Contents

UNIT ONE

CHAPTER 1
INTRODUCTION TO BUSINESS

1 BUSINESS

1.1 Concept and Meaning of Business

All human beings require different types of goods and services to satisfy their needs. Different goods and services can be purchased by visiting the stores or online. A business produces the goods and services and ends with the consumption by the consumers. Between production and consumption there are several steps. Production comes under industry and rest of the steps is part of commerce. To summarize business is a broad concept under which comes.trade, industry and commerce.

Business: Business is derived from the word 'busy". Thus business means being busy. Any organized economic activity that engages in production, purchase, sale or distribution of goods & and services. Business can be referred to the mechanism of exchanging of goods and services which of value to the humans and can generate profit by satisfying the human need, want and desires.

According to William Pride: "Business is the organized effort of individuals to produce and sell for a profit the goods and services that satisfies the need of society"

According to W.R.Lewis: "Business is any human activity directed towards producing or acquiring wealth through buying and selling goods."

According to L.R.Dickesee;"Business refers to a form of activity conducted with an objective of earning profits for the benefit of those on whose behalf the activity is conducted."

1.2 Core Elements of Business

The success of Business depends upon three core elements

Core Element	Description
Economic Element	This involves exchange of goods and services with intention to generate profit
Social Element	Satisfying market or social needs through an organized human effort
Systematic Element	Proper execution of Business planning, allocation resources and funds with proper management of and setting of SMART goals for the success of business.

1.3 Core Concepts of Business

Goods Vs Services: Goods are tangible products which can be touched, while services are intangible that cannot be touched physically.

Revenue Vs Profit: Revenue is the total money coming from the sales. Profit is the amount left after subtracting all the operating expenses.

Risk and Uncertainty: Changing consumer preferences, increased competition and economic factors are the uncertain conditions that the business owners face.

2 Features of Business

Economic Motive: The activities carried out to sustain financially and earn livelihood

Regularity and Continuity: The business transactions must be regular and continuous rather than being an isolated transaction.

Creation of Utility: Business creates utility for the society by procuring raw materials, finishing the goods, moving and storing the goods.

Mitigating the Risk: Making profit is never guaranteed. However business needs to take calculated risk to withstand the uncertain conditions.

3. Stages of Development of Business

Business has evolved based on social, legal and technological need shifting from basic survival to complex global network. Business has played a vital role since time immemorial. According to the archaeological studies the trading activities were carried out both through land and sea. Bulk of trade was carried out through the silk route and maritime trade. The trading was done to serve both the domestic and the international market. Various economic activities such as agriculture, domestication of animals. Weaving cotton, making clay pots, etc.Money was circulated freely which led to development of indigenous banking system to give credit facilities to the business. Since carrying huge sum of money while travelling long distances to carry out trade was risky which led to the use of intangible form of money which was known as “Hundi” & “Chitties”.The ease of doing business and free availability of loans led to balance of trade where exports exceeded the imports. Many travelers including Megasthenes,Al Beruni & Ibn Batuta praised Indian trading system. With the arrival of East India Company, under the British rule the Indian economy deteriorated. From being exporter of finished goods, India became exporter of raw materials and importer of finished goods. After gaining independence from British rule India inherited fragile economy, the financial system was weak, huge fiscal deficit, more allocation of budget money on defense the fiscal deficit gap started to broadening as a result India liberated the economy in 1991.Post 1991 Indian economy has been growing as one of fastest economies of the world. The recent initiative of the government on “Make in India”, “Made in India”, “Skill India”, “Digital India “has helped the Indian economy with balance of trade.

Stages of Development in Nutshell

- ✓ Self Sufficiency & Hunting Stag

There was no business, trade orxmarket. Whatever was produced was consumed independently

- ✓ Barter System

There was exchange or swapping of goods e.g wheat for rice

- ✓ Invention of Money and Trading

The money in form of shell, salt,cattle which eventually led to minting of metal coins. Standard prices were set for commodity & trading was done through trade routes.

- ✓ Guild System

Traders organized themselves to guilds to protect their economic interest, regulate the trade quality and control prices within a specified town to keep out the outside competition. Towns flourished giving birth to merchant class.

- ✓ Age of Mercantilism and Growth of Global Trading Companies

Maritime trade or the trade through sea route grew, Nations began to adopt mercantilism where governments maximized exports, minimizing the imports and began accumulating precious metals. Duch East India Company and British East India Company were the world's first public joint stock companies who began issuing shares on the stock exchanges.

- ✓ Industrial Revolution

The invention of steam engine completely revolutionized manufacturing. Production moved out of the homes to the factories. Business shifted from individual artisans to assembly line production. To distribute the huge surplus of goods business adopted branding and mass marketing strategies.

- ✓ Corporate and Management Professional Age

Instead of business being run by family salaried professionals were hired as managers. There was rise in multinational corporations and supply chain became more complex. The era saw specialized business education (MBA's)

- ✓ Digital and E-Commerce age

The birth of internet and mobile phones has redefined the speed and accessibility of business transactions. With the rise of E-commerce platforms such as Amazon, Alibaba , cloud computing and digital payments physical borders have disappeared.

3.1 Stages of Development of Business

The stages of development of a business include the seed or conception phase, startup, growth, expansion, maturity, and potential renewal or decline.

3.1.1 Seed or Conception Phase

- Idea Generation: The phase where a new business concept or product idea is born.
- Feasibility Study: Market research is conducted to see if the idea can work in the real world.
- Business Plan: Founders outline goals, target customers, and financial projections.
- Initial Funding: Money comes from personal savings, family, or early angel investors. Risk is at its highest point.

3.1.2 Startup Phase

- Operations Begin: The business officially launches, products or services go to market, and early customers are targeted.
- Team Building: Core staff are hired and basic daily processes are set up.
- Cash Flow Management: Sales are low, and the primary goal is proving that the business model works.

3.1.3 Growth/Scale –Up Phase

- Rising Sales: Revenue increases as more consumers learn about the brand.
- Market Presence: Customer base and market share grow significantly.
- Team Expansion: More workers are hired to handle customer demand, and business risks start to drop.

3.1.4 Expansion Phase

- New Markets: The Company enters new geographic regions or targets new demographic groups.
- Product Diversification: New product lines or service offerings are introduced to capture extra revenue streams.

3.1.5 Maturity Phase

- Stability: The business holds a secure, well-known position in the marketplace.
- Process Optimization: Roles are clearly defined, and non-core tasks may be outsourced.
- Innovation: To stay relevant and avoid stagnation, the firm invests in new technologies or reinvents its core offerings

3.1.6 Renewal/Decline Phase

- Renewal: The company successfully innovates and enters a new cycle of growth.
- Decline: If the business fails to adapt to changing consumer demands or market competition, sales drop and the business may close

3.1.7 Exercise

1) Define the seed/ideation stage of a business.
2) What is a feasibility study?
3) State two major challenges faced during the startup phase.
4) Distinguish briefly between the growth stage and the maturity stage.
5) What do you mean by business life cycle?

*"Fresh Bites Ltd." started in 2021 as a small cloud kitchen in Mumbai by two B.Com graduates, Amit and Priya, using their personal savings. Initially, they struggled to get noticed, handling cooking, marketing, and deliveries themselves. Within 12 months, their unique organic health wraps gained traction, and orders stabilized, allowing them to hire three kitchen assistants and cover their fixed costs. *
By 2024, demand skyrocketed. Fresh Bites opened 4 physical quick-service restaurants across Mumbai. However, Amit and Priya found themselves overwhelmed. Cash was tight due to rapid kitchen expansions, food consistency began to vary across outlets, and the original team felt disconnected. Investors are now offering capital, but only if Fresh Bites formalizes its management structure, introduces strict quality controls, and maps out a plan to expand nationwide.

1. Identify and explain the stages of business development that Fresh Bites Ltd. has passed through and its current stage.
2. Analyze the key challenges the company is facing in its current stage.
3. As a business consultant, suggest strategic recommendations to help the founders successfully transition to the next level of development.

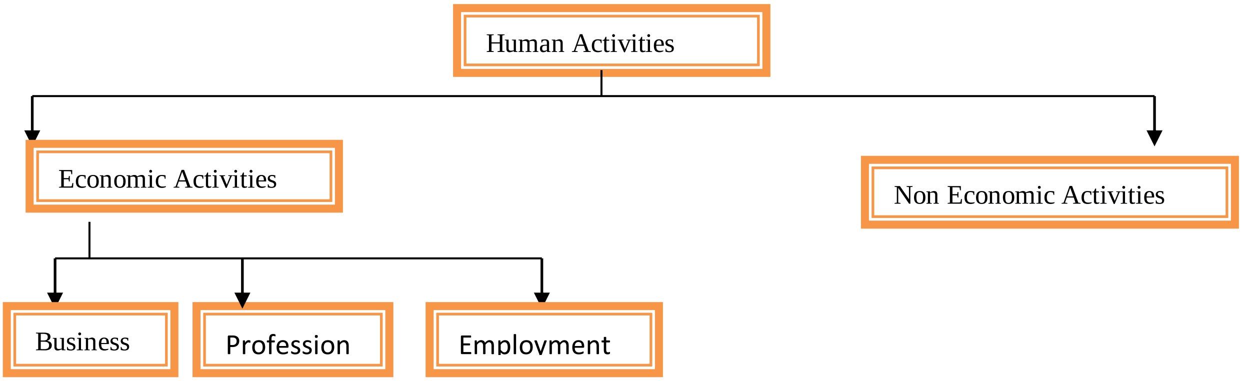
4. Features of Business

To distinguish business from other activities of society the nature of business are as follows:

a. As Social Institution: It relies on society for the raw material, labour and provides goods as output to the society. It looks after the interest of various social groups such as consumers, employees and community. It operates under the laws of the society and ensures that the business has the trust of the society.
b. As economic activity: Business is not driven by love, emotion or affection but it is purely an economic activity with the objective of earning livelihood or making profit.
c. Production/Procurement: Goods meant for consumption must either be produced or procured. If the goods are meant for self consumption then it is not business. For business there must be two parties-buyers & seller the goods should be transferred between buyer and seller for money or exchanged through barter system.
d. Dealing in goods & services: Business deals with goods and services. The goods may be final goods meant for consumption by either customers or consumers or they may be producer goods such as machinery meant for further consumption. Business is also concerned with the services such as banking, insurance etc.
e. Continuity & Regularity: A single transaction is not considered as business. Any activity which happens at regular interval is considered to be business. If a person sells his jewelry once is not considered as business however he repeatedly purchases and sells his jewelry is considered as business. How frequently the transaction happens depend on the nature of the business. A newspaper hawker sells his newspaper daily but a construction company takes years to build the housing society.

f. Profit Earning: Profit earning is the basis of any business. If the business is not able to generate the profit then the business would shut down. It is the profit which drives the business to take financial risk and is essential for long term growth of any business.
g. Element of risk: In every business there is possibility of incurring losses not only due to bad decisions but due to uncertain conditions and changing preferences of consumers, competition or economic changes. Losses due to such uncertain conditions can be termed as risk for the business owners. There are two types of risk(i) Risk whose probability can be calculated e.g. floods, fire theft etc.(ii) Risk whose probability cannot be calculated and they cannot be insured e.g. changing technology would render your technology as obsolete, changing fashion or fad.
h. Creation of Utility: Business add value to the raw materials by changing their forms(form utility) store them until needed(time utility),or transporting them where they are required(place utility).
i. All activities related to production may be called as "Industry"
j. All activities related to exchange of goods and services may be called as "Commerce"

4.1 Human Activities



Human activities include whatever we do in our daily life. All human being are engaged in some or the other activities since the time we get up in the morning till the time we go to sleep. Children go to school, elders go to office, and farmers go to field. A child going to school does not produce any economic benefits however going to office or farm produce economic benefits. Thus we can classify human activities into (a) economic (b) non economic

Economic activities: Activities taken by human beings to earn livelihood or earn money. Economic activity is concerned with production or exchange of goods and services. For example doctor working in a hospital, farmer working in a field.

