy, the master is subjected to a slight dampening with crude mottled spirit which enables it, when passing through the machine, to remove a fine carbon deposit from the master, and leave an impression on the copy paper.

(iii) Stencil Duplicators: The stencil duplicator was first invented in 1881 as a flat-bed machine. In 1889, the rotary duplicator was developed. Since then, stencil duplicators have undergone a tremendous development and change. Today's stencil duplicators can be manually-operated or power driven. They are available in the market under different brand names - Shurite, Roneo, Gestener, Kilburn etc. The stencil method of duplication employs a coated fibre sheet, which is typed or traced with a stylus with the matter to be duplicated. The stencil is then put on the duplicating machine. The stencil gets ink through the cuts on it and imprints the material on the duplicating paper which comes in contact with the stencil automatically when the machine is operated by hand or by electricity.

(iv) Electronic Stencil Duplicators: The latest innovation in duplicating machines is the electronic stencil duplicator, on which master are electronically scanned so that the contents of the documents are reproduced accurately and precisely on a stencil from which copies are made. Electronic duplicators are most versatile. Photographic copies of any type of document, chart, diagram, illustration, etc., whether handwritten, typed or printed, can be obtained with an electronically produced stencil. Up to 10,000 copies may be prepared with a stencil which takes only a few minutes to prepare. But because of its cost, (about Rs. 50,000) the machine cannot be used by a small or medium-sized office.

(v) Off-Set Litho Machines: The off-set lithograph is not so much a duplicating process as an office printing process. In this system, master are prepared on thin metal sheets or specially surfaced paper. They can be typewriter with the aid of a special ribbon, hand written or drawn by using a greasy ink or ballpen,

18.9.3 Photocopying : Photocopying is a term which covers a number of processes. The essence of the photocopying of any document is that it is an exact photographic copy of the original which is obtained by the use of a special machine, not requiring the assistance of typists. Although the processes differ in many respects, the equipment consists basically of two parts, viz., the exposure unit, in which the original and the copy paper are exposed to a suitable source of light, and the processing unit, in which the copy paper is developed and fixed. The processing unit is usually built into the same casing as the exposure unit. In some processes, it is necessary to remove the copy from the exposure unit and feed it manually into the processing unit (known as the two-stage process). In others, the processing follows automatically after exposure and the finished print is obtained (known as the single-stage process). There are Nine Methods of photocopying:

(i) Reflex Methods : By this method, a negative copy is produced on photographic paper. After wet processing and drying this is used in turn to produce one or more positive copies by further exposure and developing.

(ii) Diffusion Transfer : By this method, the first exposure is made on to a negative, but unlike the reflex process, the negative is processed in the machine together with a sheet of non-light sensitive paper to produce an immediately readable copy. The negative can be used several times, and up to 15 copies can be produced from the same negative.

(iii) Gelatin Transfer : By this method, after wet developing, the negative copy is squeezed against a plain sheet of paper to which the image is physically transferred. This process employs a gelatin-coated matrix on which the negative copy is developed. It is a very cheap method, for it makes use of uncoated non-light-sensitive copy paper. Six to fifteen copies can be obtained by this method.

(iv) Direct Positive : By this process, a photocopy is produced in a single stage on to the photographic paper. A special translucent paper is available which, together with a suitable light filter, can produce a right-way reading positive image, although the quality is slightly unsatisfactory in this case.

(v) Dye-Line : This process is also known as the blue printing process, and is used for copying plans, chares, etc. The matter is drawn on a translucent or transparent paper placed in a printing frame in direct contact with a sensitized paper and exposed to sunlight or artificial light. The positive copy is then developed and washed like the negative of a film. Diazo paper is cheap, and the developing is quite rapid.

(vi) Electrostatic : Electrostatic copying or Xerograph is a process of electrical photography which uses ordinary papers and which requires no chemical treatment. Under this system, the original document is placed in the machine, where the image is illuminated and projected through a lens system on to a selenium plane or drum which has been previously given a positive electric charge. The properties of selenium are such that where light falls, the electrical charge is lost, but where it is shaded, the charge remains. Thus an electrostatic pattern of the image is left on the place. On this image, a negatively charged ink powder is cascaded, which adheres to it, giving a powder image of the original. This is then transferred on to paper and made permanent by exposure to heat. Xerographic machines have been developed to a stage where all that is necessary to do is set the dial on the machine for the number of copies required and push the print button. The copies are then printed automatically.

(vii) Thermal Process : In the thermography or heat transfer process, the document to be copied should be drawn, written or printed in a mineral-based ink or ink pencil. Thus it will not copy ball pen inks, some coloured inks and spirit duplicated copy. By this method, the original document together with a sensitized paper, is fed into the machine, and is subjected to heat from an infra-red lamp. The infra-red rays are absorbed by the mineral based writing but are reflected from the plain areas on the original an impression is thus caused on the copy paper by heat transfer. The operation is quick and requires no chemical processing. But the copy paper is relatively expensive.

(viii) Dual Spectrum : The thermal process produces copies only from black images and cannot be used to copy coloured images. In the dual spectrum process, however, the originals may be written in any colour and may even be single-sided or double-sided. The dual spectrum process is a dry contact process which produces positive copies in a single stage. Moreover, since it is a flat-bed machine, copies may be made from bound books.

(ix) Microphotography: Microfilming strictly speaking, is not a copying process. It is associated with the maintenance of records. The photographing of documents on motion picture film (8mm, 16mm or 35mm) is known as microfilming. By this method, documents to be preserved are photographed by a machine, known as “Recordok”, on a single roll of film. Up to 6000 photographs can be taken in an hour and up-to 1,000 documents can be recorded on 10 meters of 16mm film, which can be stored in an area equivalent to that occupied by a match box. After the photographs of documents are obtained, the film roll is developed into a negative. This film is numbered, indexed and filed properly for future reference. Whenever required, these films can be processed and prints obtained. To view documents which have been microfilmed, a machine known as the “Reader” is used, which projects the film on to a screen for easy reading.

18.9.4 Accounting Machines: Modern organizations, including government offices, have to cope with a large volume of figure work. Not only accuracy but speed, too, is essential in doing figure work. This job may either be done manually or with the help of accounting machines. Accounting machines help in computing and analyzing various types of figures with the utmost accuracy and at fantastic speed. It is for this reason that the use of accounting machines has become increasingly popular in modern offices. The various kinds of computing, accounting and tabulating machines are considered below:

(i) Adding Machines: Adding machines may either manually operated or electrically operated. In a manually operated machine, a key is depressed, and the machine prints (and adds) when the crank at its side is pulled. In an electrical machine, however, the power bar takes the place of the crank. Adding machines are two major categories: adding-listing machines and non-listing adding machines.

(ii) Calculating Machines: Calculating machines are used when calculations have to be made on a large scale. These machines contribute greatly to business efficiency by eliminating routine and tiring mental work, and by eliminating errors, etc. They also contribute to economy in staffing and generally increase clerical efficiency. Calculating machines are primarily used for multiplication and division; and they accomplish these functions by repetitive, high speed addition and subtraction. They perform operations of percentages, decimals, squaring, square roots, logarithms, etc. They act as memory banks for certain types of operations, and are particularly suited to the calculation of interest, commission, discount, statistical data interpretation, etc. Calculating machines may be broadly classified into the following five categories.

(a) **Printing Calculators:** This machine looks like an adding listing machine and may have a full bank keyboard or a ten-key board. It is very easy to operate. The keys are depressed to register the figures for calculation. Then the symbol key (for multiplication, etc.) is pressed, and the answer is obtained by pressing the total key.

(b) **Key-Driven Calculator:** It looks like a non-listing adding machine. The keys are depressed and the figures appear on the dial of the machine. Multiplications are obtained by repeated additions and divisions by repeated subtractions.

(c) **Rotary Calculator:** It may be operated manually or electrically. This machine can perform all the four functions of addition, subtraction, multiplication and division. It is of two types-lever-set, key-set; and both operate on the same principle.

(d) **Automatic Calculator:** They are actually rotary calculators which operate electrically.

(e) **Electronic Calculator:** an electronic calculator is capable of performing extremely complex calculations. It operates electrically, and valves and transistors are used in it as in a radio or a TV set. It can be electrically operated or battery operated; and it may be a full bank or ten-key type. It works at a very high speed and performs complex calculations in less than a thousand part of a second.

(iii) Cash Registers: Cash registers are machines used by such organizations as departmental or chain stores, big retail shops, supermarkets, etc., where a large number of customers make cash payments for purchases. A cash register simultaneously records cash transactions on a tape, produces printed slips and operates cash drawers. The receipts are added simultaneously and the total is shown on the meter. The register can also be used to check the receipts with the cashier. The machine record is kept under lock and key and forms a complete unalterable record of its operations.

(iv) **Coin-handling machines:** Coin-handling machines are used in organizations where coin-handling is of great importance, e.g., banks, railway stations, retail stores, super markets, transport offices, booking agencies, etc. These machines are three types: coin sorters; cash counters; and coin changing machines. Coin sorters are used to sort (separate) coins of different denominations after they are passed through the machine; the totals, too, are recorded on the dials. Cash counting machines are used to find out the total of the coins passed through them; the total is shown on the dial. Coin changing machines automatically calculate the change which is to be returned to the customer and deliver the correct amount. The advantages of coin handling machines include:

- (a) Greater speed;
- (b) Relief from the monotony of the job of separating and counting coins;
- (c) Accuracy in calculation and balancing the change etc. Coin handling machines, however, are not popular in India.

18.9.5 (i) Address Machines: Since 1893, when the first addressing machine was marketed, there have been phenomenal improvements in the it's design and working speed. The term addressing came from the function for which the machine was first designed, viz, reproduction of names and addresses on newspaper wrappers. The machine is in reality an office duplicating machine; out instead of producing many copies of only one master, it prints one copy or a few copies, as required, of each of a series of masters. It is now used in different types of jobs involving repetitive information-to prepare job cards, payroll sheets, invoice, notices dividend lists, etc.

(a) Metal plate Machine: It uses metal plate made of zinc or aluminum on which is embossed the name, address or their information which is to be duplicated. The metal plate is embossed by an electrically operated typewriter called the plate embosser. Plates can be mounted with an index card for quick reference. Metal plates are strong and last long.

(b) Film Stencil Machine: It uses a film stencil mounted on a cardboard frame. For quick reference, the frame has a label bearing the same information as the stencil. The stencil can easily be prepared on a typewriter and are easy to handle.

(c) Spirit Master Process: This machine works on the principle of spirit duplicator. The master copies under this process are easy to prepare on the typewriter without any apparatus being fitted. This addressing machine is cheap, neat and compact.

(ii) Franking Machines: Postal stamping or franking machines are used to affix stamps on outward letters and envelopes. In large offices, where hundreds of out going envelopes have to be stamped everyday, these machines are very useful. A franking machine may be hired from the posts and telegraphs office under a license. The letter or envelope to be stamped is inserted in the machine and a handle is operated. The machine marks the letter with the required denomination of the postage stamp. When the amount of postage set in the meter is used up, the machine gets automatically locked until the meter is again reset on further payment. By means of this machine, a firm's insignia, trade mark, slogan or advertising message can be printed on the envelopes at the time the postage impression is made. The advantages of the machines include:

- (a) Simplified postage accounting;
- (b) Saving in time;
- (c) Elimination of errors in stamping; and
- (d) Avoidance of wastage of stamps.

(iii) Mailing Machines: Various types of machines are used to handle inward and outward mail. These machines are called mailing machines and are discussed below:

(a) Letter opening machines are used to open the mail. These machines open letters by cutting a very thin strip from one edge of the envelope. They can be operated manually or electrically, and can be adjusted to open envelopes at a speed of 100 to 500 letters per minute.

(b) Paper folding machines are used where a large number of letters, circulars and other documents have to be folded each day. An electrically operated folding machine can fold 10,000 to 20,000 sheets of paper per hour.

(c) Inserting machines are used for the automatic insertion of the folded letters into the envelopes at a high speed.

(d) An envelope-sealing machine is used to automatically seal the envelopes. This machine dampens and sticks the flaps of envelopes and works at a very high speed.

18.9.6 Punched Card Machine: Punched card machines are used for a variety of purposes- for invoicing, sales and purchase accounting, calculations of wages, stock control, cost accounting, budgeting etc. These machines perform clerical operations as well- writing, copying, sorting, comparing, etc. The following punched card equipment is used for these purposes:

(i) Punching Machine : This machine is used for punching the holes in the punch cards, corresponding to the information which needs to be processed. A punched card machine may also be fitted with a mark sensing device which allows for the holes to be punched automatically corresponding with pencil marks made on the cards.

(ii) Punched Card : It is a printed card form containing holes representing numerical and alphabetical characters and arranged in columns ranging from 40 to 160 in numbers.

(iii) Verifiers: These are used to verify the accuracy of the original punching.

(iv) Reproducing Punches : These can automatically reproduce another card, either whole or in part.

(v) Sorting Machines : These will sort out the punched cards under any selected column on the card. The machine sorts out one column at a time by sensing the position of the hole. Sorting is done at a speed of 1000 cards per minute.

(vi) Interpreter : It can read the specific information contained in the punched card and print it in alphabetical characters on the face of the card. This printing helps the user to read the card in an ordinary way.

(vii) Collators: These are used to supplement the sorting equipment. They can combine two sets of punched cards into one set in the right order, or separate one batch of cards into two or more batches, or sort cut cards by the pre-determined punch holes, irrespective of the sequence.

(viii) Tabulator: It is the main into which punched cards are fed. It prints the final record resulting from the operations of the machines described above in the foregoing paragraphs. It prints the information under different heads, makes totals and sub-totals, and calculates and prints balances, etc. It is a very versatile machine and can print invoices, statements of accounts, purchase or sales analysis statements, wage sheets, etc.

18.9.7 Office computers:

(i) Meaning : Electronic computers are the latest addition to the long list of office machines. A computer is a replica of the human brain and performs all types of clerical operations very quickly and accurately. It is used to solve business problems through the application of a variety of mathematical and logical or decision-making techniques. In doing so, it can decide what, where and when previously prepared data are required and, if necessary, issue instructions to an operator accordingly. The basic types of computers are the analog, the digital and the digital-analog. Digital computers are commercially very popular. The leading manufacturers of computers in the world are IBM, National, Boroughs, G.E.C., English Electric Corporation, Honeywell, Frenti, etc.

(ii) Functions of Computers: A computer is a giant mechanical brain which can process, analyse, store or supply information instantaneously. It can perform the following functions:

(a) To receive one or more programmes of instructions, store them and obey them as and when required;

(b) To take new information through one or more input channels and store it for reference as required by any of the programmes;

(c) To perform any arithmetical calculation, which may be repetitive in nature, as required by the programme;

(d) To select any carry out alternative courses of action, according to the information it produces;

(e) To apply checks to the data it receives or produces and, if a test indicates a failure, produce a record or signal to procured human intervention;

(f) To store the data produces for future reference;

(g) To select information from the store, arrange it in any sequences, and discharge it through one or more output channels to be printed for human use, or to be recorded for subsequent computer use.

(iii) Components of Electronic Computers:

(a) Input: It is that part of the machine which accepts information in the form of punched cards or punched tape, or magnetic tape or teleprinter.

(b) Arithmetical Unit: This is also known as the Accumulator. It performs calculations of the figures fed into it at a fantastic speed of one million per second.

(c) Storage or Memory Unit: This consists of a magnetic core, a magnetic drum, a magnetic tape, discs or rods, magnetic cards or thin film.

(d) Control Unit: This consists of the console (stop, start, etc.) and the programme fed into the machines as well as a co-ordinator or control unit in the machine.

(e) Output: This is where the results of the process are delivered by the machine in the form of punched cards, punched tape, magnetic tape or line printers; the results are printed in ordinary language for inspection and checking purposes.

(iv) Advantages: the outstanding advantages offered by computers are:

(a) Provision of more information than would be otherwise available;

(b) Provision of control information at a great speed;

(c) Indirect financial saving by having various types of applications; for example, Inventory control and stock valuation;

(d) Elimination of human labour to an extent which no other machine can do;

(e) Extraordinary speed with complicated calculation; elimination of human errors and provision of mechanical efficiency of the highest order;

(f) Flexibility of operation, for any number of programmes can be prepared for different business operation;

(g) Selection of significant information out of a mass of data;

(h) There are some tasks, such as building mathematical “models” to aid decision-making or applying mathematical techniques, which cannot be performed economically except with the help of a computer because of the speed at which it operates.

(v) Disadvantages: The disadvantages of a computer are :

(i) It is very costly to install and run, and therefore can only be used by large organizations.

(ii) A single computer can do the work of hundreds of workers, resulting in retrenchment of staff, which may strain personal relations.

(iii) The installation of a computer often means preparatory work for two to three years at great expense.

(iv) Computers upset all office system and procedures, and adversely affect the working of the organisation in the initial stage.

(v) Any breakdown of the computer would completely dislocate the office work.

(vi) Normally, a year or so passes from the time an order is placed to the time the computer is installed. Since computer technology is a field of constant and rapid development, a new and more sophisticated model may make the one ordered quite out of date even before its installation.

(vii) A computer leads to the centralization of the control system, which has its own disadvantages, for the balance of power shifts to computer room to the detriment of the whole organisation.

(viii) properly trained staff for computers is often on short supply. This may raise acute maintenance problems.

18.9.8 Desktop Publishing: Desktop publishing system is one of the most promising and existing application of personal computer technology today. It is called “Desktop Publishing” because most of the tools it requires can fit on top of a desk. Desktop publishing means literally, running a publishing company from the desktop. It is now possible to do everything that normally goes on in a publisher’s office-writing, editing, design, typesetting, paste-up, printing and indeed accounting and marketing-in one machine that you can put on your desk. You don’t need specialist outside supplier or complex typesetting machinery. You can now get publishing from a simple machine. A basic desktop publishing system consists of personal computer such as Apple or IBM/PC, page layout software and a page printer, such as a laser printer, or a typesetting machine. Four areas have been identified for which desktop publishing technology is best suited:

- (i) Business publishing
- (ii) Periodical publishing including newsletter
- (iii) Book publishing
- (iv) Personal publishing

A desktop publishing system has the potential to write and format documents, create and incorporate graphics, prepare camera-ready copy for printing keep databases of mailing and subscription lists, create official advertising filers and brochures and keep all the financial records-no matter how large or small it is.

18.9.9 Dictating Machines: Dictation to a stenographer writing on shorthand or typing on a stenotype necessitates the presence of both the dictator and the stenographer. This may not always be possible. The stenographer might be busy taking dictation from some other executive, or doing some other work, or the executive may feel the urgency of dictating letters or may want to dictate letters while on tour or at his residence or in late evening hours. These difficulties may be overcome by the use of dictating machines; the executive may dictate something to the machine and leave the rest of the job to be done by the typist. This machine provides for the storage and later for the reproduction of the spoken messages. A dictating machine, by a combination of electronic and mechanical means, records the voice on a variety of mediums, including wax cylinders, plastic discs, wire and coated types, or on magnetic tapes. The recording unit (plastic disc or magnetic tape) can be removed from the machine after dictation and sent (even by mail) to the place of transcription. The transcribing machine reproduces the voice. The recording unit may be erased and re-used, possibly hundreds of times. A dictating machine may also have inter-room connections, and the executive may dictate letters without calling the stenographer to his room. (An ordinary tape recorder may also be used for similar purposes). The dictating machine may also be fitted with a device which makes corrections possibly in the dictated message. In addition to machines for desk use, there are portable models, some of which are small enough to be carried in the pocket.

The advantages of these machines are:

- (a) The dictator can work in his own time. Shorthand typists or secretaries are not tied

to the hours during which the dictator works.

- (b) These machines are used to effect economy in correspondence work. Sometimes, a stenographer can be dispensed with by having a dictating machine.
- (c) Typists can be fully utilized and controlled. Work measurement is possible.
- (d) The shorthand writer's taking down time is entirely saved.
- (e) These machines provide for an accurate recording of lengthy minutes of meetings, debates and proceedings.
- (f) Telephone conversations, interviews, etc., can be recorded immediately, together with notes for action following from them.
- (g) The machine can replace the telephone, e.g., for issuing instructions to subordinates. This would often save time and has the added advantage of being a written record of what took place in the course of a conversation.
- (h) When the load of dictated matter is uneven, the transcription may be evenly allocated among the typists.

The disadvantages of these machines are:

- (a) Dictators sometimes speak indistinctly. The typist has, therefore, to replay the tape or wax cylinder in order to understand clearly that which has been dictated. In this way, some time is wasted.
- (b) Some users of dictation equipment only dictate letters after first writing them out in long hand; so they waste time.
- (c) Typists suffer from transcribing strain and therefore from some lack of accuracy. They also have difficulty in "setting out" a letter because they do not know how long it would be when letter starts.
- (d) The absence of personal contact between the typist and dictator (executive) is responsible for unsatisfactory human relations and breakdown in communication.
- (e) Failure of power or a breakdown of the machine may hamper dictation and transcribing work. While considering the installation of a dictating machine, the volume, character and points of origin of the work should be taken into account.

Certain

amount of skill is required to operate a dictating machine. Moreover, a highly technical matter is difficult to dictate and should, in any case, be transcribed by a specialist.

18.9.10 Stenographic Machines: These machines are also referred to as shorthand or stenotyping machines. These are machines to which matter can be dictated phonetically on a moving paper tape. The typist then transcribes the tape on an ordinary typewriter. The machine is portable, and skilled operators can maintain very high speeds. Stenographic machines are particularly suited for reports of meetings, for the tape can be passed on to typists from time to time during the course of the meeting, and the typing can proceed almost simultaneously with the meeting. The main advantages of this machine are:

- (a) Dictation can be taken at a very high speed (even up to 180 or 200 words per minute);
- (b) It is less fatiguing to operate than to take down matter in shorthand;
- (c) Since the machine uses the phonetic system, it can be used for dictation in any language (English, German, French, etc.);
- (d) The machine is portable and noiseless. It does not cause any disturbance to the works in the office.
- (e) It offers the facility of typing even when dictation is in progress, since parts of the stenotype tape can be passed out to the typist from time to time.

18.9.11 Miscellaneous Machines: In addition to the above office machines, the following are some other machines and equipment which are used in a modern office.

(i) Time Recording Clocks: These machines are used to record the correct time of the arrival and departure of office and factory employees. The time is printed on cards. Each employee is allotted a recording machine while coming into or going out of the office or factory. Generally speaking, these machines are fitted with a clock to show the time.

(ii) Payroll Machines : These machines, also known as steel paymasters, are used to perform many functions connected with the payment of wages. They can make calculations of wages, count the exact money for each employee (by making up the denominations of notes) and then place the money in each envelope. These machines have not yet been introduced in this country.

(iii) Cheque Writing Machines : Also known, as protectographs, these machines are used to write the particulars on a cheque, and crossing it. The use off this machine eliminates the possibility of fraud and alteration of the contents of a cheque.

(iv) Cheque Signing Machines: These machines imprint the specimen signature of the drawer on a large number of cheques. The use of this machine provides protection against the forging of a signature.

(v) Numbering Machines : These machines are used to imprint serial numbers on office forms, reports and other papers. They are fitted with a self inking device and change the number automatically after it is passed against a paper. They can be set to print each number once, twice or repeatedly.

(vi) Impression Stamps : Different types of rubber stamps are used in an office to imprint date , number, time or words like Paid, Receive, Cancelled, Registered, Book Post, etc., on incoming or outgoing office papers, etc. Rubber stamps are also used to cross cheque and bills, etc.

(vii) Laminators : It is a machine to protect office documents. It is ideal for laminating engineering drawings, sales literature, legal documents, identity cards, important contracts etc.

18.10 Let Us Sum Up : In this lesson we have discussed meaning, objectives, applicability, merits and demerits of office mechanization and various types of machine used in office.

18.11 Lesson End Activities :

1. What is meant by mechanisation? What are its Objectives?
2. Enumerate the merits and demerits of Mechanisation.
3. What are the factors to be considered while selecting suitable machines?
4. How do you classify the Machines?
5. Briefly explain various types of machines used in the Modern Office.
6. Enumerate the merits and demerits of use of computer in the office.
7. Write short notes on:
 - (i) Types of Typewriters.
 - (ii) Types of Duplicators.
 - (iii) Types of Accounting Machines
 - (iv) Desktop Publishing

18.12 Model Answers to Check Your Progress :

Question No. 1 Refer Para 18.2

Question No. 2 Refer Para 18.4 & 18.5

Question No. 3 Refer Para 18.6

Question No. 4 Refer Para 18.7

Question No. 5 Refer Para 18.8

Question No. 6 Refer Para 18.8.7

Question No. 7 Refer Para (i) 18.8.1 (ii) 18.8.2 (iii) 18.8.4 (iv) 18.8.8

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LESSON - 19

OFFICE FURNITURE

- 19.0 Aims and Objectives
- 19.1 Introduction
- 19.2 Meaning
- 19.3 Guidelines
- 19.4 Different types of Office Furniture
- 19.5 Let Us Sum Up
- 19.6 Lesson End Activities
- 19.7 Model Answers to Check Your Progress
- 19.8 References

19.0 Aims and Objectives : In this lesson we are going to discuss

- Meaning and Types of Office Furniture
- Guidelines for selection of suitable furniture.

After reading this lesson you should be able to understand the basic working knowledge of all above-mentioned topics and to answer lesson end activities given at the end of the chapter.

19.1 Introduction : Office environment refers to the surroundings in and around the office. Internal working facilities are the physical conditions inside the office building. These include lighting, ventilation, interior decoration, temperature, furniture and fittings, freedom from noise and dust, safety and sanitary arrangements, etc.

19.2 Meaning : Furniture and fittings exercise a significant influence on the efficiency of office staff. Office work is primarily indoor desk work and the clerks have to sit daily in the office for long hours. The work is mostly routine and monotonous in nature. Therefore, suitable furniture should be provided in the office so that employees may perform their work comfortably and speedily. Modern and better quality furniture not only improves the general efficiency of the personnel but also increases the prestige of the office among the visitors. At the same, furniture should be viewed as a long term investment because it is very difficult to make a quick replacement on account of heavy costs involved in them.