Economic activities may further be classified as (i) business (ii) profession (iii) employment

Non Economic activities: Activites done by human beings out of love, affection, social or religious obligation or out of patriotism but not for the sake of earning money. Children going to school, social worker working for the underprivileged poor

5. Objectives of Business

Profit making is an important criteria for the business to be successful however profit earning is not the only criteria for the business to be successful. As said by Henry Ford "Business is not only money chasing but should also aim at serving the community". Therefore serving the community is also important criteria for the business. According to some authors serving the community is the major objective of the business and this is the main justification for the existence of business as an important human activity. Therefore we can sum up that profit is the basic criteria for any business to stay in the competition but business should aim for something more for the survival and growth.

The objectives of the business can be categorized as:

i. Economic Objectives:

To achieve economic goals is the primary objectives of the business. Some of the economic objectives are

- Earning satisfactory profits
- Exploring more markets and creating new customers
- Growth and expansion of the business
- Increase market share
- Maximum utilization of 4M's(Men,Machine,Material,Money)

ii. Social Objectives:

Business being part of society has some obligations towards the society. Some of the major social objectives are:

- Supply quality goods to the society
- Provide the goods and services to the society at reasonable prices
- Ensure there is no profiteering and unfair practices
- Ensure welfare activities for the society such as building public facilities and promoting economic sustainability

iii. Human Objectives

Business activities are carried out by employees. The efficiency of business depends on the motivation and ability of the employees. Therefore business must also have some human objectives to safeguard the interest of the employees. Some of the major human objectives are:

- Fair wages to the employees
- Good working conditions to the employees
- Job satisfaction to the employees
- Provide better growth, training & career opportunities to the employees

iv. National Objectives

- Create jobs and reduce the unemployment rate
- Pay taxes to the government to fund the public infrastructure and services
- Protect environment and local resources

6. Business Employment and Profession

You have analyzed the business, mow let us differentiate between business. employment and profession

Features	Business	Profession	Employment
Establishment	An individual or group of individuals by fulfilling legal formalities can start business	Earn basic degree, training & become member of the professional body	Signs employment contract with the employer
Qualification	No basic qualification is required	Professional knowledge and training in the relevant field is required	In some jobs cerrain specialized qualification is required else in other jobs no specialized degree is required.
Investment	Capital is required	To establish office some capital is required	Capital is not required
Nature of work	Production/exchange of goods or services	Specialized nature of personalized job for the clients	Perform the work given by employer under the service

			contract
Motive	Earn Profit	Charge fee but giving good service is key	Mainly to earn livelihood
Reward	Profit	Professional fee	Salary
Transfer of ownership	Business can be transferred	Cannot Transfer	Cannot Transfer
Risk	Risk of loss	Fee not enough to sustain	No risk. Monthly salary is given

Question 1 what is the difference between economic & non economic activity?

Question 2 what is Business?

Question 3 what is Profession?

Question 4 what is employment?

Question 5 Classify the following activities into business. profession and employment

- Selling vegetables
- A person working in retail store
- A doctor working in a hospital
- A lawyer has started his own practice
- Manufacturing of soaps

Question 6 State whether True or False

1. Sole objective of business is to earn profit
2. Profession is non economic activity
3. Employment is economic activity
4. There is no element of risk in business
5. Industry is not part of business activity
6. Mother teaching her son is an economic activity
7. Activities taken up for earning money are called economic activity
8. In case of employment ownership can be transferred
9. Any activity can be termed as business if taken up continuously or recurrently
10. Industry and commerce together constitute business activity

7. Importance of Business

7.1 Economic Growth:

Business drives economic growth by creating jobs, generating income and increasing wealth. They contribute to the GDP of the country which helps in improving living standards and reducing poverty. A thriving business environment leads to robust economy and higher productivity & innovation

7.2 Employment Creation

Business is primary source of employment providing jobs to millions of people across different sectors. By hiring workers business not only provide income for families but also enable individuals to develop skills, advance their careers to contribute to the economy.

7.3 Innovation and Development

Business are always looking for innovative ideas, develop new products, services and technologies that improve the quality of life.

7.3 Provision of Goods and Services

Business fulfills the need and want of consumers by providing wide range of goods and services. From basic necessities to luxury items business fulfill the needs and want of people

7.4 Tax Revenue

Business contributes to government revenue through taxes. A strong business sector ensures a steady flow of tax revenue supporting the government

7.5 Community Development

Many business are engaged in corporate social responsibility activities contributing to the community development. These efforts help to support education and promote social well being

7.6 Global Trade

Through export and import business engage in international trade which not only strengthen economic ties between two countries but also promote cultural exchange and peace.

7.7 Entrepreneurial Opportunities

Business provides opportunities for entrepreneurship allowing individuals to pursue their ideas start their own ventures and achieve financial independence.

7.8 Wealth Distribution

By generating profits business provide dividends to the shareholders, wages to the employees and payment to suppliers. The circulation of money helps to distribute wealth across different segments of society

7.9 Infrastructure Development

Business often invests in infrastructure such as roads, communication networks to support their operations. Such investments can benefit the wider community by improving access to essential services enhancing connectivity and building regional development.

7.10 Risk Management and Resilience

Business contributes to the resilience of the economy by managing risk. Through innovation, diversification and strategic planning business help to mitigate economic shock and ensure stability in case of financial crisis, natural disasters and pandemics.

8 Exercise

1) Why business is considered an economic activity?
2) State any three points highlighting the importance of business to society.
3) What is the role of business in national development?

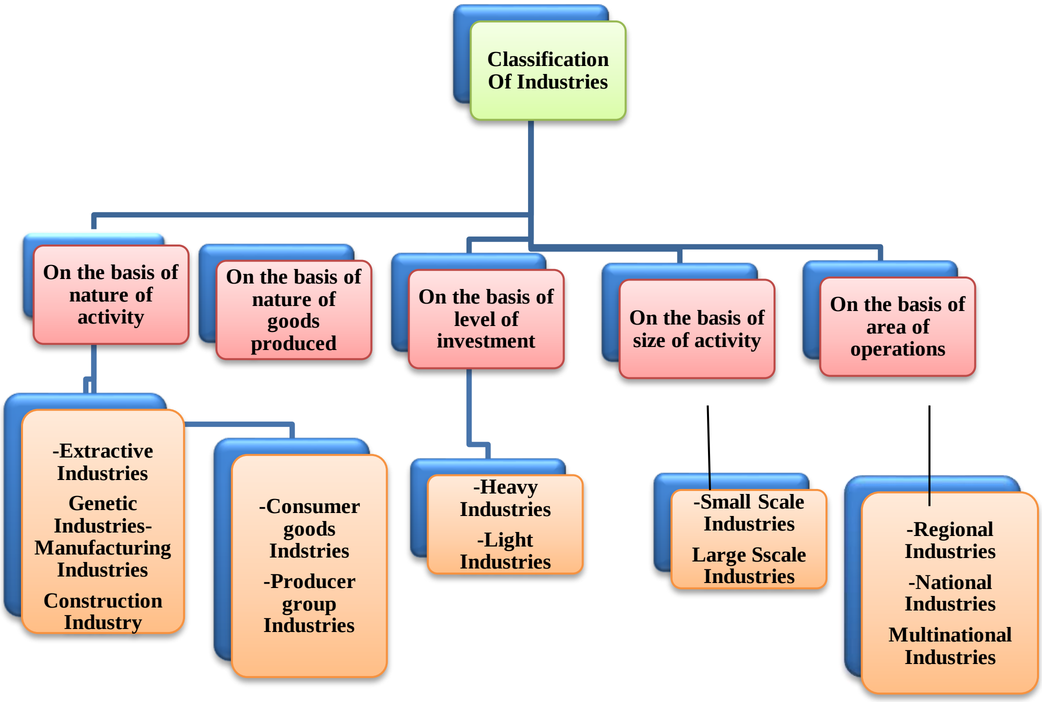
CHAPTER TWO

1 Classification of Business Activities

The business activities may be classified into-Industry & commerce. All the production activities come under Industry whereas exchange of goods and services comes under commerce.

1.1 Industry

Industry utilizes the natural resources to make them fit for the final consumption. Industry includes mechanical application as well as technical skills. Term refers to a specific group of companies or organization which share similar business and economic activities. For example Textile & Apparel includes processing of raw cotton, wool or synthetic fiber into clothing. Similarly Banking & Finance Industry for managing, investing and moving money. Hospital and tourism industry for accommodating guest via hotels, travel agencies and restaurants.



1.1.1 On the basis of nature of activity

(a).Extractive Industry

Industries involved in discovery and extraction of natural resources both from the surface and under the ground, water or air for example minerals, animals, plants etc. Industries include mining, fishing, quarrying.Extractive Industries are also known as exhaustive Industries because there is depletion of resources whenever an attempt is made to extract a resource.

(b). Genetic Industry

Industries associated with growing & breeding plants and animals with an attempt to make profit from the sale of their produce are known as Genetic Industries. For Example pisiculture, apiculture, sericulture, poultry farming, horticulture etc.Unlike extractive Industry, genetic Industry grows & multiplies lining stock with active care & scientific breeding.

©.Manufacturing Industry

The task of manufacturing Industry is to transform the raw materials and components into finished or semi finished goods. The products of extractive Industry becomes the raw material for Manufacturing Industry. Manufacturing Industry develop "**Form Utility**" to the products of extractive Industry. For example cement industry, fertilizer industry.

(d).Construction Industry

Construction Industry includes designing, building, maintaining & demolishing physical structures and infrastructure. Construction industries include building residential & commercial spaces. Building dams, bridges, airports, railways, oil refineries, power plants etc.They consume the products of manufacturing Industries such as bricks, cement & extractive Industries such as wood. The end product of construction Industry is immovable.

1.1.2 On the Basis of Nature of Goods Produced

(a). Consumer Goods Industries

The Consumer Goods Industries include industries which are involved in manufacturing and selling of products intended to be used directly by the consumers or households. The business directly involve the customers or Business to Customers. They include

(i) Fast Moving Consumer Goods (FMCG).For example food, beverage, cosmetic Industries.
(ii) Slow Moving Consumer Goods (SMCG), the products are long lasting and do not wear out quickly. For example home appliances, Furniture.
(iii) Non cyclical(staples) the demand of such products remain staple regardless of economic health. For example food, medicine
(iv) Cyclical the demand of such products fluctuate depending on the consumer confidence level and their disposable income.

(b) Producer Goods Industries

The Industries are the intermediary Industries which create goods and services to be used by other Industries which make the services and goods which can be used for consumption by final consumers. For example semi conductor Industry

1.1.3 On the Basis of the Level of Investment

(a) Heavy Industries

Characterized by large scale production, massive capital investment & high entry barrier. The products are sold to other industrial customers rather than to end user customers. The sales are mainly Business to Business (B 2 B).For example Shipbuilding and aerospace,

(b) Light Industries

They are less capital intensive, more labor intensive & consumer oriented than the heavy Industries focusing on smaller goods for end user consumers. They can be further divided into

i. Agriculture Based Light Industries

The materials are directly and indirectly sourced from agriculture. For example Food & Beverage, Paper & Wood Industry

ii. Non Agriculture Based Light Industries

The Industries depend on synthetic chemical materials rather than agriculture based raw materials .For example Consumer Electronics Industry

1.1.4 On the Basis of the Size of the Activity

(a) Small Scale Industry

Small Scale Industries operate with limited resources using smaller machinery & with few workers. The Small Scale Industry is labor intensive; they source raw materials locally to meet the demand of local population reducing the logistical cost. Being smaller in size the Small Scale Industry can quickly adapt to the changing market conditions to produce goods based on consumer preferences. Small Scale Industry is the second largest employer after agriculture. Small Scale Industry can help in migration of workers to big cities for the employment opportunities. For Example fruit pulp Industry, readymade garments Industry.

Enterprise Type	Investment In Plant & Machinery	Annual Turnover
Micro	Less than ₹ 1Crore	Less than ₹ 5 Crore
Small	Less than ₹ 10 Crore	Less than ₹ 50 Crore
Medium	Less than ₹ 50 Crore	Less than ₹ 250 Crore

(b) Large Scale Industry

Large Scale Industries refer to the Industries which operate on massive scale characterized by huge capital investments, extensive infrastructure, advance technology and massive workforce and the investment exceeds ₹10 Crore For Example Tata Motors,Maruti Suzuki, Reliance Industries..Large scale Industries act as economic anchors, providing direct jobs to thousand of people. Large Scale Industries generate massive exports helps in building large foreign reserves.

1.1.5 On the Basis of Area of Operations

(a). Regional Industries

Regional Industries operate within specific geographical regions utililizing the local raw materials or traditional skills

(b). National Industries

The national Industries operate all across the country with centralized or de centralized operations. For Example large conglomerate with nationwide distribution and supply chain.

©. Global Industries

Global Industries operate all across the globe with integrated world wide supply chain and distribution. The components are sourced from country where the assembly cost is minimum. Global Industries have to face competition from International conglomerate and global market fluctuations.

1.2 Exercise

1) What is the main difference between Business & Industry?
2) To which category of Industry the following activities belong?
   - I. Fishing in the sea
   - II. Raising coal from the mine
   - III. Weaving of cloth
   - IV. Construction of dam
   - V. Preparation of wooden furniture
   - VI. Cattle breeding
   - VII. Development of railway track
   - VIII. Producing rail engine

2. Commerce

You have learnt that business activities are classified into (a). Industry (b) Commerce. You have also learned that Industry is concerned with production of goods and services. Unless the goods and services are not available to those who need them may not fulfill the objectives of Industry. It means that the goods and services produced by the Industries should be made available to the consumers at right place, right time, right price and in right manner. This is made possible by commerce. Commerce ensures that the goods and services produced by the Industry are made available to the consumers. Commerce includes selling and exchange of goods and services. produced by Industry. At times the producers are often concentrated in specific areas and the consumers are scattered globally there is a communication and transaction gap and the producers and consumers cannot directly contact each other. **This is known of hindrance of person.** Similarly for buying a product or services the consumers should have the knowledge about the existence of that product or services. The lack of awareness or knowledge about availability, fatures, price and utility of product or services. The consumers would not be able to buy a product or services if they do not know if exist. **This is known as hindrance of knowledge or information.** At times the goods or services are produced in one geographic location but may not be consumed because the consumers are scattered globally. **This is hindrance of place.** Sometimes the goods are manufactured in anticipation of future demand rather than making the product for the current demand. Business faces challenges to preserve them till the time there comes the demand for such products. **This is known as hindrance of time**. Commerce eliminates all such hindrances and facilitates the exchange of goods and services between the producer and the consumer. We can say that commerce is concerned with sale and exchange of goods and services and ensures that there is smooth and uninterrupted flow of goods and services between buyers and sellers,. Commerce has two aspects (a).purchase of goods and services (b) smooth and uninterrupted flow of goods.

Thus commerce can be categorized into:

(a) Trade-Sale and Purchase of goods and services
(b) Aide to Trade-Activates related to smooth flow of goods and services

2.1 Trade

Trade includes exchange and selling of goods and services with the intention to earn profit. Trade facilitates to make the goods and services available to the persons who need them and are willing to pay for it. Trade establishes connection between the producers and the consumers and removes the hindrance of person. Specific regions have comparative advantage in producing scarce products which enables trade ro create a global network enhancing the economic growth. A person involved in trade is known as trader or the middleman. Trade can be classified into (i) Internal Trade (ii) External Trade

2.1.1. Internal Trade

Also known as Inland Trade, National Trade, Home Trade or Domestic Trade. When the trade or the buying or selling is conducted within the boundaries of a country then the trade is known as Internal Trade. Internal trade is free from custom duties and import tariffs. Internal trade drives the economy of the nation and is the key contributor of the GDP of the country. Usually the payment is made in the local currency of the country. On the basis of quantity of goods traded and the target buyer is classified into (a).Wholesale trade (b).Retail Trade.

Feature	Wholesale Trade	Retail Trade
Definition	Buying goods in bulk from manufacturers& selling them in smaller lots to retailers	Buying goods from wholesalers and selling them directly to the final customers
Quantity	Large, bulk quantity	Small quantities suitable for single use
Capital Required	High capital investment	Low capital investment

Direct consumer contact	Little or no contact with the final customer	Direct contact with the final customer

2.1.2 External Trade

Also know as foreign trade or international trade. External trade involves exchange of goods and services across territories of different countries. It allows nations to expand their markets, access resources which are unavailable domestically and enhance economic growth. Based on the direction of the flow of goods, External trade can be classified into three categories

(i) Import Trade: The purchase of goods or services from a foreign country to be brought into the domestic market. Example India purchasing crude oil from Saudi Arabia

(ii) Export Trade: The sale of domestically produced goods or services to the foreign buyers. Example India exporting mangoes to Japan

(iii) Entrepot Trade(Re-Export):Importing goods from one country not for domestic consumption but to process or pack them and export them to another country. Example Singapore importing raw materials, refining them, and exporting them to neighboring Asian countries.

3. Internal Trade Vs External Trade

Features	Internal Trade	External Trade
Border	Takes place within single country	Takes place between two countries
Currency	Uses domestic currency	Uses foreign currencies as agreed upon by parties
Risk Level	Low risk	High risk due to exchange rate fluctuations, political instability and distance
Foreign Exchange	No impact on national foreign reserve	Help to build or drain the country's foreign exchange
Mobility of factors	High labor and capital mobility factors	Restricted mobility of labor and capital across countries

4. Benefits of International Trade

(i) To Nations
- ✓ Earning foreign exchange reserve
- ✓ Optimum utilization of natural resources
- ✓ Promote industrial and economic growth
- ✓ Improve standard of living due to globalization

(ii) To Companies
- ✓ High profitability and economies of scale
- ✓ Growth prospects when domestic market is saturated

- ✓ Access to superior technology and raw materials.

5. Key Documents Used in External Trade

a. Indent: An import order placed by the buyer specifying the details of goods, price, and terms of delivery.
b. **Letter of Credit (LC):** A guarantee issued by the importer's bank promising payment to the exporter upon presentation of shipping documents.
c. Bill of Lading: A receipt issued by the shipping company acknowledging the receipt of goods on board and serving as a title document.
d. Mate's Receipt: A receipt given by the commanding officer (mate) of the ship to the exporter when goods are loaded onto the vessel.
e. Certificate of Origin: A document specifying the country where the goods were actually produced; used to claim tariff concessions.

6. Institutional & Organizational Support in India

The Indian government has established specialized apex bodies to promote external trade

i. Department of Commerce: Formulates overall foreign trade and EXIM policies.
ii. Indian Trade Promotion Organization (ITPO): Organizes international trade fairs and exhibitions.
iii. Export Promotion Councils (EPCs): Promote exports of specific product groups (e.g., Textiles, Chemicals).
iv. Export Inspection Council (EIC): Controls the quality of goods prior to export.

7. Aid to Trade

Also known as Auxiliaries to Trade refers to the supportive services and activities that facilitate the smooth flow of supportive services and activities that facilitate the smooth flow of goods and services from producers to consumers. They eliminate various hindrances (like distance, time, finance, and risk) that arise during the buying and selling process. The activities coming under aids to trade may be classified into five categories☹a) transportation,(b) warehousing,(c) insurance,(d) advertising, and (e)banking.

(a) Transportation

Most of the times all the goods are not consumed at the same place where they are produced. Therefore, goods need to be moved from the place of production to the place where they are in demand. The activity involving the movement of goods is called 'transportation'. Thus, transportation eliminates the hindrance of place and creates place utility to goods by making them available at the exact location where consumers need or wants to buy them.

Transportation can be of three types:

- ✓ Land transportation - road, rail
- ✓ Air transportation-aeroplane
- ✓ Water transportation-boat, ship

(b) Warehousing:

Once the goods are produced they may not be consumed immediately. This means there will be time gap between production and consumption. This is the hindrance of time. Therefore, goods once produced should be preserved properly till they are consumed. Particularly, perishable goods like milk, meat, vegetables, flowers, etc., should be preserved very carefully. Otherwise, they get spoiled and become useless. For this reason warehousing is recognized as yet another aid to trade. Warehousing refers to preservation of goods to make them available as and when needed by consumers. Thus, warehousing eliminates the hindrance of time and provides time utility to goods by adding economic value to the goods and services by making it available to the consumers exactly when they need or want them.