The usual furniture found in any office includes desks, chairs, tables, racks, cabinets, cupboards, safety trays, almirahs, etc. The number and kind of these items to be purchased for an office depend upon the number of departments and employees, the nature and volume of work to be performed, and the office space available for their accommodation.

19.3 Guidelines : While choosing office furniture, the following factors should be kept in mind.

(i) Cost : The cost of furniture should be reasonable and within the limit of funds available for this purpose.

(ii) Suitability : The furniture selected should be suitable for the particular job for which it is required. It is better if it is adaptable to multipurpose use.

(iii) Design : The design of the furniture should be functional as well as artistic. Design is related to the size of top, height, number of drawers, etc.

(iv) Durability : Steel furniture lasts longer than ordinary wooden furniture. 'Sunmica' surfaced furniture is also durable.

(v) Saving in Space : Furniture should occupy the minimum possible floor space.

(vi) Comfort : Comfortable furniture increases the morale and efficiency of employees.

(vii) Appearance : Office furniture should have a pleasing appearance so that it adds to the look of the office.

(viii) Hygiene : It should be easy to clean the furniture and the floor underneath it.

(ix) Weight : Sometimes changes have to be made in the placement of furniture. Therefore, furniture should be light enough to be moved around easily.

(x) Finish : Glossy surfaces should be avoided because they create glares and tensions.

(xi) Fire proof : Metal furniture has less fire risk than wooden furniture.

(xii) Safety : The furniture should be safe to use. Plate glass topped furniture is relatively unsafe.

(xiii) Labour Saving : Some furniture has built-in file units which can save movement and walking about by the employees. Such furniture provides economy in working.

(xiv) Standardisation : Standardisation of office furniture the several advantages (a) uniform quality of furniture, (b) alternative uses for similar jobs, (c) lower cost of pricing and maintenance, and (d) lower price when purchased in bulk. Therefore, furniture of uniform quality should, as far as possible, be purchased for all sections of the office.

19.4 Different Types Office Furniture : Many types of furniture are used in modern offices. Some of the important items of office furniture are described below:

19.4.1 Desks : A desk is a work-bench which provides to an employee a suitable surface for writing and paper work. It provides a storage space for the stationery and supplies required for use and for the papers and files being worked on. A desk also provides the place for keeping the office machines in proper position. Therefore, a suitable desk should be provided every clerk to enable him/her to work comfortably and efficiency. It should be of normal height and dimensions so that clerk may sit comfortably and the desk top may accommodate the necessary papers. Normal dimensions of a desk are 120cm to 150cm. wide, 75cm depth and 70cm height.

Desks should be designed according to the requirements of the work being done in the office. All office work is not alike and all employees are not of equal status. Therefore, office desk should fit the physical requirement of the employee and his work. However, it is very

uneconomical to have a large variety of desks. Therefore, multipurpose and adaptable desks should be selected. The use of uniform and standard desks gives a symmetrical and harmonious look to the office. Functional needs, cost aesthetic appeal and prestige are other important considerations in the choice of desks. The following types of desks are used in a modern office:

(i) Executive Desks : These desks are designed to suit individual tasks and needs of executives. Their purpose is to enhance the prestige of their users and to impress the visitors. Office executives are often provided pedestal desks which permit complete sweeping of floor underneath. Usually there are three or four box drawers in the pedestals with one deep filing drawer for documents. Sharp corners of edges should be avoided. Often the desk top is covered with glass or leather. Some executives prefer full top size glass while others desire to cover writing areas only. When top glass is used, important telephone numbers, small calendar, visitor's cards etc. are placed under it.

(ii) Clerical Desks : These are mostly single pedestal desks or double pedestal desks given to clerks and office secretaries. They are smaller than executive desks.

(iii) Typist Desks : These desks are fitted with either a fixed sunken well or a collapsible well into which the typewriter is fixed.

(iv) Machine Desks : On these desks office machines are fixed. A well is provided at either end of the desks so that the machine is put at lower than the standard height of the desk.

19.4.2 Tables : Table are generally used for the sorting of mail, dispatch of mail, temporary housing of files, storage of papers, registers, etc. They may also be used for committee meetings and interviews. In many offices, tables serve the purpose of clerical desks. These are often fitted with one or two drawers. Most of the tables have standard and conventional size dimensions. But there are some special purpose tables also. For example, a large sized round table may be provided in the conference room for executive meetings.

19.4.3 Chairs: Office employees spend a major part of the day and perform their work while sitting at the work place. Therefore, comfortable chairs of suitable type must be provided in the office. Uncomfortable chairs cause physical strain and fatigue and consequently reduce the efficiency of office staff. A well designed chair reduces fatigue and improves productivity. Office chairs should fit the nature of work to be done and the needs of the user a chair is most comfortable if it can be adjusted to distribute body weight as per the posture. A very wide range of chairs is available. Height, backrest and space of the seat should be considered while selecting a chair. A revolving chair may be more comfortable for jobs involving frequent body movements. Chairs used by machine operators should have no hand rest and should have adjustable back for free movement of hands.

19.4.4 Wooden and Steel Furniture: Wooden furniture is the most popular type of furniture in our country. It is more cosy and creates a feeling of greater comfort. It can be shaped and designed as per needs. It provides a variety of designs and sizes. It gives a feeling of warmth both to the eye and to the touch. It can be repolished easily at little at cost. Nevertheless steel furniture is becoming increasingly popular. It has become standard furniture in large office of banks and insurance companies. It has the following advantages over wooden furniture:

- (i) It is durable and is not easily damaged.
- (ii) It is safe against insects, mice, rat etc.
- (iii) It does not shrink, smell wrap or crack
- (iv) It is fire resistant and does not add fuel when a fire occurs

(v) It is less bulky.

So far as cost is concerned there is little to choose between the two types of furniture. Therefore, the choice would depend mainly on individual tasks and the comparative weight.

19.4.5 Modular: The modern trend is to use functionally designed modular furniture based on time and motion studies of the work to be done. Such furniture has become very popular in western countries. It provides greater desk area and occupies minimum floor space. For example, interlocking desk furniture offers as much as 25 per cent more desk area and effects a saving of up to 33 per cent in floor space. However, modular furniture encourages talking among clerks and workers. This problem can be overcome by erecting screens between individual desk units.

19.4.6 Fittings: Office fittings include those items which are applied for general use in the office. These include coat stands or racks, desk lamps, waste paper baskets, telephone stands, etc. While choosing such items, the use to which they are to be put should be kept in mind. Each desk should be provided with necessary accessories and fixtures for the efficient performance of work. Accessories include letter trays, pencil holders, memo dispensers, sorting trays, waste baskets, etc. The colour of fittings and accessories should fit in with the interior decoration of the office.

19.5 Let Us Sum Up : In this lesson we have discussed meaning and various types of furniture used in the modern office.

19.6 Lesson End Activities :

1. What is meant by furniture? What are the guidelines for office furniture?
2. Explain various types of furniture's.

19.7 Model Answers to Check your Progress :

Question No. 1 Refer para (19.3)

Question No. 2 Refer para (19.4)

19.8 References

Office Organisation and Management - C.B.Gupta - Sultan Chand & Sons
Office Management Principles – Prasanna - Sultan Chand & Sons

LESSON - 20

DATA PROCESSING SYSTEM

- 20.0 Aims and Objectives
- 20.1 Introduction
- 20.2 Meaning of Data Processing System
- 20.3 Collection of Data
- 20.4 Editing of Data
- 20.5 Classification of Data
- 20.6 Tabulation of Data
- 20.7 Electronic data Processing
- 20.8 Let Us Sum Up
- 20.9 Lesson End Activities
- 20.10 Model Answers to check your progress
- 20.11 References

20.0 Aims and Objectives : In this lesson we are going to discuss

- Meaning and Erection of Data Processing System
- Collecting, Editing and Classifying of Data
- Meaning and Uses of EDP

After reading this lesson you should be able to understand the basic working knowledge of all above-mentioned topics and to answer lesson end activities given at the end of the chapter.

20.1 Introduction: All office operations depend upon information. The regular flow of information based on facts helps business executives in planning and co-coordinating activities. Such information also provides a sound basis for policy making and decisions. It is only on the basis of adequate information and data that appropriate decisions can be taken and policies formulated by the management. Moreover, an organization today must maintain close touch with the public. With growth in the size and complexity of business, executives have become more dependent upon statistical data and informative reports. Therefore, collection and presentation of information is one of the main tasks of an office.

20.2 Meaning of Data Processing System : The term data processing system refers the process of estimating the nature of data required, identifying the sources available regarding the data, selecting a suitable method of collection of data, editing of data, classification of data, tabulation of data and presentation of data.

20.3 Collection of Data : It is the very important step in the data processing system. The various elements of collection of data are as follows :

20.3.1 Sources of Data : The sources of collecting data may be primary or secondary. The primary sources of data refer to the actual objects of study from which first hand original data can be collected by the investigator through interviews, questionnaire and field survey. Secondary sources refer to publications, data collected by other investigators and records maintained by government and private agencies. Thus, primary data refer to factual information which is collected first-hand through field survey, interviews or questionnaire, while secondary data are those which are available from records. Publications and other reference sources like research reports. Whether it would be desirable to use primary or secondary data should be decided in accordance with the subject-matter under report, time available, degree of accuracy sought and the financial implications of collecting primary data. Relevant information is often available in published form or in office records. If that is so, it would be unwise to spend time and money for collecting primary data. If the office records are regularly maintained in proper form, they serve as one of the most valuable sources of information. Besides, published data are now available on a wide range of matters and their reliability has improved considerably in course of time. Hence, there is increasingly greater dependence on secondary data for the purpose of office reports.

20.3.2 Factors to be Considered: While planning the collection of data, the office manager should keep in mind the following points:

(i) Purpose of Data : First of all the objective of data collection should be clearly defined. The type of data to be collected depends upon the use to which the information collected will be put. For example, if the purpose of enquiry is to study the trends in labour turnover, it would be necessary to collect data on the number of employees who have resigned and decided, the data collected may turn out to be irrelevant. This will lead to waste of time and money.

(ii) Units of Data : The units in terms of which the data are counted or measured are known as 'statistical units'. Before collecting any data, the unit of measurement should be clearly defined. For instance, if the purpose of investigation is to determine the size of the market, the unit of measurement may be number of customers, geographical area or the value of goods sold. Different units of measurement may lead to different conclusions. The unit of data should be specific, stable and uniform throughout the investigation so that valid comparisons can be made.

(iii) Homogeneity, Completeness and Stability of Data : Comparison of data as between periods and groups is valid only when the basis of compiling data is homogenous. If the data cannot be compiled under one heading or class, it may be divided into group or classes. When the basis of presenting data under a particular group or class is changed, it must be pointed out in the report. Moreover, the data must be complete in all details. The amount of details will depend on the nature and scope of the investigation. The effect of seasonal and cyclical changes in business conditions should be eliminated to ensure stability of the data. This can be achieved by covering a long period that includes all phases of a business cycle.

(iv) Sources of Data : The sources of data may be primary or secondary. Primary sources of data refer to the original data collected from first hand sources. Interviews, questionnaire and field survey are used for collecting primary data. Secondary sources include the data collected by other investigators, records maintained by Government and private agencies and publications. The choice between primary and secondary data depends upon the subject of investigation, time available, financial resources and the degree of accuracy required.

(v) Techniques of Data Collection : Techniques of data collection can be divided into two categories (a) census, and (b) sample. Under census method, each and every unit of the population is taken into account. When only a part of the total population is considered, it is known as 'sample method.' The sample is supposed to represent the total population. When a moderately large number of items are chosen at random from the population, the sample is likely to possess all the characteristics of the population. Several types of sampling techniques are available. Whatever the technique, the sample should be selected carefully to ensure that the conclusion based on it are true about the population. Census method ensures completeness and reliability of data. On the other hand, sample method saves time and effort.

(vi) Degree of Accuracy : The investigator must decide in advance the degree of accuracy which he wants to attain in his conclusions. This will depend upon the purpose or use of the investigation.

20.3.3 Methods of Collecting Data: Various methods of collecting primary data are summarised below:

(i) Observation and Experiment : Observation implies seeing with a purpose. It involves counting or noting the events as they occur. For example, a firm which wants to select the location of a retail store may ask the investigator to count the number of persons moving in the area. Similarly, the number of wrappers in dustbins may be counted to judge the popularity of a brand of the product. Experimentation refers to the testing of a theory or product to know the reactions of people. For example, a sample of a new product may be tested to judge its commercial success.

This method offers several advantages: (i) it provides more accurate and objective data (ii) it requires less skilled investigators (iii) it provides better control over variable so that proper conclusions may be drawn.

Observational method suffers from many disadvantages: (i) it is time consuming, (ii) it is more expensive (iii) personal bias and carelessness of the observer may distort the conclusions.

(ii) Interview Method : Under this method, data are collected through direct personal conversation with the persons who can furnish the required data. The investigator or correspondent asks questions and records the replies. The success of this method depends upon the interviewer. He should be well trained, tactful, persistent and a good conversationalist.