© Banking and Finance

Banking facilitates the flaw of goods by removing the hindrance of finance and credit. Now-a-days we cannot think of business without banks. To start the business or to run it smoothly we require money. Banks supply money. A bank is an organization which accepts deposits of money from the public, withdrawal on demand or otherwise, and lends the same to those who need it. Banks also provide many services required for the business activity.

(d)Insurance

The goods may be destroyed while in production process, or in transit due to accidents, or in storage due to fire or theft, etc. The businessmen would like to cover these risks. Insurance companies come to their rescue in this regard. They undertake to compensate the loss suffered due to such risks. For this purpose, the business has to take an 'insurance policy' and pay a certain amount regularly, called 'premium'. Thus, insurance eliminates the hindrance of risk.

(e) Advertising

Exchange of goods is possible only when the consumers have the knowledge about the existence of a product. This is the hindrance of knowledge. This hindrance is eliminated through advertising. Through advertisement, producers communicate all information about their goods to the prospective consumer and create in them a strong desire to buy the product. Thus, advertising facilitates the flow of goods between producers and consumers by bringing the knowledge about the products to the consumers. Advertising is done through TV, radio, newspapers, magazines, hoardings, wall posters, etc.

(f) Communication

Enables producers, traders, and consumers to exchange vital market information, place orders, and coordinate logistics via email, phones, and the internet. It reduces any obstacle or disturbance that blocks or prevent the clear and accurate exchange of message between sender & receiver

Aid to Trade	Hindrance Removed	How it Helps the Business
Transport	Hindrance of Place	Moves raw materials to factories and finished goods to markets across different geographical locations, creating place utility.
Warehousing	Hindrance of Time	Bridges the time gap between production and consumption. It allows goods to be stored safely until market demand arises
Banking & Finance	Hindrance of Finance	Provides the necessary capital, loans, overdrafts, and credit facilities needed to run business operations and manage daily payments
Insurance	Hindrance of Risk	Protects the business against unexpected losses or damage to property, stock, or transit caused by fire, theft, or natural disasters
Communication	Hindrance of Information	Enables producers, traders, and consumers to exchange vital market information, place orders, and coordinate logistics via email, phones, and the internet
Advertising	Hindrance of Knowledge	Spreads awareness about the availability, features, usage, and prices of products to target consumers, driving market demand.

7.1 Exercise

1. What is the difference between commerce and industry?
2. What is the difference between internal trade and external trade?
3. How is trade different from commerce?
4. What is an Import-Export Code (IEC)? How is it obtained?
5. Differentiate between a Bill of Lading and a Bill of Entry.

6. Write short notes on Mate’s Receipt.

7. State any three benefits of international business to a nation

8. Explain the step-by-step procedure involved in executing an export trade.

9. Distinguish between Internal Trade and International Trade.

10. A list of hindrances are given below. State the names of the business activities which eliminate them.

Hindrance	Name of Business Activity
Hindrance of distance	
Hindrance of time	
Hindrance of risk	
Hindrance of finance	
Hindrance of knowledge	
Hindrance of person	

Aroma Exports Ltd., based in India, signed a contract to export organic spices to a gourmet chain in Germany. The German importer insisted on strict quality baselines. Aroma Exports hired an independent agency which issued an Inspection Certificate certifying the quality. However, during maritime transit, the ship encountered a severe storm, causing sea-water seepage into the cargo hold, completely destroying the spices. The German importer is now refusing to pay, and the shipping line points to their standard liability exemptions.

Question

1. Which document acts as proof that Aroma Exports fulfilled its preliminary quality mandate?
2. What standard international financial instrument could protect Aroma Exports from payment refusal?

Zion Tech Ltd., a successful domestic electronics manufacturer, wishes to scale globally to exploit economies of scale. However, the management is hesitant due to strict import quotas in their target Western markets, wildly fluctuating foreign exchange rates, and completely unknown localized buyer preferences. Furthermore, their domestic currency has just undergone devaluation.

Question

1. Identify and explain the explicit trade barriers Zion Tech Ltd. faces in this scenario.
2. How will the devaluation of the domestic currency impact Zion Tech's export competitiveness?

CHAPTER THREE

1. Business Organization

1.1 Meaning

Business organization is an institutional arrangement formed to conduct economic activities involving the production, procurement, and sale of goods or services to satisfy human needs and earn a profit. Business is defined as an economic activity directed toward producing wealth through the satisfaction of human wants. A business organization provides the formal structure through which these operations are managed, risks are shared, and objectives are achieved.

1.2 Characteristics of Business Organization

1. An Economic Activity:

It is driven by the motive of earning a livelihood or profit, distinct from activities performed out of emotional, religious, or social motives.

2. Production or Procurement:

The entity must either manufacture goods or procure them from suppliers to make them available for consumption.

3. Sale or Exchange for Value:

There must be a transfer of ownership of goods or services between the seller and buyer in exchange for money. Personal use or self-consumption does not count as business.

4. Regularity in Dealings:

Business requires continuous and repeated transactions. A one-off sale of a personal asset (like selling an old phone) is not a business.

5. Profit Motive:

Earning a profit is the fundamental driving force. It is essential for the long-term survival, innovation, and expansion of the organization.

6. Element of Risk & Uncertainty:

Returns are never guaranteed. Every business operates under the uncertainty of consumer shifts, market changes, and financial losses.

1.3 Importance of Business Organization

a. Optimum Utilization of Resources:

It systematically channelizes scarce resources—Men, Money, Material, and Machines—minimizing waste and maximizing efficiency.

b. Economics of Scale and Growth:

A formal business structure allows enterprises to expand their operations. Large-scale operations reduce the per-unit cost of production, making goods more affordable for consumers.

c. Facilitates Specialization and Division of Labor

By dividing work into specialized departments (like Production, Marketing, and Finance), a business organization enhances the skill levels of employees and improves overall productivity.

d. Employment Generation

Business organizations act as a primary vehicle for job creation. They provide direct employment to workers and managers, and indirect employment to suppliers, logistics providers, and distributors

e. Capital Formation and Wealth Creation

By generating profits and encouraging investments, business organizations convert idle public savings into productive capital. This cycles money back into national economic growth.

f. Innovation and Higher Standard of Living

To survive competition, businesses invest in research and development (R&D). This brings innovative, high-quality, and diverse products to the market, directly uplifting the general standard of living.

2 Objectives of Business Organization

The objectives of a business organization are categorized into five major areas

2.1 Economic Objectives

These are the primary goals of any commercial enterprise, focusing on financial stability and resource utilization.

i. Profit Maximization:

Earning a reasonable profit to survive, grow, and reward the owners or entrepreneurs for taking risks.

ii. Market Standing:

Creating and expanding a loyal customer base by offering competitive products.

iii. Innovation:

Continuously introducing new products, improved designs, or better methods of production to stay ahead of competitors.

iv. Productivity:

Optimizing inputs (raw materials, capital, labour) to ensure maximum output with minimal waste.

2.2 Social Objectives

Since businesses draw their resources from society, they have specific obligations to look after the community's welfare.

a) Quality Goods at Fair Prices:

Ensuring customers receive unadulterated, standard-quality products at reasonable rates.

b) Fair Trade Practices:

Avoiding anti-social activities like hoarding, black-marketing, or misleading advertisements.

c) Employment

Generation: Creating meaningful jobs, including opportunities for weaker or physically challenged sections of society.

d) Community Service:

Contributing to public welfare by supporting education, setting up healthcare clinics, or upgrading infrastructure (often formalized as Corporate Social Responsibility or CSR)

2.3 Human or Personnel Objectives

These objectives relate to the internal stakeholders—the employees who run the daily operations.

i. Fair Remuneration: Providing competitive wages, salaries, and incentives to sustain employee livelihoods.
ii. Good Working Conditions: Maintaining a safe, healthy, and motivating work environment.
iii. Growth Opportunities: Providing skill development programmes, timely promotions, and career advancement paths.
iv. Job Satisfaction: Boosting morale by involving workers in key operational discussions and recognizing their achievements.

2.4 National Objectives

Every business operates within a country's legal and economic framework and must align itself with national milestones.

a. Assisting National Development:

Contributing to economic growth by expanding manufacturing, creating industries, and developing rural regions.

b. Self-Reliance (Atmanirbhar Bharat):

Supporting domestic production to reduce import dependency and boosting exports to earn foreign exchange.

c. Regular Payment of Taxes:

Honestly paying corporate, income, and excise duties to assist the state exchequer in funding public facilities.

2.5 Global Objectives

Global objectives of business refer to the goals set by an enterprise to expand its operations globally, adhere to international standards, and contribute to the global economy

i. Expanding Global Reach:

Businesses aim to expand their operations outside their home country by establishing branches, subsidiaries, or joint ventures abroad.

ii. Diversifying Risk:

Operating in multiple international markets helps reduce the financial risk associated with economic downturns in a single country.

2.6 Organic (or Survival) Objectives

These represent the biological perspective of a firm, where the entity behaves like a living organism aiming for self-preservation.

i. Survival:

Navigating market competition and changing economic landscapes to stay operational.

ii. Growth:

Expanding the scale of operations through mergers, diversification, or adding new business units.

Prestige and Goodwill:

iii. Building a stellar market reputation that creates trust among investors, vendors, and the public

3 Profit Maximization

The primary motive of any traditional business is to earn profits. Under this approach, the performance of a financial manager is judged solely by whether profits increased compared to the previous period.

Ambiguity: The term "profit" is vague. Does it mean gross profit, net profit, profit before tax, or profit after tax?

Ignores the Time Value of Money: Earning ₹1,00,000 today is better than earning ₹1,00,000 five years from now. Profit maximization fails to make this distinction.

Ignores Risk:

If Project A has a profit potential of ₹50,000 with a 90% chance of failure, and Project B has a profit potential of ₹40,000 with a 10% chance of failure, profit maximization will blindly choose Project A.

4. Wealth Maximization

Wealth Maximization is also known as Value Maximization. The goal is to maximize the operational value of the firm, which directly reflects in the market price of the company's shares.

Formula {Wealth}={Number of Shares Held}x{Current Market Price per Share}]

It uses Cash Flows instead of accounting profit. It calculates the Net Present Value (NPV) of those cash flows by discounting them according to the risk involved and the time required to earn them.

4.1 Why Wealth Maximization is Superior

i. Shareholder Aligned:

It protects the long-term interest of the owners (shareholders) by increasing their net worth.

ii. Handles Risk & Time:

By integrating the Time Value of Money and discounting for risk, it provides a realistic framework for corporate decision-making.

Iii Ensures Survival:

Companies focused only on short-term profits often fail to invest in infrastructure or R&D, leading to long-term failure. Wealth maximization ensures sustainable, long-term survival.

5 Exercise

1. Define 'Business Objectives'
2. What are the primary Economic Objectives of a business?
3. State any three Social Objectives of a business organization.
4. What is meant by the 'Human Objectives' of a business?
5. Differentiate between Profit Maximization and Wealth Maximization in brief.
6. "Profit is not the sole objective of a modern business, but it is an essential one." Discuss the multi-faceted objectives of a business organization.
7. Explain the National and Global objectives of a business organization as outlined under modern commerce curricula.
8. Write a comprehensive note on the Social Responsibilities of a business organization towards its various stakeholders.

"GreenVeda Organics Ltd." was founded in 2018 by an agrarian entrepreneur, Rohan Sharma, to manufacture affordable, organic Ayurvedic skincare products using local herbs. Taking advantage of the government's "Make in India" initiative, Rohan set up his manufacturing unit in a rural district of Himachal Pradesh.Initially, the company faced heavy financial stress. For the first two years, Rohan focused solely on covering operational costs and ensuring the business survived the fierce competition from established chemical-based brands. By 2021, through aggressive regional marketing and building customer trust, GreenVeda broke even and began generating a 25% annual increase in net profit. This allowed Rohan to reinvest the surplus cash to launch a new line of organic baby products and upgrade his manufacturing technology.As the company grew, Rohan institutionalised several workplace reforms. He introduced safe working conditions, provided fair wages, and offered a 15% performance-linked bonus alongside annual vocational training workshops for his workers. To maintain its market standing, GreenVeda

implemented strict quality controls, avoiding any misleading descriptions or adulteration. Furthermore, the company set up a free local health clinic for the village communities surrounding the plant and committed to using 100% biodegradable packaging to prevent environmental degradation.
Identify and explain the three broad categories of business objectives highlighted in the activities of GreenVeda Organics Ltd.
Quote specific lines from the case that indicates the company's transition across different stages of its Economic Objectives.
"Profit earning is not the sole objective of a business." Substantiate this statement by identifying the Social and Human initiatives taken by Rohan

6 Modern Business

A modern business is an economic activity involving the production, procurement, and sale of goods or services with the primary motive of earning profit by satisfying consumer needs. Unlike traditional business, a modern business operates in a highly dynamic, globalized, and technology-driven environment. It heavily integrates digital tools (e-business) and places a massive emphasis on agility and consumer satisfaction.

6.1 Characteristics of Modern Business

1) Economic Activity

- The primary objective is to earn a livelihood and maximize profit.
- It is driven by economic value rather than psychological or emotional factors.

2) Technology (E-Business)

- Modern businesses leverage technology such as Artificial Intelligence (AI), Cloud Computing, and Data Analytics to streamline operations.
- A major portion of transactions occurs electronically via Emerging Modes of Business, bridging the gap between buyers and sellers globally through e-commerce.

3) Focus on Customer Satisfaction

- In the modern era, the consumer is considered "King".
- Businesses do not just sell what they produce; they research consumer needs to provide highly personalized products and services.
- Traditional business followed a product-driven approach ("we sell what we make").
- Modern business strictly uses a customer-centric model ("we make what the market demands").
- Organizations rely heavily on data analytics to track shifting consumer preferences, placing premium focus on the luxury, quality, and experiential value of services over cheap pricing.
- Customer relationship management can enable business to track the customer interaction, identify sales opportunities and improve customer service, leading to strong customer relationship and increased loyalty.

4) Creative and Dynamic Nature

- Market environments change rapidly due to shifting trends, government policy alterations, and technical upgrades.
- Modern businesses must remain highly flexible and innovate continuously to survive intense competition.

5) Globalization and Large-Scale Operations

- Boundaries are blurred. Modern corporate entities operate globally as Multinational Corporations (MNCs) or reach global audiences via digital channels.
- They manage complex supply chains that source raw materials from one country, manufacture in another, and sell worldwide

6) Social Responsibility and Sustainability

  - Modern businesses do not operate solely for profit maximization.
  - They are expected to follow Corporate Social Responsibility (CSR) guidelines, focusing on environmental sustainability, ethical labor, and community welfare

7) Element of Risk and Uncertainty

- High innovation brings high risk.
- Rapid shifts in consumer preferences or unexpected technological obsolescence make modern businesses highly susceptible to market fluctuations.

8) Revolutionary Distribution Channels

- The rise of e-commerce has heavily disrupted conventional distribution frameworks (Manufacturer → Wholesaler → Retailer → Consumer).
- Modern businesses heavily utilize Direct-to-Consumer (D2C) channels, digital marketplaces, and unified Omni-channel logistics to cut middle-man margins and sell straight to final consumers.

9) Hyper Globalization

- Geographical boundaries have largely dissolved.
- A typical modern enterprise relies on global supply chains, international talent, and cross-border consumer bases.
- This widespread globalization is strictly monitored and structured by regulatory international bodies like the WTO, IMF, and World Bank

10) Large Scale of Operations & Mass Production

- Modern businesses focus heavily on bulk production and mass marketing.
- Advanced, automated machinery has largely replaced manual labor, allowing corporations to reduce per-unit costs and capture massive global economies of scale

11) Agile & Flexible

- Modern Business are agile to swiftly respond to the changes in the market.
- It involves iterative process, cross functional teams and focus on continuous improvement.
- This flexibility allows business to quickly respond to the new challenges.

12) Data Driven Decision Making

- Modern business strategies involve the use of data analytics.

- The data on consumer behavior, market trends & operational excellence can help business make better decision and can enhance their efficiency and drive growth.

13) Collaboration and Partnership

- Collaboration with start ups, academic institutions and other companies can enable businesses to leverage complementary strengths and access new markets which can spur innovation and growth.

14) Employee empowerment and Development

- Modern business recognizes the value of their employees and invests in their development.
- Empowered employees are more motivated and productive.
- Providing trainng, career development opportunities and fostering a positive workplace culture are essential for attracting and retaining talent.

15) Remote work and Hybrid Model

- Modern business are increasing adopting hybrid work models that combine remote and in office work.
- The flexibility can enhance employee satisfaction and access to global talent pool.

6.2 Challenges Facing Modern Business

a Rapid Technological Change

Keeping in pace with the rapid advancement in technologies can be challenging for the business. Business must continuously adapt and invest in new technologies to stay competitive.

b Global Competition

Globalization has increased competition, with business facing rivals from all across the globe, competency on global scale require innovation, efficiency and differentiation.

c Regulatory Compliance

Complex international regulations can be extremely difficult. Business must keep them updated about the international laws and the legal changes locally and ensure to strictly adhering to such guidelines.

d Talent Acquisition and Retention

Attracting & retaining skilled employees is a significant challenge. Modern business must offer competitive compensation, professional development opportunities and positive work environment to attract and best talent

e Economic Uncertainty

Economic fluctuations and geopolitical events can impact business operations and profitability. Modern business must develop strategies to mitigate risk and maintain stability in uncertain times.

7. Comparison of Traditional and Modern Business

Feature	Traditional Business	Modern Business
Primary Scope	Local or domestic markets.	Global and digital markets.

Transaction Mode	Physical, face-to-face, paper-heavy	Digital/Electronic (e-commerce).
Core Orientation	Product-oriented (selling what is made)	Consumer-centric (making what sells).
Speed of Change	Slow, predictable changes.	Highly dynamic and fast-paced.
Technology	Minimal, restricted to mechanical tools.	Deeply integrated (AI, automation, data).

8 Exercise

1) Define modern business. Detail the essential characteristics that distinguish modern business from traditional frameworks.
2) Explain the term "Customer-Centric Approach" in the context of modern business.
3) How has globalization impacted the scale of modern business?
4) What is the role of technology orientation in current business environments?
5) Why is corporate social responsibility (CSR) a key characteristic of modern business?
6) "The environment of modern business is dynamic, volatile, and deeply customer-centric." Analyze this statement by explaining the internal and external forces shaping modern business operations.

Nex Gen Retail Ventures began its journey as a brick-and-mortar apparel retail establishment in New Delhi, India. Due to hyper-competition and shifting demographic tastes, the enterprise recently implemented an Omni channel system leveraging localized data processing engines. By restructuring its distribution metrics to integrate a carbon-neutral shipping policy, Nex Gen lowered its overhead while simultaneously satisfying complex compliance frameworks. To balance local regulatory pressures, labor union structural alignments, and cross-border currency variations, the board authorized expansion into the Belgian market. This strategic pivot has redefined their core competitive baseline while balancing multi-stakeholder corporate priorities

1. Identify and quote lines highlighting the Technology Integration and Customer-Centric nature of NexGen Retail.
2. Which structural shifts towards Globalization and Relativity are evident in this context?
3.Explain how the case reflects modern business as a 'tightrope walk' regarding institutional Pressures.

9 Considerations in Establishing a New Business

Starting a business enterprise is similar to any other human effort in which resources are employed to achieve certain objectives. The process of setting up one’s own business is called entrepreneurship. The person who set-up his business is called an entrepreneur. The output of the process, that is, the business unit is called a business enterprise. It is interesting to note that entrepreneurship besides providing self-employment to the entrepreneur is responsible to a great extent for creation and expansion of opportunities for the other two economic activities too that is, employment and profession. And, in the process, business entrepreneurship becomes crucial for overall economic development of a nation. When you make this choice, you become a job-provider rather than a job-seeker, besides enjoying a host of other financial and psychological rewards. Taking to entrepreneurship by starting one's own business is a matter of aspiring to become an entrepreneur. It is defined as 'a systematic, purposeful and creative activity of identifying a need, mobilizing resources and organizing production with a view to delivering value to the customers, returns for the investors and profits for the self in accordance with the risks and uncertainties associated with business'. This definition points to factors need to be considered for starting the business. Starting and managing one's business does not emerge spontaneously. Rather, it is the outcome of interaction between a person and business environment. The choice of being an entrepreneur lies with an individual. In this regard, it becomes imperative to look at both— factors in the environment, as well as, factors in the individual's perception of desirability and feasibility.

i) **Selection of type of business:** The first thing to be decided by an entrepreneur is the nature and type of business to be undertaken. He/she will obviously like to enter that branch of industry and commerce, which has the possibility of greater amount of profits. The decision will be influenced by the customer requirements in the market and also the kind of technical knowledge and interest the entrepreneur has for producing a particular product.

ii) **Size of business:** Size of the firm or scale of its operation is another important decision to be taken at the start of the business. Whether the business is for MSME sector or a large scale enterprise. Whether it will operate for manufacturing or tertiary sector. Some factors favour a large size, whereas, others tend to restrict the scale of operation. If the entrepreneur is confident that the demand for the proposed product is likely to be good over time and he/she can arrange the necessary capital for business, he/she can start the operation at a large scale.

iii) **Location of business enterprise:** An important factor to be considered at the start of the business is the place where the enterprise will be located. Any mistake in this regard can result in high cost of production, inconvenience in getting, right kind of production inputs or serving the customers in the best possible way. Availability of raw materials and labour; power supply and services, like banking, transportation, communication, warehousing, etc., are important factors while making a choice of location.

iv) **Financing the proposition:** Financing is concerned with p r o v id ing the necessary capital for starting, as well as, for continuing the proposed business. Capital is required for investment in fixed assets, like land, building, machinery and equipment and in current assets, like raw materials, books, debts, stock of finished goods, etc. Capital is also required for meeting day-to-day expenses.