Interviewer method offers the following advantages: (a) it is a flexible method as the nature of questions and the technique of questioning can be adjusted to suit the particular situation (b) it provides first hand reliable information (c) it provides adequate data as misunderstanding can be cleared through personal conversation (d) it is informal and therefore can provide information which can not be formally obtained.

These disadvantages of interview method are as follows: (a) it is time consuming (b) it is very expensive (c) Personal bias of the interviewer may affect the data.

(iii) Questionnaire : Under this method a questionnaire is sent to the informants through mail. A covering letter is attached explaining the object of enquiry and requesting the people to fill up the questionnaire and mail it back. This method offers several advantages: (a) it provides a very wide coverage (b) it is economical (c) it is very convenient for both the investigator and the informant (d) exact and well thought replies are possible because the informant fills up the questionnaire at leisure.

The method suffers from several disadvantages: (a) generally the response is very poor as most of the persons do not mail back the questionnaire (b) this method can not be used where the informants are illiterate (c) the replies may be inexact or incomplete and it is not possible to check their reliability.

20.3.4 Techniques of Collection of Data : If it is desired to collect the maximum amount of factual information about any matter, the investigator may study each and every item or contact each and every informant in the field of enquiry. This is possible when the number of items is not too large. If the number is large, the investigator, to save time and expenses, may decide to study only a reasonable number of items on the assumption that information so obtained will hold good for the other items as well. These two alternative approaches to the tasks of collecting data are referred to as the Census Technique and Sampling Technique.

(i) Census Technique : The census technique of data collection refers to the technique in which each and every item is studied for securing the relevant information. The word 'census' is generally is used in connection with the complete enumeration of a population. Statistically, 'population' or 'universe' means the aggregate number of objects under study or the whole field of measurement of each and every object relevant to the enquiry. To take an example, if it is desired to find the average height of the boys in a school, the investigator may arrange to measure the height of each and every boy.

The advantages of the census technique are: (a) it provides complete data; and (b) more definite conclusions can be drawn from the data so collected. However, this technique cannot be adopted where the number involved is very large. For one thing, it would require more time and money to be spent to complete the enquiry if the number is very large. Thus, the census technique is unsuitable in most cases involving large numbers.

(ii) Sampling Technique : The sampling technique is more popular mainly because it is economical and provides a quicker means of collecting data. It refers to the collection of data with respect to a representative number of items rather than studying each and every item. This approach is primarily based on the principle of statistical regularity-that "a moderately large number of items chosen at random from a large group almost sure on the average to possess the characteristics of a large group."

Advantages are (a) the sampling technique saves time and expense, and yet provides reliable data. (b) More intensive study is possible under this technique, for with the saving in time and money more detailed information can be collected with respect to the sample. (c) Thirdly, it is the only technique which can be adopted in certain cases, e.g., testing the durability of electric lamps or testing the quality of writing chalks.

Limitations are though the sampling technique is more convenient to adopt, it has certain limitations which must also be noted. (a) It requires a good deal of care and attention at the planning stage. Any defect in the procedure of sampling may lead to serious flaws in the results obtained. (b) It requires the help of expert statistical staff having knowledge and experience of conducting sample surveys. (c) It may involve much time and energy if the sampling plan is complicated.

20.4 Editing of Data : After the data are collected, it is necessary to edit them. Editing involves a close scrutiny of data to eliminate errors and irregularities. Editing is necessary to ensure that (a) the data are complete (b) data are reliable (c) they are not contradictory (d) data are uniform or homogeneous. Careful editing is necessary for all types of data. It is all the more essential for secondary data.

20.5 Classification of Data : Classification may be defined as the process of arranging data according to some common characteristics. After collection, data may be classified on the basis of certain common characteristics. For example, an office may classify its customers into two categories (a) those buying goods on cash basis and (b) those buying on credit. Classification of data helps in proper analysis of data. It separates the essential data from the irrelevant data. It gives a definite shape to data for proper understanding and comparisons.

The objectives of classification of data are as follows:

- (i) To condense the large volume of data;
- (ii) To highlight the most significant characteristics of the data;
- (iii) To facilitate comparison by bringing out the points of similarity;
- (iv) To enable further statistical treatment of data.

Basis of Classification : Data may be classified according to the follows bases:

(i) Chronological Classification : Under it data are classified according to the time of happening of events e.g. day, week, month, year, etc.

(ii) Geographical Classification : Data are classified according to the location of items. For example, customers may be classified on the basis of the regions to which they belong.

(iii) Quantitative Classification : Data are classified on the basis of their numerical qualities e.g. income, output, sales, etc. For example, employees in an office may be classified on the basis of their monthly pay.

(iv) Qualitative Classification : It is based on the attributes of the data e.g. sex, education, etc.

Choice of Basis of Classification : The method of classification will depend upon the nature, purpose and scope of the enquiry. While choosing a method of classification the following factors must be kept in mind:

- (i) The method of classification should be un-ambiguous. Various classes or groups must be precisely defined so that is no confusion while analyzing the data.
- (ii) It should be flexible so that adjustments can be made to cope with the changes.
- (iii) The method of classification should be stable so as to facilitate comparisons.

20.6 Tabulation of Data : Tabulation refers to the systematic arrangement of statistical data in columns and rows. A statistical table is the logical listing of related data in vertical columns and horizontal rows. Tabulation is done after classification to present the data in a more understandable form. Tabulation may be done manually or with the help of tabulating machines. Manual tabulation is economical and it requires unskilled operators. But mechanical tabulation is faster, more accurate and less monotonous. In large organizations, mechanical tabulation is useful. Tabulation is important due to the following reasons: (i) it simplifies complex data for quick understanding (ii) it facilitates comparisons by highlighting interrelationships between data (iii) it gives identify to data which cab be used as a source of reference (iv) it reveals patterns of data.

20.7 Electronic Data Processing : In large enterprises, the volume of business of information to be processed is very vast. In order to supply timely and dependable information to management for decision making. In the turbulent environment of today, managers are required to take instant decisions and corrective actions. This is possible only when the data are processed quickly and accurately. Therefore, electronic computers are used for processing the large volume of data. Processing of data with the help of electronic computers is known as electronic data processing.

Electronic data processing should be differentiated from integrated data processing (IDP). Integrated data processing is a comprehensive system of originally recording data in machine language and subsequently reproducing it for all purposes by means of compatible machines and equipment. Data common to several interrelated office operations are recorded and are then reproduced on various documents. Such integration of data processing work relating to different operations leads to considerable saving of time and clerical cost.

20.7.1 Meaning : Electronic data processing or EDP “is the use of computer in the processing of facts and information that have been converted into a code consisting of electrical impulses.” Data processing with the help of electronic computers is now considered to be indispensable for processing business information need for making management decisions in large enterprises. It is well known that to manage efficiently, management must be able to depend on a business information system which is dependable, timely and economical. An effective information system provides timely, significant information to business managers which enable them to control and direct business operations to the achievement of planned objectives. The increasing complexity of business operations demands instant decisions and corrective actions by management. This is possible only when the output of information is speeded up, as well as the information or data can be speeded up with the help of electronic computers, but to enable it to produce accurate and logical data it is necessary to have a planned and efficient data processing system.

20.7.2 Electronic Computers : Modern age is the age of computers which are the latest type of office machines. A computer may be defined as against brain machine which processes, stores and supplies information instantaneously. It is a replica of the human brain and it can perform all types of clerical operations very quickly and accurately. It accepts data, processes it and turns out some useful result. It has its own language called binary code which is used to translate data into a form it can understand. The component parts of an electronic computer are as follows

(i) Input : It is that part of a computer which accepts data in the form of punched cards, magnetic tape or teleprinter.

(ii) Memory : It is also known as storage. It consists of a magnetic core, drum or tape, disc or rod or film. It stores the data and supplies whenever required.

(iii) Control : This unit consists of the console (start, stop, etc). It tells the computer what to do with the data.

(iv) Arithmetic : It is also known as the accumulator. It performs various types of calculations.

(v) Output : This delivers the result of the process in the form punched cards, magnetic tape or line printer. The output is printed in ordinary language for inspection and checking purposes.

20.7.3 Uses of Electronic Data Processing : A computer can be put to a wide variety of uses as given below:

(i) In Business: The main uses of computers in business are as follows: (a) preparation of payroll (b) Stock control (c) Sales account record. (d) Costing and budgetary control (e) Production control (f) Insurance and actuarial valuations (g) hire purchasing accounting

(ii) In Government: Computers are used by government for the following purposes: (a) Economic planning (b) Fiscal and monetary control (c) Foreign trade (d) Population census (e) Elections (f) Employment studies (g) Weather monitoring

20.7.4 Advantages of EDP : The following advantages are derived from electronic data processing :

- (i) A computer provides more information than is otherwise possible.
- (ii) It provides control information at a great speed
- (iii) It reduces the monotony of the office staff
- (iv) It makes complicated calculations at a great speed
- (v) It saves office labour costs.
- (vi) It ensures greater accuracy in data processing
- (vii) It provides indirect financial saving through various types of application e.g. inventory control
- (viii) It ensures better centralized control.
- (ix) It provides flexibility of operations as any number of programmes can be prepared for different business operations.
- (x) It improves customer service and company prestige.

20.7.5 Demerits of EDP :

- (i) It is very costly to install and operate
- (ii) It may result in retrenchment of staff thereby straining personnel relations.
- (iii) It may upset all office systems and routines.
- (iv) It requires trained staff
- (v) A breakdown may result in complete dislocation of office work
- (vi) A computer fraud may be committed by feeding a fraudulent input or by altering the computer programme.
- (vii) The installation of a computer requires preparatory work at a great expense.
- (viii) A computer may lend to over-centralisation of control
- (ix) It creates the problem of maintenance
- (x) A computer may become quickly outdated.

20.8 Let Us Sum Up : In this lesson we have discussed meaning and uses of data process system with reference of electronic data processing.

20.9 Lesson End Activities :

1. What is meant by Data Processing System? What are its components?
2. What are the Sources of Collection of Data?
3. What are the factors to be considered while Collecting Data?
4. What are the methods of Collection of Data?
5. What are the techniques of Collection of Data?
6. What is meant by electronic Data Processing? Explain its merits and demerits.

20.10 Model Answers to Check Your Progress :

- Question No. 1 Refer para (20.2)
- Question No. 2 Refer para (20.3.1)
- Question No. 3 Refer para (20.3.2)
- Question No. 4 Refer para (20.3.3)
- Question No. 5 Refer para (20.3.4)
- Question No. 6 Refer para (20.7)

20.11 References

- Office Organisation and Management - C.B.Gupta - Sultan Chand & Sons
- Office Management Principles – Prasanna - Sultan Chand & Sons

UNIT – V

LESSON - 21

STOCK EXCHANGES

21.0	Aims and Objectives
21.1	Introduction
21.2	Meaning of Stock Exchange
21.3	Organisation of Stock Exchange
21.4	Membership in Stock Exchange
21.5	Importance of Stock Exchange
21.6	Functions of Stock Exchange
21.7	Speculation
21.8	DEMAT of Shares
21.9	Let Us Sum Up
21.10	Lesson End Activities
21.11	Model Answers to check your progress
21.12	References

21.0 Aims and Objectives : In this lesson we are going to discuss

- Meaning, Organisation, Functions and Powers of Stock Exchange
- Meaning and types of Speculation and Speculators.
- Procedure for listing of Securities in Stock Exchange.

After reading this lesson you should be able to understand the basic working knowledge of all above-mentioned topics and to answer lesson end activities given at the end of the chapter.

21.1 Introduction : Normally the capital market of a country is very much depend upon the security market. In India due to globalisation the securities market place very vital role in the economy. In the study of securities market the role of stock exchange is inevitable. The present chapter deals with meaning, role and functions of stock exchanges in India.

21.2 Meaning of Stock Exchange : Stock exchange is an important segment of the securities market of any country where private sector has a role to play. It is a place where dealings take place in the listed securities (securities included the Official list of stock exchange). These securities are ‘second-hand securities’ in the sense that they are those securities which have already been issued to the public by the corporations or the Government bodies. The Securities Contracts (Regulations) Act, 1956 has defined Stock exchange as an association, organisation or body of individuals, whether incorporated or not, established for the purpose of assisting, regulating and controlling business in buying, selling and dealing in securities.

21.3 Organisation of Stock Exchange : There is no uniformity in the organisational pattern of various stock exchanges in India. Some of them are operating as private clubs or associations while others as limited companies. Mumbai, Ahmedabad and Indoor stock exchanges are in the nature of private clubs and the other stock exchanges are organised in the form of limited companies. The management of every stock exchange is vested in the hands of a governing board (or council of management or executive committee) whose members are elected from among the members of concerned stock exchange. Under the Securities Contracts (Regulation) Act, 1956, the Central Government is empowered to nominate a maximum of its three representatives on the governing board of every stock exchange. In the day-to-day management, the governing board is assisted by a number of subcommittees like listing committee, arbitration committee, defaulters committee admission committee, and share-examination committee. The governing board is empowered to make rules and regulations in consultation with the Government and the members of the stock exchange.