(v) Physical facilities: Availability of physical facilities, including machines and equipment, building and supportive services is an important factor to be considered at the start of the business. The decision relating to this factor will depend on the nature and size of business, availability of funds and the process of production.

(vi) Competent and committed worked force: Every enterprise needs competent and committed workforce to perform various activities so that physical and financial resources are converted into desired outputs. Since no individual entrepreneur can do everything himself, he/she must identify the requirement of skilled and unskilled workers and managerial staff. Plans should also be made about how the employees will be trained and motivated to give their best performance.

(vii) Tax planning: Tax planning has become necessary these days because there are a number of tax laws in the country and they influence almost every aspect of the functioning of modern business. The entrepreneur has to consider in advance the tax liability under various tax laws and its impact on business decisions.

(viii) Launching the enterprise: After the decisions relating to the above mentioned factors have been taken, the entrepreneur can go ahead with actual launching of the enterprise which would mean mobilizing various resources, fulfilling necessary legal formalities, starting the production process and initiating the sales promotion campaign. A business enterprise can be a sole proprietor firm, a partnership firm or a company for which proper financial planning must be done to determine (a) the requirement of capital, (b) source from where the capital will be raised and (c) the best ways of utilizing the capital in the firm.

Setting up of a new industrial enterprise is not an easy task. Many entrepreneurs have considered it as a very challenging and rewarding task. Many problems will crop up while assuming this task. Beginning from the inception of business ideas up to the start of production, Several decisions have to be made. In order to succeed in this task, an entrepreneur must properly understand the nature and the intensity of hindrances or obstacles. Only after understanding and analyzing obstacles (or problems) in the right direction, an entrepreneur has to decide to set up a new business enterprise

9.2 Steps Involved in Establishing a New Enterprise

The following steps are generally involved in setting up a new business enterprise.

i) Conduct Market Research:

Identify Opportunities; analyze the market trends, customer needs and competitive landscape to identify potential opportunities for new business unit and ensure that there is sufficient demand for new products/services the new business is going to offer.

ii) Define Objectives and Scope

Set SMART goals such as revenue targets, market share or customer acquisition. Determine the scope of business unit such as revenue target, market share and customer acquisition.

iii) Develop Business Plan

Outline the strategic plan, Operational plan and financial plan

iv) Organize the structure

Define organizational structure, roles and responsibilities and establish a capable team to lead the business unit.

v) Allocate Resources

Allocate budget, human resources and invest in technology and infrastructure to support operations

vi) Develop Marketing and Sales Strategies

Develop comprehensive marketing plan to promote business, establish sales strategy for customer acquisition and create a strong brand including tag line, messaging.

vii) Implement Operation Processes

Develop standard operating procedure and implement quality control measures.

viii) Monitor and Evaluate Performance

Establish key performance indicators(KPI) and perform regular peer review to evaluate the performance of business.

ix) Ensure Compliance and Risk Management

Ensure legal compliances are met,identify the potential risk threat and measures to mitigate them.

x) Foster Continuous Improvement

Develop a culture of continuous improvement by regularly evaluating the process and making corrections.

10 Qualities of Successful Businessman

A successful businessman requires a balance of personal attributes, acquired professional knowledge, and ethical standards. These are broadly classified into four primary pillars

a Personal & Physical Qualities
b Intellectual & Mental Qualities
c Professional & Managerial Qualities
d Social & Moral Qualities

a. Personal & Physical Qualities

These form the foundational traits that influence a businessman's daily stamina and initial impressions.

- Sound Health and Physical Energy:

Business demands long working hours, continuous traveling, and intense pressure. A businessman must possess abundant physical and nervous energy to endure fatigue.

- Pleasing Personality and Courtesy:

Courteous behavior acts as a lubricant to business machinery. A polite demeanor wins over customers, suppliers, and financial institutions.

- Strong Work Ethic & Persistence:

The drive to stay disciplined, eliminate distractions, and work tirelessly toward targets is essential

b. Intellectual & Mental Qualities

These reflect the cognitive framework needed to deal with market uncertainties.

- Foresight and Breadth of Vision:

Modern commerce shifts rapidly. A good businessman must accurately anticipate future market trends, customer demands, and technological upgrades.

- Initiative and Self-Starting Nature:

Opportunities disappear if not grabbed quickly. He should be a proactive self-starter who creates paths rather than waiting for permissions.

- Courage and Risk-Taking Ability:

Risk is an inherent component of business. He must be bold enough to take calculated risks and resilient enough to absorb potential financial shocks.

- Mental Alertness:

He must keep an active eye on competitors, government policy changes, and global economic environments

c. Professional & Managerial Qualities

These constitute the technical capabilities required to govern a commercial entity effectively.

- Wide Knowledge of Business Operations:

He must possess thorough theoretical and practical knowledge of finance, marketing, production, and trade mechanics.

- Ability to Plan and Organize:

Successful operations rely heavily on structured business planning. He should map out tactical plans, budget carefully, and optimally allocate capital and labor.

d. Leadership and Team Building:

An ideal manager inspires delegates authority efficiently, establishes corporate collaboration, and drives workers toward shared organizational goals.

- Decisive Decision-

Making Power: Evaluating multiple risky options, analyzing data, and arriving at a quick, firm conclusion is standard criteria for leadership.

- Effective Communication:

He must clearly articulate his vision, negotiate terms smoothly with vendors, and communicate precisely with stakeholders..

e. Social & Moral Qualities

A modern business is a social institution, meaning it cannot prioritize pure profit over social responsibilities.

- Business Morality and Honesty:

Integrity builds a permanent consumer market. Maintaining truthfulness regarding product quality and pricing builds long-term goodwill.

- Fair Treatment of Workers:

Labor is the heart of an enterprise. Cooperating with workers, giving fair wages, and honoring their contributions guarantees consistency.

- Dependability:

Fulfilling promises made to suppliers, banks, consumers, and the state creates institutional credibility.

UNIT 2

11. Forms of Business Organization

11.1 Introduction

If one is planning to start a business or is interested in expanding an existing one, an important decision relates to the choice of the form of organization. The most appropriate form is determined by weighing the advantages and disadvantages of each type of organization against one's own requirements.

Various forms of business organizations from which one can choose the right one include:

a Sole proprietorship,
b Partnership,
c Cooperative societies, and
d Joint stock company.
e Private Company
f Public Company
g One Person Company

Let us start our discussion with sole proprietorship — the simplest form of business organization, and then move on to analyzing more complex forms of organizations.

11.2 Sole Proprietorship

Do you often go in the evenings to buy registers, pens, chart papers, etc., from a small neighborhood stationery store? Well, in all probability in the course of your transactions, you have interacted with a sole proprietor. Sole proprietorship is a popular form of business organization and is the most suitable form for small businesses, especially in their initial years of operation. Sole proprietorship refers to a form of business organization which is owned, managed and controlled by an individual who is the recipient of all profits and bearer of all risks. This is evident from the term itself. The word "sole" implies "only", and "proprietor" refers to "owner". Hence, a sole proprietor is the one who is the *only owner* of a business.

This form of business is particularly common in areas of personalized services such as beauty parlors, hair saloons and small scale activities like running a retail shop in a locality.

11.2.1 Characteristics

Salient characteristics of the sole proprietorship form of organization are as follows:

(i) **Formation and closure:** There is no separate law that governs sole proprietorship. Hardly any legal formalities are required to start a sole proprietary business, though in some cases one may require a license. Closure of the business can also be done easily. Thus, there is ease in formation as well as closure of business.

(ii) **Liability:** Sole proprietors have unlimited liability. This implies that the owner is personally responsible for payment of debts in case the assets of the business are not sufficient to meet all the debts. As such the owner's personal possessions such as his/her personal car and other assets could be sold for repaying the debt. Suppose the total outside liabilities of XYZ dry cleaner, a sole proprietorship firm, are Rs. 80,000 at the time of dissolution, but its assets are Rs. 60,000 only. In such a situation the proprietor will have to bring in Rs. 20,000 from her personal sources even if she has to sell her personal property to repay the firm's debts.

(iii) **Sole risk bearer and profit recipient:** The risk of failure of business is borne all alone by the sole proprietor. However, if the business is successful, the proprietor enjoys all the benefits. He receives all the business profits which become a direct reward for his risk bearing.

(iv) **Control:** The right to run the business and make all decisions lies absolutely with the sole proprietor. He can carry out his plans without any interference from others.

(v) **No separate entity:** in the eyes of the law, any distinction is made between the sole trader and his business, as business does not have an identity separate from the owner. The owner is, therefore, held responsible for all the activities of the business.

(vi) **Lack of business continuity:** The sale proprietorship business is owned and controlled by one person, therefore death, insanity, imprisonment, physical ailment or bankruptcy of the sole proprietor will have a direct and detrimental effect on the business and may even cause closure of the business.

11.2.2 Merits

Sole proprietorship offers many advantages. Some of the important ones are as follows:

(i) **Quick decision making:** A sole proprietor enjoys considerable degree of freedom in making business decisions. Further the decision making is prompt because there is no need to consult others. This may lead to timely capitalization of market opportunities as and when they arise.

(ii) **(ii) Confidentiality of information:** Sole decision making authority enables the proprietor to keep all the information related to business operations confidential and maintain secrecy. A sole trader is also not bound by law to publish firm's accounts.

(iii) **(iii) Direct incentive:** A sole proprietor directly reaps the benefits of his/her efforts as he/she is the sole recipient of all the profit. The need to share profits does not arise as he/she is the single owner. This provides maximum incentive to the sole trader to work hard.

(iv) **(iv) Sense of accomplishment:** There is a personal satisfaction involved in working for oneself. The knowledge that one is responsible for the success of the business not only contributes to self-satisfaction but also instills in the individual a sense of accomplishment and confidence in one's abilities.

(v) **(v) Ease of formation and closure:** An important merit of sole proprietorship is the possibility of entering into business with minimal legal formalities. There is no separate law that governs sole proprietorship. As sole proprietorship is the least regulated form of business, it is easy to start and close the business as per the wish of the owner

11.2.3 Demerits

Not with standing various advantages, the sole proprietorship form of organization is not free from limitations. Some of the major limitations of sole proprietorship are as follows:
(i) Limited resources: Resources of a sole proprietor are limited to his/ her personal savings and borrowings from others. Banks and other lending institutions may hesitate to extend a long term loan to a sole proprietor. Lack of resources is one of the major reasons why the size of the business rarely grows much and generally remains small.

(ii) **Limited life of a business concern:** The sole proprietorship business is owned and controlled by one person, so death, insanity, imprisonment, physical ailment or bankruptcy of a proprietor affects the business and can lead to its closure.

(iii) Unlimited liability: A major disadvantage of sole proprietorship is that the owner has unlimited liability. If the business fails, the creditors can recover their dues not merely from the business assets, but also from the personal assets of the proprietor. A poor decision or an unfavorable circumstance can create serious financial burden on the owner. That is why a sole proprietor is less inclined to take risks in the form of innovation or expansion.

(iv) Limited managerial ability: The owner has to assume the responsibility of varied managerial tasks such as purchasing, selling, financing, etc. It is rare to find an individual who excels in all these areas. Thus decision making may not be balanced in all the cases. Also, due to limited resources, sole proprietor may not be able to employ and retain talented and ambitious employees.
Though sole proprietorship suffers from various shortcomings, many entrepreneurs opt for this form of organization because of its inherent advantages. It requires less amount of capital. It is best suited for businesses which are carried out on a small scale and where customers demand Personalized services.

11.2.4 Exercise

1. Define Sole Proprietorship
2. State any three main features of a sole proprietorship.
3. Why does a sole proprietorship have unlimited liability?
4. What are the main advantages of a sole proprietorship?

Background

Aarav runs a small-scale handloom and textile retail unit named Aarav’s Handloom Creations as a sole proprietorship in his hometown. He invested ₹5 Lakhs from his personal savings and hired two local artisans. Over three years, the business gained popularity for its unique designs, generating an annual turnover of ₹25 Lakhs with a steady 12% net profit margin.

The Trigger Event

Encouraged by local success, Aarav received a bulk export order worth ₹15 Lakhs from an online furnishings aggregator. However, fulfilling this order requires immediate procurement of raw materials and renting an upgraded commercial workspace, needing an extra capital infusion of ₹8 Lakhs.Aarav approached a local commercial bank for a business loan. The bank manager agreed to evaluate the loan but pointed out that Aarav's personal credit history and the lack of distinct separation between business and personal assets pose high risk. Furthermore, a competitor recently copied his signature designs, and Aarav lacks the legal budget to file a formal infringement lawsuit. Stretched thin trying to manage production, procurement, and marketing single-handedly, Aarav is facing severe operational burnout.

Key Questions:

1. Identify the form of business organization: chosen by Aarav, and state two primary advantages he enjoyed during the initial setup phase.
2. Analyze the nature of liability: Aarav faces regarding the bank loan and business operations. If the business fails, to what extent are his personal assets vulnerabl
3. Evaluate the limitations: preventing Aarav from smoothly executing the new ₹15 Lakhs export order.
4. Propose a strategic recommendation: Should Aarav continue as a sole proprietor, convert into a partnership firm, or transition into a private limited company to handle future expansion?

11.3 Partnership

The inherent disadvantage of the sole proprietorship in financing and managing an expanding business paved the way for partnership as a viable option. Partnership serves as an answer to the needs of greater capital investment, varied skills and sharing of risks.

The Indian Partnership Act, 1932 defines partnership as "the relation between persons who have agreed to share the profit of the business carried on by all or any one of them acting for all."

11.3.1 Characteristics

Definitions given above point to the following major characteristics of the partnership form of business organization.

(i) **Formation:** The partnership form of business organization is governed by the Indian Partnership Act, 1932. It comes into existence through a legal agreement wherein the terms and conditions governing the relationship among the partners, sharing of profits and losses and the manner of conducting the business are specified. It may be pointed out that the business must be lawful and run with the motive of profit. Thus, two people coming together for charitable purposes will not constitute a partnership.

(ii) **Liability:** The partners of a firm have unlimited liability. Personal assets may be used for repaying debts in case the business assets are insufficient. Further, the partners are jointly and individually liable for payment of debts. Jointly, all the partners are responsible for the debts and they contribute in proportion to their share in business and as such are liable to that extent. Individually too, each partner can be held responsible for repaying the debts of the business. However, such a partner can later recover from other partners an amount of money equivalent to the shares in liability defined as per the partnership agreement.

(iii) **Risk bearing:** The partners bear the risks involved in running a business as a team. The reward comes in the form of profits which are shared by the partners in an agreed ratio. However, they also share losses in the same ratio in the event of the firm incurring losses.

(iv) **Decision making and control:** The partners share amongst themselves the responsibility of decision making and control of day to day activities. Decisions are generally taken with mutual consent. Thus, the activities of a partnership firm are managed through the joint efforts of all the partners.

(v) **Continuity:** Partnership is characterised by lack of continuity of business since the death, retirement, insolvency or insanity of any partner can bring an end to the business. However, the remaining partners may if they so desire continue the business on the basis of a new agreement.

(vi) **Number of Partners:** The minimum number of partners needed to start a partnership firm is two. According to section 464 of the Companies Act 2013, maximum number of partners in a partnership firm can be 100, subject to the number prescribed by the government. As per Rule 10 of The Companies (miscellaneous) Rules 2014, at present the maximum number of members can be 50.

(vii) **Mutual agency:** The definition of partnership highlights the fact that it is a business carried on by all or any one of the partners acting for all. In other words, every partner is both an agent and a principal. He is an agent of other partners as he represents them and thereby binds them through his acts. He is a principal as he too can be bound by the acts of other partners

11.3.2 Merits

The following points describe the advantages of a partnership firm

(i) **Ease of formation and closure:** A partnership firm can be formed easily by putting an agreement between the prospective partners into place whereby they agree to carry out the business of the firm and share risks. There is no compulsion with respect to registration of the firm. Closure of the firm too is an easy task

(ii) **Balanced decision making:** The partners can oversee different functions according to their areas of expertise. Because an individual is not forced to handle different activities, this not only reduces the burden of work but also leads to fewer errors in judgments. As a consequence, decisions are likely to be more balanced.

(iii) **More funds:** In a partnership, the capital is contributed by a number of partners. This makes it possible to raise larger amount of funds as compared to a sole proprietor and undertake additional operations when needed.

(iv) **Sharing of risks:** The risks involved in running a partnership firm are shared by all the partners. This reduces the anxiety, burden and stress on individual partners.

(v) **Secrecy:** A partnership firm is not legally required to publish its accounts and submit its reports. Hence it is able to maintain confidentiality of information relating to its operations.

11.3.3 Demerits

A partnership firm of business organisation suffers from the following limitations:

(i) **Unlimited liability:** Partners are liable to repay debts even from their personal resources in case the business assets are not sufficient to meet its debts. The liability of partners is both joint and several which may prove to be a drawback for those partners who have greater personal wealth. They will have to repay the entire debt in case the other partners are unable to do so.

(ii) **Limited resources:** There is a restriction on the number of partners, and hence contribution in terms of capital investment is usually not sufficient to support large scale business operations. As a result, partnership firms face problems in expansion beyond a certain size.

(iii) **Possibility of conflicts:** Partnership is run by a group of persons wherein decision making authority is shared. Difference in opinion on some issues may lead to disputes between partners. Further, decisions of one partner are binding on other partners. Thus an unwise decision by some one may result in financial ruin for all others. In case a partner desires to leave the firm, this can result in termination of partnership as there is a restriction on transfer of ownership.

(iv) **Lack of continuity:** Partnership comes to an end with the death, retirement, insolvency or lunacy of any partner. It may result in lack of continuity. However, the remaining partners can enter into a fresh agreement and continue to run the business.

(v) **Lack of public confidence:** A partnership firm is not legally required to publish its financial reports or make other related information public. It is, therefore, difficult for any member of the public to ascertain the true financial status of a partnership firm. As a result, the confidence of the public in partnership firms is generally low.

11.3.4 Types of Partners

A partnership firm can have different types of partners with different roles and liabilities. An understanding of these types is important for a clear understanding of their rights and responsibilities. These are described as follows:

(i) **Active partner:** An active partner is one who contributes capital, participates in the management of the firm, shares its profits and losses, and is liable to an unlimited extent to the creditors of the firm. These partners take actual part in carrying out business of the firm on behalf of other partners.

(ii) **Sleeping or dormant partner:** Partners who do not take part in the day to day activities of the business are called sleeping partners. A sleeping partner, however, contributes capital to the firm, shares its profits and losses, and has unlimited liability.

(iii) **Secret partner:** A secret partner is one whose association with the firm is unknown to the general public. Other than this distinct feature, in all other aspects he is like the rest of the partners. He contributes to the capital of the firm, takes part in the management, shares its profits and losses, and has unlimited liability towards the creditors.

(iv) **Nominal partner:** A nominal partner is one who allows the use of his/her name by a firm, but does not contribute to its capital. He/she does not take active part in managing the firm, does not share its profit or losses but is liable, like other partners, to the third parties, for the repayments of the firm's debts.

(v) **Partner by estoppel:** A person is considered a partner by estoppel if, through his/her own initiative, conduct or behavior, he/she gives an impression to others that he/ she is a partner of the firm. Such partners are held liable for the debts of the firm because in the eyes of the third party they are considered partners, even though they do not contribute capital or take part in its management. Suppose Rani is a friend of Seema who is a partner in a software firm —Simplex Solutions. On Seema's request, Rani accompanies her to a business meeting with Mohan Softwares and actively participates in the negotiation process for a business deal and gives the impression that she is also a partner in Simplex Solutions. If credit is extended to Simplex Solutions on the basis of these negotiations, Rani would also be liable for repayment of such debt, as if she is a partner of the firm.

(vi) **Partner by holding out:** A partner by 'holding out' is a person who though is not a partner in a firm but knowingly allows him/her to be represented as a partner in a firm. Such a person becomes liable to outside creditors for repayment of any debts which have been extended to the firm on the basis of such representation. In case he is not really a partner and wants to save himself from such a liability, he should immediately issue a denial, clarifying his position that he is not a partner in the firm. If he does not do so, he will be responsible to the third party for any such debts.

11.3.5 Types of Partnership

Partnerships can be classified on the basis of two factors, viz., duration and liability. On the basis of duration, there can be two types of partnerships :'Partnership at will' and 'particular partnership'. On the basis of liability, the two types of partnership include: one 'with limited liability' and the other one 'with unlimited liability'. These types are described in the following sections.

11.3.6 Classification on the basis of duration

(i) Partnership at will: This type of partnership exists at the will of the partners. It can continue as long as the partners want and is terminated when any partner gives a notice of withdrawal from partnership to the firm.

(ii) Particular partnership: Partner-ship formed for the accomplishment of a particular project say construction of a building or an activity to be carried on for a specified time period is called particular partnership. It dissolves automatically when the purpose for which it was formed is fulfilled or when the time duration expires.

11.3.7 Classification on the basis of liability

(i) General Partnership: In general partnership, the liability of partners is unlimited and joint. The partners enjoy the right to participate in the management of the firm and their acts are binding on each other as well as on the firm. Registration of the firm is optional. The existence of the firm is affected by the death, lunacy, insolvency or retirement of the partners.