21.4 Membership in Stock Exchange : Only the members of a stock exchange can enter its floor and carry on business. A non-member willing to buy or sell securities must do so through a member. The membership of a stock exchange is restricted to individuals who are financially sound and have sufficient in this field. Every stock exchange has its own regulations for the admission of members. To become a member, a person is required to pay entrance fee, membership deposit and annual subscription. For instance, to become a member of the Mumbai stock exchange a person must be recommended by two existing members of at least five years' standing (not being members of the governing board). If his application is accepted by the governing board, he will have to deposit Rs. 20,000/- in cash or securities and purchase a card. But where the stock exchange is registered under the Companies Act, purchase of at least one share of the stock exchange is necessary to become a member. The person willing to become a member of a stock exchange has also to give an undertaking to the effect that he will follow the rules and regulations of the stock exchange and submit himself to the disciplinary jurisdiction of the stock exchange.

21.5 Importance of Stock Exchange : The growth in the number and size of business enterprises in the corporate sector has increased the significance and role of stock exchange in India. As a matter of fact, corporate enterprises in the private sector cannot grow and expand without the active support of the stock exchanges. Stock exchange is the citadel of capital market. It constitutes the prime-centre through which bulk of investment activities are conducted by individuals and institutional operators. It facilitates the transfer of existing flow of savings into the profitable channels and increases the flow of savings for the economic development of the country. It is indispensable for the proper working of corporate enterprises by directing flow of savings into the profitable channels.

(i) Stock exchange is an important agency of capital formation. It induces the public to save and invest in the corporate sector. It provides ready and continuous market to various securities which facilitates shifting of investments to more productive channels. Thus, the funds that are lying idle or invested in those ventures which yield a lower rate of return can be diverted in those securities which are safer and give higher return on investment. This process encourages the investors to save more for better and profitable investment and ultimately helps in capital formation.

(ii) The stock exchange plays an important part to advance the process of economic development in the country. The corporate enterprises in the public as well as private sector depend upon the stock exchange for raising money from the public by issuing securities and receiving public deposits. Because of its various services provided to the community stock exchange has been described as the pulse of the economy of the country. In short, it acts as a

gauge-glass of economic conditions in the country since various forces governing investment in industry and commerce are reflected through the activities of stock exchange.

(iii) Stock exchange also renders invaluable services to the investors and the corporations. It serves the investors by (a) ensuring liquidity of investment by ready marketability of securities: (b) ensuring diversion of capital into more productive channels: (c) ensuring free and fair dealings in the stock exchange: (d) equating the public by wide publicity; and (e) providing opportunities to the investors to take financial risks. Since the securities dealt in the stock exchange are listed, they are freely negotiable and can be pledged as 'collateral security' for a loan.

(iv) The corporation whose shares are listed and dealt in on the stock exchange enjoy better credit standing because investors are aware of the fact that stock exchange exercises some element of control over the managements of such companies. These companies can raise further capital from the market freely. Stock exchange also helps in minimising the fluctuations in the price of securities of different companies. It will not be an exaggeration of the significance of stock exchange if we say that joint stock companies cannot exist and grow without the active support of stock exchange.

21.6 Functions of Stock Exchange : Following are the important functions performed by the various stock exchanges in India :

(i) Ready Market : Stock exchange provides a ready and continuous market for the securities issued by various agencies or institutions. The inventors can convert their money into securities and vice versa very quickly, Stock exchange ensures increased liquidity and ready market for the securities which enables it to attract people who have surplus money even for a short period of time.

(ii) Mobilisation of Savings : Stock exchange helps in mobilisation of surplus funds of individuals, business firms and cooperatives for investment in popular securities. The procedure for purchasing securities through the stock exchange is not very complicated. The stock brokers are always ready to help their prospective clients with their specialised services.

(iii) Evaluation of Securities : Stock exchange helps in determining the price of various securities. The forces of demand and supply act freely in the stock exchange. Stock exchange provides appropriate conditions for the appraisal of various securities by the investors and the speculators. The prices at which transactions take place are recorded and made public in the form of market quotations, which help the investors to know current market prices of various securities.

(iv) Capital Formation : Stock exchange not only mobilises the existing savings but also induces the public to save money. It gives wide publicity to its working and provides ready market for the sale or purchase of various securities due to which people are induced to save and invest in those securities which yield higher returns. This facilitates capital formation in the country.

(v) Proper Canalisation of Capital : Stock exchange directs the flow of savings into the most productive channels. Since transactions take place freely and prices are given wide publicity, the investors can invest their savings in those securities which are likely to give sufficient return for a comparatively longer period. When an existing company issues securities to raise more capital from the public, it will be successful only if it is earning sufficient profits. Public response to such issues by weaker companies will be discouraging.

The mechanism compels the management of various companies to ensure that they invest the funds available to the companies in profitable ventures.

21.7 Speculation: In the course of studying the concept of stock exchange, the word speculation cannot be ignored.

21.7.1 Meaning of Speculation : Generally, the terms speculation means any activity of business in nature in which the sales and purchases of goods are taken place in a future period by estimating certain change of price of goods. In the context of securities market, the terms speculation denote a business transactions under which the shares and securities are sold or purchased without actual delivery.

21.7.2 Meaning of Speculator : A person of an individual who under take the business of selling and purchasing of shares under the speculation basis is called as speculator.

21.7.3 Types of Speculative Transactions : The various types of transactions, which facilitate speculation in the stock exchange, are as follows:

(i) Option Deals: Option trading is a specialised method of entering into speculative transactions. The term 'option' denotes a right to buy or sell a specific security or commodity at a certain price during a specified period. That means, option dealing is an arrangement of right to buy or sell a certain number of specified security at a pre-determined price within a prescribed time limit. Under this the main intention of parties to the agreement is not to take or give delivery of the security in future, but simply to gain or loose when there is rise or fall in the prices in the future. The option is given to a party to the contract to purchase or sell in consideration of the stipulated premium known as 'Option Money'. If the party does not exercise its option at the fixed time, it will forfeit its option money. There are three kinds of options which a speculator can purchase. These are as follows:

(a) Call Option : It is an option to buy the speculator at a fixed price in the future. It is also known as 'Teji Sauda'.

(b) Put Option : It is an option to sell a security. It is also known as 'Mandi Sauda' 'because the seller expects the prices to move downward.

(c) Put and Call or Composite Option : It is also known as double option since it grants the privilege of both buying and selling certain number of a security at a fixed price within a specified time period. Under this, the purchaser of the double option is given the option to purchase or sell the concerned security in the future according to his choice.

(ii) Margin Trading : The term 'margin' is very popular in the banking world. It means the minimum deposit required by a banker while granting loans against the security of certain assets. The term 'margin' is used in two senses in the stock exchange. Firstly, a broker is to deposit a certain amount of money with the stock exchange authorities against the business done by him. This margin system is prevalent in Bombay, Delhi, Calcutta and Ahmedabad stock exchanges. It is used to control directly over-trading in the stock exchange. It is also used to carry on forward transactions on sound footing. Lastly, it restricts the volume of speculation.

(iii) Arbitrage Operations : The term 'arbitrage' has been defined by H.D Berman, as "the business of buying or selling a security as a principal in one centre with the intention of reversing such a transaction in a centre (or country) other than that in which the original transaction took place in order to profit from the price difference between the two centers".

An arbitrage is a speculative transaction to bridge the gap or cover the spread or difference between the prices in different markets. If there is significant difference in the prices of a security in two stock exchanges, a speculator may attempt to take advantage of such a difference. He will buy in the cheaper exchange and sell in the costlier exchange. For instance, price of a security is lower in Delhi and higher in Bombay. The arbitrageur will buy in Delhi and at the same time sell in Bombay till prices at both the markets are equalized. Naturally, arbitrage transaction will take place only if the price difference is sufficient to cover the costs of entering into transactions and give a sufficient amount of profit. Quick means of communication are essential for such operations, if the profits from the price difference are to be reaped. An arbitrage transaction may be 'domestic arbitrage' or 'foreign arbitrage' depending upon the location of the stock exchange.

(iv) Wash Sales : Wash sales are fictitious transactions. A speculator may arrange to sell a security and buy the same at a higher price through different brokers. Thus, it is a 'pretended sale'. In fact, there is no transaction. Wash sales create false impression among the other speculators and investors about the prices of the security. When the price is higher the speculator will unload his holdings to others. Such sales are undesirable and are prohibited by the stock exchange authorities.

(v) Blank Transfer : A blank transfer is one whereby the transferor delivers to the transferee the share certificate with a transfer from (deed) signed by the transferor only leaving a blank space or the name of the transferee. The advantage of such a transaction is that shares can further be transferred by mere delivery of blank transfer deed together with the share certificate. A new transfer deed will not be required at the time of each transfer. It may be noted that mere delivery of share certificate together with transfer form executed in blank does not confer on the holder the ownership of these shares. He gets only equitable interest in the shares. If he wishes, he can get himself registered as a shareholder and only then, he can be regarded as the owner of shares. Therefore, in the books of the company, the transferor will continue to be the owner till some transferee puts his name and signature on the blank transfer deed and sends it for registration to the company and the company accepts the transfer. Blank transfer is the commonly used device at all stock exchange of the country. The purpose of blank transfer is to facilitate negotiability. Since the name of the transferee is not filled in the transfer deed, the shares may further be transferred merely by delivering the blank deed along with the share certificates. Thus, stamp duty is saved. Only the last transferee has to bear the stamp duty. Blank transfer is very helpful when the buyer of a security does not want to retain it for a long time or buyer of a security does not want to retain it for a long time or when he wants to get a loan from a commercial bank by pledging the security. Blank transfer also leads to the following evils.

(i) It encourages speculation because the same transfer deed is valid for a large number of transactions without any payment of stamp duty.

(ii) There is concealment of the identity of the real owners behind their nominees.

(iii) This leads to evasion of tax by suppression of secret profits invested in holdings on blank transfers.

21.7.4 Types of Speculators : There are four types of speculators who are generally active on the stock exchanges. Terms have been drawn from the animal world to clearly bring out the nature and working of various speculators. The four types of speculators are: Bull, Bear, Stage and Lamé Duck.

(i) Bull : A Bull or Tejiwala is an optimist speculator because he expects a rise in the prices of certain securities in which he deals. Since he is a speculator, he enters into purchase

transactions with a view so sell them at a profit in the future and has no intention of taking delivery of the securities. He simply deals in differences of prices. He is said to be on the long side of the market because he purchases the securities expecting that the price will go up in the future. Such a speculator is called a bull because of resemblance of his behavior with the bull. Just as the bull tends to throw his victim up in the air, the bull speculator tends to rise the price of certain securities by placing big purchase orders.

(ii) Bear : A bear is a speculator who is a pessimist as he expects prices to fall. He is also known as 'Mandiwala'. He sells the securities to buy them at reduced prices in future. He earns a profit if the prices more down. Since the prices go down in the market, he will take the differences of prices fro the buyers. Just as a bear presses its victims down to the prices of different securities. When the bear operators start selling the securities the bearish pressure gradually forces down the prices.

(iii) Lame Duck : When a bear finds it difficult to meet his commitments, he has to struggle like a lame duck. Sometimes, a bear enters into a bargain for the sale securities to be delivered on a certain date in the future and on the said date; the security is not available in the market. In such a case he finds himself cornered. Moreover, buyer of security is not willing to oblige him by postponing the date of delivery.

(iv) Stag : A stage is a speculator who simply applies for shares in new companies with the sole object of selling them at premium as soon as he gets the allotment of shares. He applies for the shares of those companies which are popular with the investors and their shares are likely to bring higher premium. He applies for a large number of shares in order to ensure that he gets the allotment of some shares even if high rate of over-subscription.

21.7.5 Procedure for Listing of Securities : Every company which wishes to get its securities listed has to follow the statutory rules in this regard framed by the Government under the Securities Contracts (Regulation) Act. The procedure may be dispersed in the following three stages.

(a) Application Stage : The application for listing of securities is to be made in the prescribed form and should be supported by the following documents.

- (i) Certified copies of memorandum and articles of association, prospectus or statement in lieu of prospectus and agreements with underwriters.
- (ii) Particulars regarding the capital structure.
- (iii) Copies of balance-sheet and directors' reports of previous years.
- (iv) Specimen copies of share and debenture certificates, letter of allotment and letter of regard.
- (v) Particulars of shares of debenture which are being submitted for listing.
- (vi) A statement showing distribution of shares.
- (vii) Certified copy of the consent of the Controller of Capital issues, if any.

(b) Scrutiny Stage : After the application is made to the stock exchange, the listing committee of the stock exchange will go into the details of the application and ensure that the applicant company fulfills the following conditions or criteria necessary for listing:

(i) The articles of association must contain the following provisions: (a) a common form of transfer shall be used; (b) fully paid shares shall be free from lien ; (c) calls paid in advance shall not carry a right to dividend but may carry interest at a specified rate ; (d) unclaimed dividend shall not be forfeited before the claim becomes time-barred.

(ii) At least 49% of each class of securities issued must be offered to the public for

Subscription through a prospectus.

(iii) The company should have a broad based capital structure and there is a sufficient public interest in its securities.

(c) Listing Stage : If the application for listing is accepted, the stock exchange authorities will call upon the company to execute a listing agreement. Under the listing agreement, the company undertakes to fulfill certain obligations on a continuous basis. This is done to keep the investing public shareholders and the stock exchange authorities informed about the affairs of the company from time to time. These obligations are as follows:

(i) The company shall treat all the applicants for shares and debentures with equal fairness in the matter of allotment.

(ii) In the event of over-subscription, the stock exchange will be consulted to arrive at a basis for making allotment.

(iii) The company shall notify: (a) the date of Board Meeting at which dividend will be recommended: (b) any material change in the nature of company's business: (c) any change in the company's capital; (d) issue of shares including right and bonus shares to the shareholders.

(iv) The company shall undertake to: (a) comply with all the conditions on the basis of which the securities have been listed; (b) notify the stock exchange of any redemption, cancellation or retirement of any listed securities: (c) forward immediately to the stock exchange copies of its annual audited accounts after they have been issued; (d) provide the stock exchange with any other information necessary to enable the shareholders or investing public to appraise the position of the company.

21.8 DEMAT of Shares : The term Demat means a dematerialized account. Though the company is under obligation to offer the securities in both physical and Demat mode, you have the choice to receive the securities in either mode. If you wish to have securities in Demat mode, you need to indicate the name of the depository and also of the depository participant with whom you have depository account in your application. It is, however desirable that you hold securities in Demat form as physical securities carry the risk of being fake, forged or stolen.

Just as you have to open an account with a bank if you want to save your money, make cheque payments etc, Nowadays, you need to open a Demat account if you want to buy or sell stocks. So it is just like a bank account where actual money is replaced by shares. You have to approach the Depository Participant Bank to open your Demat account. For example, your portfolio of shares looks like this : 150 of Infosys, 50 of Wipro, 200 of HLL and 100 of ACC. All these will show in your Demat account. So you don't have to possess any physical certificates showing that you own these shares. They are all held electronically in your account. As you buy and sell the shares, they are adjusted in your account. Just like a bank pass book or statement, the Depository Participant will provide you with periodic statements of holdings and transactions.

21.9 Let Us Sum Up : In this lesson we have discussed meaning, function and powers of stock exchanges and meaning, types of speculative transactions.

21.10 Lesson End Activities :

1. What is meant by Stock Exchange? Explain various Functions of Stock Exchange.
2. Examine the role of Stock Exchange in India.
3. Discuss the organisations and membership of a Stock Exchange in India.
4. There are four kinds of animals found in a Stock Exchange. Explain them and bring out their mode of operation.

5. What are the various types of speculative transactions in Stock Exchange?
6. Explain the factors which influence the fluctuation of prices on the Stock Exchange.
7. Describe the procedure of trading in the Stock Exchange.
8. Write short note:
 - (i) Blank Transfer; (ii) Bull ; (iii) Bear ;(iv) Arbitrage ;(v) Margin trading ; (vi) Wash Sales

21.11 Model Answers to Check your Progress :

Question No. 1 Refer Para 21.6

Question No. 2 Refer Para 21.5

Question No. 3 Refer Para 21.3

Question No. 4 Refer Para 21.7.4

Question No. 5 Refer Para 21.7.3

Question No. 6 Refer Para 21.8

Question No. 7 Refer Para 21.9

Question No. 8 Refer Para (i) 21.7.3 (v), (ii) 21.7.4 (i), (iii) 21.7.4 (ii), (iv) 21.7.3(iii)
(v) 21.7.3 (ii), (vi) 21.7.3 (iv)

21.12 References

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LESSON - 22

SECURITIES EXCHANGE BOARD OF INDIA

- 22.0 Aims and Objectives
- 22.1 Introduction
- 22.2 History of SEBI
- 22.3 Objectives of SEBI
- 22.4 Establishment of SEBI
- 22.5 Management of SEBI
- 22.6 Functions of SEBI
- 22.7 Powers of SEBI
- 22.8 Let Us Sum Up
- 22.9 Lesson End Activities
- 22.10 Model Answers to check your progress
- 22.11 References

22.0 Aims and Objectives : In this lesson we are going to discuss

- Meaning, Establishment, Functions of SEBI
- Various powers of SEBI

After reading this lesson you should be able to understand the basic working knowledge of all above-mentioned topics and to answer lesson end activities given at the end of the chapter.

22.1 Introduction : Capital Market is growing at a very fast pace in India, particularly after Liberalisation in Industrial policy in 1991. Till 1991 controller of capital issues was the main authority who used to regulate all the matters related to capital issues. Its operation was similar to a total administered economy. The Department of Company Affairs was also looking after some aspects of the Capital Market. However, need was felt to have a single authority to regulate and administer laws relating to securities so as to ensure proper growth of capital market.

22.2 History: A high level committee on the financial system with Shri. M. Narasimham as the Chairman was set up in 1991, which made far reaching recommendations for banking sector and non- banking financial sector to improve the flexibility and operational efficiency of the markets and the institutions. In the area of capital reforms, the Narasimham Committee emphasised the need for strengthening the powers of Securities and Exchange Board of India (SEBI), vesting of powers of Controller of Capital issues in the SEBI and freeing of operations in the capital market with the SEBI as the Supervisory and Regulatory authority. Keeping this in mind, SEBI (Securities and Exchange Board of India (which was earlier established as an administrative body in April 1988, was given a statutory status under section 3 of the Securities and Exchange Board of India Act, 1992. Controller of Capital

Issues (CCI) was abolished with a view to have SEBI as a single agency to look after the Capital Market and also for all the intermediaries such as Merchant Bankers, Registrars, Brokers, Underwriters etc.,

22.3 Objectives of SEBI : The objectives of the SEBI are as follows :

- (a) Protection of the interests of investors in securities.
- (b) Promoting orderly and healthily growth of the securities market.
- (c) Regulation of the securities market and other incidental matters.
- (d) Promoting the fair dealings by the issuer of securities and ensuring a market place where they can raise funds at a relatively low cost.
- (e) Regulating and developing a code of conduct and fair practices by intermediaries like brokers, merchant bankers etc., with a view to making them more competitive and professional.
- (f) Monitoring the activities of stock exchanges, mutual funds and merchant bankers etc.

The Securities and Exchange Board of India Act, 1992 extends to the whole of India. It came into force with effect from 30 th January 1992.

22.4 Establishment of SEBI : Section 3 of SEBI Act empowers the Central Government to appoint, by notification, for the purpose of this Act, aboard by the name of the Securities and Exchange Board of India. Accordingly, SEBI was given a statutory status under section 3 of the SEBI Act as on 30 th January, 1992. Accordingly to section 3 (2) of the Act, the Securities and Exchange Board of India shall be a body corporate having perpetual succession and a common seal. It shall have the power to acquire hold and dispose of the property, both movable and immovable. It will have the power to enter into a contract and may sue or be sued in its name. The head office of the SEBI is situated at Mittal Court, B-Wing, 224 Nariman Point, and Mumbai 400021. The Board may establish offices at other places in India.

22.5 Management of SEBI: As noted above, SEBI is statutory Board i.e. Board formed under Statue. The Board shall be headed by a chairman. In addition, there will be eight members: (a) two members from amongst the officials of the Ministries of the Central Government dealing with Finance and Law; (b) One member from amongst the officials of the Reserve bank of India; (c) five other members of who at least three shall be the whole-time members. Thus, there are nine members including chairman. Accordingly to section 4(2) of the Act, this Board exercise general superintendence, direction and management of the affairs of the SEBI. The Chairman of the Board can exercise all powers of the Board, except those specified in the regulations framed under SEBI Act. The Chairman and the members are appointed by the Central Government except that member from Reserve Bank of India is appointed by the RBI. The Chairman and other members shall be persons of ability, integrity and standing who have shown capacity in dealing with problems relating to securities market and have special knowledge or experience of law, finance, economics, accountancy, administration etc. According to section 5 of the SEBI Act, the term of office and other conditions of service of the chairman and other members shall be such as may be prescribed. However, the appointment of the chairman or other members can be terminated by giving three months notice with pay. Similarly, the chairman and any member can relinquish his office by giving three months notice.

22.6 Functions of SEBI : Section 11(2) empowers SEBI to take the following measures for the purpose of due performance of its duties under the Act.

1. Regulating business in stock exchanges and other securities markets;
2. Registering and regulating working of stock brokers, sub-brokers , share transfer agents, bankers to issue, trustees of trust deed, registrars to an issue , merchants bankers , underwriters, portfolio managers, investment adviser and such other intermediaries who may be associated with securities markets in any manner.

3. Registering and regulating working of depositories, custodians of securities. Foreign Institutional Investors, credit rating agencies and such other intermediaries of Boards may by notification, specify.
4. Registering and regulating working of Venture Capital Funds and collective investments schemes, including mutual funds.
5. Promoting and regulating self-regulatory organisations.
6. Prohibiting fraudulent and unfair trade practices relating to securities method.
7. Promoting investors education and training of intermediaries of securities markets;
8. Promoting insider trading in securities.
9. Regulating substantial acquisition of shares and take over of companies;
10. Calling for information form, undertaking inspection, conducting enquires and audits of stock exchanges, mutual funds and intermediaries and self – regulatory organisation in the securities market.
11. Calling for information and record from any bank or any other authority or boars or corporation established or constituted by or under any Central, State or Provincial Act in respect of any transaction in securities which are under investigation or inquiry by the Board.
12. Performing such functions under Securities Contract (regulation) Act as may be delegated to SEBI by Central Government;
13. Levying fees or other charges for carrying out purpose of SEBI as stated above;
14. Conducting research for above purpose;
15. Calling information from agencies or furnishing information to agencies as maybe specified by Board;
16. Performing such other functions as may be prescribed.

22.7 Powers of SEBI: In order to achieve the objectives of the Act, many powers have been conferred on SEBI. There have been a number of security scams in the Country involving loss of crores of rupees to small and innocent investors. The Government of India constituted a Joint Parliamentary Committee to probe these scams. There is a feeling in many quarters that SEBI enjoys very limited powers and hence it is unable to regulate the security market.

(i) Power to Seek Information. Section 11 of the SEBI Act, 1992 alas amended by the Amending Act of 2002 confers a very important power on SEBI to seek information and records from any bank or any other statutory authority or board or corporation established either by central, state or local government. In other words, SEBI can now seek such information that would enable it to know the route through which the funds have been siphoned off. Earlier, it was not possible for SEBI to do so, resulting in hampering of investigations against offenders.

(ii) Powers of Inspection: The new section 11(2) inserted by the Securities and Exchange Boars of India (Amendment) Act 202 empowers SEBI to conduct inspection of books, registers, documents and records of any listed company or public company intending to get its securities listed. Such an inspection can be conducted by SEBI when it has reasonable grounds to believe that the particular company has been indulging in insider trading or indulging in fraudulent and unfair trade practices relating to the securities market. It is interesting to note that this is the first time that inspection powers have been given to SEBI and that should help the regulator in conducting speedy and effective investigation.

(iii) Powers of Civil Court Exercisable by SEBI: The SEBI shall have the same powers as revested in a civil court under the code of Civil Procedure, 1908 while trying a suit, in respect of the following matters:

- (a) The discovery and production of books of account and other documents, at such place and such time as may be specified by the SEBI.

- (b) summoning and enforcing the attendance of persons and examining them on oath;
- (c) Inspection of any books, registers and other documents of any person referred to in section 12, at any place.
- (d) inspection of any book, or register, or other document or record of the company;
- (e) Issuing commissions for the examination of witnesses or documents.

(iv) Powers of SEBI Where an Inquiry or Investigation is Ordered : SEBI may take any of the following measures, either pending investigation or inquiry or on the completion of such investigation or inquiry:

- (a) Suspend the trading of any security in recognized stock exchange.
- (b) Restrain person from accessing the securities market and prohibit any person associated with the securities market to buy, sell or deal in securities.
- (c) Suspend the office bearers of any stock exchange or self regulatory organisations from holding such position.
- (d) Impound and retain the proceeds of securities in respect of any transaction which is under investigation.
- (e) Attach after passing of an order on an application made for approval by the Judicial Magistrate of first class having jurisdiction for a period not exceeding 1 month, one or more bank accounts of any intermediary or any person associated with the securities market in any manner involved in violation of any of the provision of this Act, or the rules of the regulations made there under. However, only the bank accounts or any transaction entered therein so far as it relates to the proceeds actually involved in violation of any of the provisions of this Act, or the rules or the regulations made there under shall be allowed to be attached.
- (f) Direct any intermediary or any person associated with the securities market in any manner not to dispose of or alienate any asset forming part of any transaction which is under investigation.
- (g) Power to regulate or prohibit issue of prospects, offer document or advertisement soliciting money for issue of securities.

(v) Power to Issue Directions: SEBI may make an enquiry if it is satisfied that it is necessary

- (i) In the interest of investors, or orderly development of securities market; or
- (ii) To prevent the affairs of any intermediary being conducted in a manner detrimental to the interest of investors or securities market; or
- (iii) To secure the proper management of any such intermediary or person.

After making such inquiry as it deems fit, SEBI may, for protection of interests of investors, issue such directions, as it deems fit, to

- (i) Any person or class of persons referred in section 12.
- (ii) Any person associated with the securities market.

(vi) Power of Search and Seizure: A new section 11C has been introduced in the principal Act by the Securities and Exchange Board of India (Amendment) Act 2002 which covers the power of search and seizure. This arms SEBI where it has reasonable grounds to believe that transactions in securities are being dealt with in the capital market in a manner detrimental to the interest of the securities market, to order investigation and also issue directions for the production of books and other relevant records, which may be kept in the custody of the investigation authority.

(vii) Power to Order Cease and Desist: Section 11D, a new section inserted by the securities and Exchange Board of India (Amendment) Act 2002 empowers SEBI to issue a

cease and desist order, where necessary. It provides that if the Board finds, after causing an inquiry to be made, that any person has violated, or is likely to violate, any provisions of this Act, or any rules or regulations made there under, the Board may pass an order requiring such person to cease and desist from committing or causing such violation.

(viii) Power of SEBI Under SCRA : Following are the powers enjoyed by the SEBI under the Securities Contracts Regulations Act, 1956.

- (i) To grant recognition to a stock exchange .
- (ii) To withdraw recognition of any stock exchange in the interest of the trade.
- (iii) To require every stock exchange to furnish periodical returns of day to day affairs.
- (iv) To approve any stock exchange to make bye – laws.
- (v) To super said the governing body of a recognized stock exchange.
- (vi) To suspend the business of a any recognised stock exchange for a limited period.
- (vii) To compel listing of securities by public companies.

22.8 Let Us Sum Up : In this lesson we have discussed meaning, functions and powers of SEBI.

22.9 Lesson End Activities :

1. Explain Meaning and History of SEBI.
2. List out various objects for which SEBI is established
3. What are the functions of SEBI?
4. Explain in detail the various powers conferred on SEBI.
5. Write short note on Powers of SEBI as per SCR Act., 1956

22.10 Model Answers to Check Your Progress :

Question No. 1 Refer Para 22.2

Question No. 2 Refer Para 22.3

Question No. 3 Refer Para 22.6

Question No. 4 Refer Para 22.7

Question No. 5 Refer Para 22.7.9

22.11 References

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LESSON - 23

BUSINESS COMBINATIONS

- 23.0 Aims and Objectives
- 23.1 Introduction
- 23.2 Meaning of Combination
- 23.3 Causes of Combinations
- 23.4 Benefits of Combinations
- 23.5 Evils of Combinations
- 23.6 Types of Combinations
- 23.7 Associations
- 23.8 Let Us Sum Up
- 23.9 Lesson End Activities
- 23.10 Model Answers to Check Your Progress
- 23.11 References

23.0 Aims and Objectives : In this lesson we are going to discuss

- Meaning and Causes of Combination
- Benefits and Evils of Combinations
- Various types of Combinations meaning and function of Chambers of Commerce.

After reading this lesson you should be able to understand the basic working knowledge of all above-mentioned topics and to answer lesson end activities given at the end of the chapter.

23.1 Introduction : The large scale business house mostly took the form joint stock company because of its distinct advantages like limited liability, facility to attract huge capital, divorce between management and ownership of business, etc. The big enterprises were able to reap the advantages of Industrial Revolution and this led to the growth of capitalism in many countries. In its initial stages, capitalism was based on two fundamental principles, namely, free competition and laissez faire. The policy of laissez faire played positive role and the policy of laissez faire allowed the emergence of a large number of business enterprises as there was no restriction on new enterprise. But competition, on the other hand, which resulted from a large number of rival firms in the market led to price cuts and narrowed down the profit margin. Because of this, many firms found their survival in danger. This fear led them to form business combinations. In brief, combinations were formed mainly to avoid unholly and cut-throat competition, and to stay in the work.

23.2 Meaning of Combination : Whenever two or more business units engaged in the same line of business or in different related processes or stages of the same line of their business

federate or unit or associate together with a view to carry on their activities and shape their policies on common coordinated basis for mutual benefit, they are said to form a business combination. To combine is simply to become one of the parts of a whole, and a combination is merely a union of persons to make a whole or group for the prosecution of same comic purpose; A business combination is a method of economic organisation by which a common control of greater or less completeness is exercised over a number of firms which either have operated hitherto or could operate independently this control may be either temporary or permanent for all or only for some purposes, Business combination may take numerous forms varying from the unwritten understanding amongst a small group of local dealers to a highly integrated amalgamation or fusion of business houses.

23.3 Causes of Combinations : The important causes of combinations are discussed below:

(i) Destruction Competition: May result into the stoppage of many firms. In order to remove the fear created by strong competition, the competing firms arrive at some sort of understanding to regulate prices and eliminate over-production in other words; combination may be created as a means of furthering self-interest by common action.

(ii) Economies of Large Scale : A large number of economies are achieved if a business is carried on a large scale. These economies relate to production management. Financing and marketing. Small business units may combine together to reap the benefit of large scale operations and organisation. This will reduce the cost of production and increase the profits of the business.

(iii) Joint Stock Enterprise : The evolution of company form of organization has also facilitated the combination of various units by acquiring shares of various companies to control their affairs. The companies under the common control through the system of interlocking directorships can be easily combined to get the many benefits of combination.

(iv) Control of Market : Combinations are created to secure steady market. Sometimes, combinations are created to control the entire market and create a monopoly which is detrimental to the interest of the consumers. By controlling the market, they can sell their products at higher prices and earn huge profits.

(v) Individual Ability : According to Shield, Great organizing ability, strategic genius, or personal ambition on the part of one or a number of men may account in part for the rise of certain business combinations. The scarcity of business talent became one of the causes of centralization of power in a few hands, endowed with business insight, business talent and business courage." Many a time, business combinations are created due to the initiative and organizing ability of an individual or a number of individuals. Lust for Power. Some businessmen have a lust for economic power which can be satisfied by creating industrial empires. Desire to bring up industrial regime lies at the back of many combinations. Individual ambition of becoming the pioneer member or coordinator of a huge combine is also one of the factors favouring combination.

(vi) Business Cycles : In uncontrolled economies, there are trade cycles. During booms, firms expand to take advantages of rising demand and during depressions inefficient and weak firms find it difficult to survive because of lower demand. Business ups and downs generally lead to business combinations. Particulars in industries, where huge capital is used and where demand is subject to cyclical changes, combinations occur a revulsion against risk of burdensome overhead cost, glut, low turnover and less prices during depression.

(vii) Protective Tariffs : Protective tariffs are used to encourage home industries. When the Government imposes import duty on certain items, the home manufacturers of such items are

encouraged to form combinations to develop their business and exploit the domestic market fully. Sometimes, national level combinations are formed to give a united front to perpetuate protection.

(viii) Government Pressure: The Government may compel the weaker units to amalgamate with the stronger units so as to improve the overall efficiency of the industry. Even the Government may take over the sick units and combine them to form a viable unit and introduce rationalization in it.

23.4 Benefits of Combinations : Following are the benefits of combinations.

(i) End of Cut-Throat Competition: Combination helps in eliminating competition in the market. This will also save the expenditure of business units on wasteful completions.

(ii) Economies of Large Scale : Economies of large scale operations (economies in production, management, marketing, and finance) can be achieved because combinations are big enterprises and they facilitate large scale operations.

(iii) Proper utilization of Capital : Combinations help in the optimum utilization of capital. There is least wastage of capital.

(iv) Benefits of Research : Small enterprises cannot spend sufficient amount of money on research and development activities. Combinations can undertake research on the large scale and can get patents from the Government.

(v) Growth and Stability : Combination have higher capacity to withstand the political changes in the demand of their products. Because of large scale operations, they have a greater chance of survival in the market. They can also make use of best managerial talents. This will help in the growth of the enterprise.

(vi) Encouragement of Foreign Trade : Business combinations can carry on foreign trade smoothly as they can bear the risks involved in the foreign trade.

(vii) Government Control : It is easier for the Government to control the small number of combinations as compared to the large number of small units.

23.5 Evils of Combinations : Following are the evils of combinations.

(i) Rise of Monopoly Power : It has been seen that combination generally culminates in monopoly. In spite of the numerous economies of large scale operations, the products may be sold dearer than under a state of free competition. Thus, the consumers may be exploited by charging exorbitant prices.

(ii) Concentration of Wealth : Combinations result in concentration of wealth in the hands of a few persons also. They are responsible for the concentration of economic power in a few hands.

(iii) Inefficient use of Capital : In a combination, weaker and stronger units combine together. Because of weaker units, it may not be possible to make the efficient use of capital resources.

(iv) Speculation : Since there is concentration of economic power in a few hands, the people really controlling the big enterprises may manipulate the prices of shares in the stock exchange. They may also indulge in speculative activities which are not in the interest of the general public.

(v) Stagnation Absence of potent : In competition and control of market in a giant combination makes the enterprise inefficient and stagnant in character.

(vi) Political Corruption : Having vast resources at their command big enterprises may bribe the legislators for passing laws in their favour. Government officials are often bribed for ignoring the violation of labour laws and other regulatory measures of the State.

23.6 Types of Combinations:

23.6.1 Horizontal Combination : It is also known as parallel or trade unit integration. It is affected by units engaged in manufacturing similar products or rendering similar services .It involves the bringing together of competing firms under single ownership and management. For instance, if two or more sugar mills are combined under the same management, it will be a case of horizontal combination. Tata Iron and steel Ltd and associated cement company are the illustrations of horizontal combination.

The benefit of horizontal combination is as follows;

- (i) It eliminates wasteful inter-firm competition in the same line of industry.
- (ii) It helps in achieving economies of large scale production and distribution.
- (iii) It can control supply of the product and market prices.

Horizontal combination may lead to the point of view of following evils:

- (i) It creates monopoly which is harmful from the point of view of the customers.
- (ii) There may be restriction of output and exploitation of customers.
- (iii) It give rise to concentration of economic power

(23.6.2) Vertical Combination : It is also known as sequence or industry or process integration. It arises as a result of integration of those business enterprises which are engaged in different stage of production of a product. In other words, it implies combination under single control of enterprises in different stages of manufacturing the product. The aim of vertical integration is to gain self-sufficiency as regards raw materials and distribution of finished products. Two or more business units engaged in successive stages of production, or producing articles leading to the same final product, may combine together and manage all stages of production and the distribution of the final product. For example, in cotton textile industry, there may be a combination of units engaged in successive stages of cloth manufacturing. Such as spinning, weaving, bleaching and finishing of cloth.

Vertical combination may result from backward or forward integration. Manufacturers at successive stages in production may integrate backward up to the sources of raw materials or they may expand through forward integration to retail selling of the finished product. Thus, the basic objective of vertical combination is either to secure an assured supply of raw materials and other requirements or to create steady market for the products manufactured. The former objective is fulfilled by backward integration and the latter is realized by forward integration.

The advantages of vertical integration are as follows:

- (i) It reduces the dependence on other enterprises in the industry and helps in achieving self-sufficiency.
- (ii) It eliminates the intermediate profits and thus reduces the cost of production.
- (iii) There is steady production as a result of regular supply of raw materials and regular sales.
- (iv) Products of higher quality can be obtained because of the control be achieved.
- (v) Economies in storage, transport and handling of materials may be achieved.

Vertical integration may lead to the following evils:

- (i) It does not eliminate competition as in case of horizontal integrations.
- (ii) The size of the business may grow and it may bring rigidity and inflexibility of operations.
- (iii) Since its processes are interdependent, a slight interruption in one process may dislocate the entire production system.
- (iv) It gives rise to concentration of economic power.

23.6.3 Lateral Combination : It refers to the integration of business units producing and selling different but allied products. The lateral combination may be either convergent or divergent. Convergent lateral combination arises when firms producing different products but supplying to a common user join with him. For example, brick manufacturer, stone supplier, cement supplier, and wood supplier may integrate with a construction company; Divergent lateral combination represents combination of one supplier of a common raw material with different users. The example of divergent lateral integration is provided by a flourmill supplying flour to a number of units like bakery, confectionary, and hotel. The main benefit of lateral integration is that both the supply of raw materials and availability and existence of demand are ensured to the new combination. Benefits of centralized control of various units are achieved. Under divergent integration, markets are diversified and risks are scattered.

23.6.4 Diagonal Combination : It means integration of a main activity or process with ancillary activities and services. For instance, a newspaper company may integrate with transport company to ensure quick delivery of the newspaper to different parts of the country or an automobile plant may combine with a power generating unit. Thus, diversification of activities is diagonal. The purpose of diagonal integration is to ensure smooth and timely availability of ancillary services which are essential for the continuous working of the main units.

23.6.5 Circular Combination : When there is integration of business units which are remotely connected with one another in their production and sales, circular integration is achieved. The remote connection may be found between products requiring similar manufacturing processes or using the same marketing or trade channels. Circular combination is created to build up big industrial empires. Business houses of Tata's, Birla's and D.C.M. are the illustrations in this regard. For instance, the D.C.M. group controls the units engaged in textiles, chemicals, fertilizers, sugar, electronic goods, business machines, etc.

23.7 Associations: The term association is meant for voluntary union of traders for the purpose of safeguarding the interest of all the members therein. Broadly speaking, association may be classified into two types namely trade associations and chambers of commerce.

23.7.1 Trade Associations: A trade association may be defined as an association of business units engaged in a particular trade or industry, or a group of closely related trades. It is a voluntary and non-profit organization of business units which are competitors. They are formed for the promotion of the economic interest of their members. In fact, the trade association is a combination of businessmen, engaged in a particular line of business for the promotion of their common interest, growth of friendly relations and exchange of news and views pertaining to their business activities. The name of the association is usually after the nature of the business conducted by the members. The members include businessmen engaged in the same line of business in a particular region.

Some of the associations at the all India level are: All India Manufacturers Organisation, All India Organisation of Employers, All India Marketing Association, Indian Jute Mills Association, Indian Sugar Mills Association, Indian Paper Mills Association, etc. Trade associations at the regional level include: Bombay Mill Owners Association, Bombay Printing Press Owners Association, Ahmedabad Cotton Mill Owners Association, etc. The trade associations perform the following functions:-

23.7.2 Chambers of Commerce : A chamber of commerce may be defined as an association of businessmen which works for the benefit of its members in a particular territory it serves. Their aim is to protect the general commercial interest of the members. Chambers of commerce is found all over the world and differed in their composition and character. For instance in India and England, a chamber of commerce is a voluntary association of businessmen to further their commercial interest. But in France it is a semi-official body comprising of a fixed number of representatives of the Government and the business community. The chambers of commerce perform the following functions:-

(i) They collect and disseminate information on traffic routes, trade conditions, potential markets, etc.

(ii) They maintain statistical bureaus for providing classified information to the members.

(iii) They act as the spokesmen of the business community by commenting on government policies affecting business or in connecting with an existing piece of legislation that obstructs business.

(iv) They make representations to the government on proposed legislations concerning some spheres of business or in connection with an existing piece of legislation that obstructs business.

(v) They arrange for the settlement of disputes arising out of trade or industry by means of arbitration.

(vi) They introduce standard trade practices to be followed by their members.

(vii) They organise industrial fairs and exhibitions to further the interest of the business community.

(viii) They provide a forum of exchanging views to the members by holding conference and seminars.

23.7.3 Distinction Between Trade Association and Chambers of Commerce : Trade Associations and Chambers of Commerce differ in regard to the following points:-

(i) A trade association is formed by those engaged in the same trade or line of business whereas a Chamber of Commerce is an association of businessmen and /or business units from a particular region belonging to different trades.

(ii) The members of trade association are competitors whereas the members of a Chamber of Commerce are both competitors and non-competitors.

(iii) A trade association is engaged in protecting the interest of the particular trade but a Chamber of Commerce is engaged in the general commercial interest of the members engaged in different trades.

23.8 Let Us Sum Up : In this lesson we have discussed meaning causes benefits and evils and types of combination sense with reference to trade associations and chambers of commerce.

23.9 Lesson End Activities :

1. What is meant by Combination ? What are the factors contributing to combination?
2. What are benefits that are derived from combination?
3. What are the evils if combination?
4. Describe the various types of combinations.
5. What do you know about trade association ? What are the functions performed by it ?
6. What is meant by Chamber of Commerce ? How it is differ from trade association?
7. Write short note on Horizontal Combination and Vertical Combination.

23.10 Model Answers to Check your Progress :

Question No. 1 Refer para (23.3)

Question No. 2 Refer para (22.4)

Question No. 3 Refer para (23.5)

Question No. 4 Refer para (23.6)

Question No. 5 Refer para (23.7)

Question No. 6 Refer para (23.7.3)

Question No. 7 Refer para (23.6.1 & 23.6.2)

23.11 References

Office Organisation and Management - C.B.Gupta - Sultan Chand & Sons

Office Management Principles – Prasanna - Sultan Chand & Sons

GLOSSARY

(LIST CONTAINING IMPORTANT COMMERCIAL TERMS)

1. Business : An activity aiming at earning profit.
2. Organisation : An institution carrying on activities in a systematic manner.
3. Business Organisation : An institution carrying on activities in a systematic manner aiming at earning profit by way of sales and services.
4. Profession : An occupation involving providing services based on professional knowledge such as Doctors, Accountants, Lawyers etc.,
5. Employment : An undertaking to render personal services for the consideration of salary or wages at a regular basis.
6. Industry : The activities of extraction, production, conversion of products.
7. Consumer Goods : Goods used by the general public in day-to-day activities like food, cloth, television etc.,
8. Producers Goods : Goods used by the business concerns in the production of other goods.
9. Commerce : The process of buying and selling of goods.
10. Trade : The process of buying and selling of goods and services.
11. Objective : The aim or goal of any person or organization to achieve some desire.
12. Business Objective : The aim or goal of any person or organization to earn profit and to gain some monetary benefits.
13. Social Objective : The aim or goal of any person or organization to render services to the general public without expecting any profit.
14. Social Responsibilities : The obligation or commitment voluntarily undertaken by any person or business organization to render services to the general public without expecting any profit.

15. Sole Proprietorship : A business organization established and managed and benefited by a single person.
16. Hindu Undivided Family : A business organization established and managed and benefited by a group of persons under a family as per the Hindu Law.
17. Partnership Firm : A business organization established and managed and benefited by two or more persons as per the legal agreement, governed by Indian Partnership Act 1932.
18. Joint Stock Company : A voluntary association of persons in a business having joint capital divided into transferable shares of a fixed value as per the legal agreement governed by Indian Companies Act, 1956.
19. Private Company : A joint stock company having share holders not exceeding 50 and prohibited from issue of shares to the public.
20. Public Company : A joint stock company having share holders not less than 7 and having no maximum limit and authorized to issue of shares to the public.
21. Government Company : A joint stock company in which at least 51 % of paid up share capital is held by Government.
22. Limited Liability : The liability of a business concern is limited to the assets of that business concern only.
23. Unlimited Liability : The liability of a business concern is not limited to the assets of that business concern and extend to the assets of owners.
24. Co-operative Societies : A business organization consisting of different individual persons associated voluntarily on equal basis for the fulfillment of certain economic objectives.
25. Public Enterprises : An undertaking owned by government engaging in providing goods and services to the general public on self supporting basis.
26. Size of Firm : The level or scale of production, output are operation of a business organization.
27. Equilibrium Firm : A firm which has reached a stage of maximum profit and not requiring any further explanation.

28. Optimum Firm : The size of the firm at which there is maximum efficiency in the operation of activities.
29. Sources of Finance : The agencies from which funds are procured by the firm.
30. Long Term Sources : Funds raised for acquiring assets and repayable after ten years.
31. Medium Term Sources : Funds raised for meeting working capital needs and repayable between one year and ten years.
32. Short Term Sources : Funds raised for meeting working capital needs and repayable within one year.
33. Working Capital : Funds needed for meeting immediate liabilities in order to run the firm without interruption.
34. Share : A unit having specified face value of a share capital issued by the joint stock company.
35. Preference Shares : Shares having preferential right for receiving capital and dividend.
36. Equity Shares : Shares which are not preference shares.
37. Debentures : Creditor ship which provides long term fund to the company as a loan bearing fixed rate of interest.
38. Pouching Back of Profit : Using a part of undistributed profit for the purpose of the financial requirements of the company.
39. Trade Creditors : A credit allowed by the seller to buyer with regard to goods.
40. Installment Credit : A credit allowed by the seller to buyer with regard to assets.
41. Loan : Credit in the form of loan given by the bank in lump sum and repayable in single installment after a specified period.
42. Cash Credit : The bank credit system under which borrower is allowed to borrow up to a sanctioned limit.
43. Overdraft : The bank credit system under which the customer are allowed to overdraft is current account up to a sanctioned limit at any time.

44. Stock Exchange : A market where the shares of different companies are sold or purchased.
45. Speculative Transactions : A dealing in shares in which shares are sold or purchased without taking actual delivery.
46. Speculator : A person or broker or trader who engaged in speculative transaction of shares.
47. Arbitrage : A speculative transaction aiming at making profit out of fluctuation of prices of shares in different stock exchanges.
48. Office : A place where all the types of clerical work of a concern is performed .
49. Office Manual : A written record of information, instructions, policies, regulations of a firm.
50. Office Accommodation : Providing adequate facilities both physical and mental requirements to get the office work done with maximum efficiency at a minimum cost.
51. Office Layout : Arrangement and placing of personnel, equipments and furniture with a view to make the best possible utilization on available space.
52. Open Office : A large hall in which all the sections of the office are located.
53. Private Office : The small rooms or cabins which are separated from one another by walls or partitions.
54. Filing : The systematic arrangements and keeping of business correspondence and records so that they may be found and delivered when needed for future references.
55. Centralised Filing : Maintenance and controlling of all the files of different departments at one place.
56. Decentralized Filing : Maintenance and Controlling of all the files of different departments at each department itself.
57. Indexing : Preparation of regular guide to the location of the required file.
58. Data Processing System : The procedure of collection, recording, editing and presentation of data.
59. Electronic Data Processing: The procedure of collection, recording, editing and presentation of data through computers.
60. SEBI : A Statutory Body established by Central Government to Regulate functions of stock exchanges in India.

ABBREVIATIONS FOR IMPORTANT TERMS

1.	@	:	At the rate of
2.	A/c	:	Account
3.	A/D	:	Acknowledgement Due
4.	AO	:	Administrative Officer
5.	BASIC	:	Beginner's All Purpose Symbolic Instructions Code
6.	B/E	:	Bills of Exchange
7.	B/S	:	Balance Sheet
8.	C/A	:	Current Account
9.	COBOL	:	Common Business Oriented Language
10.	CPU	:	Central Processing Unit
11.	CR	:	Confidential Report
12.	DOS	:	Disk Operating System
13.	EDP	:	Electronic Data Processing
14.	E&O.E	:	Errors and Omissions Excepted.
15.	FORTTRAN	:	Formula Translation Language for Scientific Computations.
16.	GPO	:	General Post Office
17.	HO	:	Head Office
18.	HQ	:	Head Quarters
19.	IOU	:	I Owe You
20.	IST	:	Indian Standard Time
21.	IT	:	Information Technology
22.	INTER COM	:	Inter- Communication System.
23.	NCR	:	No Carbon Required
24.	P&T	:	Posts and Telegraphs Department
25.	PCO	:	Public Call Office
26.	P/N	:	Promissory Note
27.	PO	:	Post Office
28.	PP	:	Particular Person Call
29.	QMS	:	Quick Mail Service
30.	RBI	:	Reserve Bank of India
31.	STD	:	Subscriber's Trunk Dialing
32.	VPP	:	Value Payable Parcel

MODEL QUESTION PAPERS

MODEL QUESTION PAPER I

Time : 3 Hrs

Marks : 100

Answer any Five Questions:

(5 x 20= 100)

1. What is meant by business ? Explain its nature and functions . (1.3, 1.5 & 1.7)
2. Discuss in details various objectives of business . (2.2 to 2.5)
3. What is meant by Sole Proprietorship? What are its features? Enumerate its merits and demerits. (3.3)
4. What is meant by optimum firm? What are the factors determining the optimum firm? (10.5)
5. Briefly explain the various long term sources of finance available to the business organisations in India. (11.3)
6. What is meant by office layout? What are the factors to be considered while determining office layout. (15.4)
7. What are the functions and powers of Stock Exchange in India?
8. Write short notes on:
 - (i) Primary and Secondary Industries.(1.6.1)
 - (ii) Statutory Company and Government Company.(5.4)
 - (iii) Urban Location and Sub- urban location. (14.4.2)
 - (iv) Trade Association and Chamber of Commerce. (23.7)

MODEL QUESTION PAPER II

Time : 3 Hrs

Marks : 100

Answer any Five Questions:

(5 x 20= 100)

1. What is meant by a Company ? Discuss the different types of companies. (5.4)
2. Explain the rationale of Public Enterprises in India. (7.3)
3. What is meant by filing? Classify the different types of filing. (16.8)
4. Explain the concept of social responsibilities of the business. Discuss the supporting and objecting arguments towards social responsibilities of a business. (2.6)
5. What are the various functions of SEBI? (2.4.5)
6. What is meant by combinations? Discuss the causes, benefits and evils of combinations. (23.3)
7. What is meant by EDP? Discuss its merits and demerits.
8. Write short notes on:
 - (i) Partnership Firm and Joint Stock Company. (5.7)
 - (ii) Large Firm and Small Firm (10.6 & 10.7)
 - (iii) Trade credit and Bank credit (11.4)
 - (iv) Open office and Private office. (15.7.1)

MODEL QUESTION PAPER III

Time : 3 Hrs

Marks : 100

Answer any Five Questions:

(5 x 20= 100)

1. Explain the scope of a business organisation. (1.6)
2. What are the essentials of a good business organisation? Discuss various factors determining the choice of suitable form of organisations. (8.2 & 8.3)
3. Describe the various short term sources of finance or working capital finance to a business in India. (11.4)
4. What is meant by office? What are the essential elements of an ideal office? (12.5)
5. Discuss the various factors affecting office location. (14.4.1)
6. What is meant by Indexing? Discuss the various types of Indexing (17.5)
7. What are the factors to be considered while selecting office furniture? Also explain various types of furniture (19.3)
8. Write short notes on:
 - (i) Kinds of Partnership Firm and Kinds of Partners. (4.7 & 4.8)
 - (ii) Preference Shares and Equity Shares (11.3)
 - (iii) Owned Accommodation and Leased Accommodation. (14.4.4 & 14.4.5)
 - (iv) Centralized Filing and Decentralized Filing. (16.6.1 & 16.6.2)