(ii) Limited Partnership: In limited partnership, the liability of at least one partner is unlimited whereas the rest may have limited liability. Such a partnership does not get terminated with the death, lunacy or insolvency of the limited partners. The limited partners do not enjoy the right of management and their acts do not bind the firm or the other partners. Registration of such partnership is compulsory. This form of partnership was not permitted in India earlier. The permission to form partnership firms with limited liability has been granted after introduction of New Small Enterprise Policy in 1991. The idea behind such a move has been to enable the partnership firms to attract equity capital from friends and relatives of small scale entrepreneurs who were earlier reluctant to help, due to the existence of unlimited liability clause in the partnership form of business

11.3.8 Partnership Deed

A partnership is a voluntary association of people who come together for achieving common objectives. In order to enter into partnership, a clear agreement with respect to the terms, conditions and all aspects concerning the partners is essential so that there is no misunderstanding later among the partners. Such an agreement can be oral or written. Even though it is not essential to have a written agreement, it is advisable to have a written agreement as it constitutes an evidence of the conditions agreed upon. The written agreement which Specifies the terms and conditions that govern the partnership is called the partnership deed. The partnership deed generally includes the following aspects:

- Name of firm
- Nature of business and location of business
- Duration of business
- Investment made by each partner
- Distribution of profits and losses
- Duties and obligations of the partners
- Salaries and withdrawals of the partners
- Terms governing admission, retirement and expulsion of a partner
- Interest on capital and interest on drawings
- Procedure for dissolution of the firm
- Preparation of accounts and their auditing
- Method of solving disputes

11.3.9 Exercise

1. Define Partnership according to the Indian Partnership Act, 1932.

2. What is a Partnership Deed? Why is its registration recommended?

3. Differentiate between an Active Partner and a Sleeping (Dormant) Partner.

4. Define Nominal Partner and Partner by Estoppel.

5. What do you mean by Partnership at Will?

The Scenario
Ram, Mohan, and Gopal are partners running a wholesale textile business under the name M/S RMG Textiles. The partnership deed states that no partner can purchase goods worth more than ₹50,000 on credit without the written consent of all other partners.

The Purchase: Without informing Mohan or Gopal, Ram orders textile goods worth ₹1,20,000 on credit from Sunrise Fabrics Ltd. (a third-party supplier who is unaware of the internal restriction in the partnership deed).

The Tragedy: Before the goods are delivered, Ram suddenly passes away. The goods are subsequently delivered to the firm's warehouse and accepted by Mohan.

The Default: Shortly after delivery, the firm suffers heavy financial losses due to a market crash. Mohan and Gopal are declared insolvent. Sunrise Fabrics Ltd. sues to recover the outstanding balance of ₹1,20,000.

Questions for Analysis

1. Is Ram's private estate liable to pay Sunrise Fabrics Ltd. for the goods ordered before his

death? 2. Can Sunrise Fabrics Ltd. hold Mohan and Gopal personally liable despite the restriction clause of ₹50,000 in the deed?

11.4 Cooperative Society

The word cooperative means working together and with others for a common purpose.
A cooperative society is a voluntary association of persons who join together with the motive of welfare of the members. They are driven by the need to protect their economic interests in a democratic way. A cooperative society is required to be registered under law. After registration, it acquires a distinct legal identity, can enter into contracts, hold property in its own name, and its members' liability is limited to the amount they contribute as capital. In India, cooperative societies that operate within a single state are governed by the Cooperative Societies Act of that state, while those that operate in more than one state are governed by the Multi-State Cooperative Societies Act, 2002. The Multi-State Cooperative Societies Act has also been updated through recent amendments.

11.4.1 Characteristics

The characteristics of a cooperative society are listed below.

(i) **Voluntary membership:** The membership of a cooperative society is voluntary. A person is free to join a cooperative society, and can also leave anytime as per his desire. There cannot be any compulsion for him to join or quit a society. Although procedurally a member is required to serve a notice before leaving the society, there is no compulsion to remain a member. Membership is open to all, irrespective of their religion, caste, and gender.

(ii) **Legal status:** Registration of a cooperative society is compulsory. This accords a separate identity to the society which is distinct from its members. The society can enter into contracts and hold property in its name, sue and be sued by others. As a result of being a separate legal entity, it is not affected by the entry or exit of its members.

(iii) **Limited liability:** The liability of the members of a cooperative society is limited to the extent of the amount contributed by them as capital. This defines the maximum risk that a member can be asked to bear.

(iv) **Control:** In a cooperative society, the power to take decisions lies in the hands of an elected managing committee. The right to vote gives the members a chance to choose the members who will constitute the managing committee and this lends the cooperative society a democratic character.

(v) **Service motive:** The cooperative society through its purpose lays emphasis on the values of mutual help and welfare. Hence, the motive of service dominates it's working. If any surplus is generated as a result of its operations, it is distributed amongst the members as dividend in conformity with the bye-laws of the society.

11.4.2 Merits

The cooperative society offers many benefits to its members. Some of the advantages of the cooperative form of organization are as follows.

- **(i) Equality in voting status:** The principle of 'one man one vote' governs the cooperative society. Irrespective of the amount of capital contribution by a member, each member is entitled to equal voting rights.
- **(ii) Limited liability:** The liability of members of a cooperative society is limited to the extent of their capital contribution. The personal assets of the members are, therefore, safe from being used to repay business debts.
- **(iii) Stable existence:** Death, bankruptcy or insanity of the members do not affect continuity of a cooperative society. A society, therefore, operates unaffected by any change in the membership.
- **(iv) Economy in operations:** The members generally offer honorary services to the society. As the focus is on elimination of middlemen, this helps in reducing costs. The customers or producers themselves are members of the society, and hence the risk of bad debts is lower.
- **(v) Support from government:** The cooperative society exemplifies the idea of democracy and hence finds support from the Government in the form of low taxes, subsidies, and low interest rates on loans.
- **(vi) Ease of formation:** The cooperative society is a voluntary association of persons who joined together with motive of welfare of the members. The registration procedure is simple involving a few legal formalities as per acts enacted by Government of India

11.4.3 Demerits

The cooperative form of organization suffers from the following limitations:

- **(i) Limited resources:** Resources of a cooperative society consists of capital contributions of the members with limited means. The low rate of dividend offered on investment also acts as a deterrent in attracting membership or more capital from the members.
- **(ii) Inefficiency in management:** Cooperative societies are unable to attract and employ expert managers because of their inability to pay them high salaries. The members who offer honorary services on a voluntary basis are generally not professionally equipped to handle the management functions effectively.
- **(iii) Lack of secrecy:** As a result of open discussions in the meetings of members as well as disclosure obligations as per the Societies Act (7), it is difficult to maintain secrecy about the operations of a cooperative society.
- **(iv) Government control:** In return of the privileges offered by the government, cooperative societies have to comply with several rules and regulations related to auditing of accounts, submission of accounts, etc. Interference in the functioning of the cooperative organization through the control exercised by the state cooperative departments also negatively affects its freedom of operation.
- **(v) Differences of opinion:** Internal quarrels arising as a result of contrary viewpoints may lead to difficulties in decision making. Personal interests may

start to dominate the welfare motive and the benefit of other members may take a backseat if personal gain is given preference by certain members

11.4.4 Type of Cooperative Societies

Various types of cooperative societies based on the nature of their operations are described below:

(i) Consumer's cooperative societies: The consumer cooperative societies are formed to protect the interests of consumers. The members comprise of consumers desirous of obtaining good quality products at reasonable prices. The society aims at eliminating middlemen to achieve economy in operations. It purchases goods in bulk directly from the wholesalers and sells goods to the members, thereby eliminating the middlemen. Profits, if any, are distributed on the basis of either their capital contributions to the society or purchases made by individual members.

(ii) Producer's cooperative societies: These societies are set up to protect the interest of small producers. The members comprise of producers desirous of procuring inputs for production of goods to meet the demands of consumers. The society aims to fight against the big capitalists and enhance the bargaining power of the small producers. It supplies raw materials, equipment and other inputs to the members and also buys their output for sale. Profits among the members are generally distributed on the basis of their contributions to the total pool of goods produced or sold by the society.

(iii) Marketing cooperative societies: Such societies are established to help small producers in selling their products. The members consist of producers who wish to obtain reasonable prices for their output. The society aims to eliminate middlemen and improve competitive position of its members by securing a favourable market for the products. It pools the output of individual members and performs marketing functions like transportation, warehousing, packaging, etc., to sell the output at the best possible price. Profits are distributed according to each member's contribution to the pool of output.

(iv) **Farmer's cooperative societies**: These societies are established to protect the interests of farmers by providing better inputs at a reasonable cost. The members comprise farmers who wish to jointly take up farming activities. The aim is to gain the benefits of large scale farming and increase the productivity. Such societies provide better quality seeds, fertilisers, machinery and other modern techniques for use in the cultivation of crops. This helps not only in improving the yield and returns to the farmers, but also solves the problems associated with the farming on fragmented land holdings.

(v) **Credit cooperative societies:** Credit cooperative societies are established for providing easy credit on reasonable terms to the members. The members comprise of persons who seek financial help in the form of loans. The aim of such societies is to protect the members from the exploitation of lenders who charge high rates of interest on loans. Such societies provide loans to members out of the amounts collected as capital and deposits from the members and charge low rates of interest.

(vi) **Cooperative housing societies:** Cooperative housing societies are established to help people with limited income to construct houses at reasonable costs. The members of these societies consist of people who are desirous of procuring residential accommodation at lower costs. The aim is to solve the housing problems of the members by constructing houses and giving the option of paying in installments. These societies construct flats or provide plots to members on which the members themselves can construct the houses as per their choice.

11.4.5 Exercise

1. Define a cooperative society.
2. What is the minimum number of members required to form a cooperative society in India?
3. State the primary voting principle of a cooperative society.
4. What is a Consumer Cooperative Society?
5. What is the liability of members in a cooperative society?

Background

The Navodaya Cooperative Credit Society Ltd. was established in 2015 with 1,200 members, primarily consisting of small-scale traders, farmers, and salaried employees in a semi-urban town. The society operates under the relevant State Cooperative Societies Act. Its primary objective is to promote thrift among its members and provide them with unsecured and secured loans at reasonable interest rates.The society is managed by an elected Board of Directors (7 members), headed by a Chairman. A full-time paid Secretary handles day-to-day operations, cash transactions, and book-keeping.

The Problem Scenario

During the Annual General Meeting (AGM) for the financial year 2025–2026, several members raised concerns over a drastic drop in dividend payouts and a sudden liquidity crunch. Members who applied for emergency loans were being turned away due to a "lack of available funds," despite the society reporting profits in the previous years.An independent statutory audit was ordered by the Registrar of Cooperative Societies. The audit report revealed the following critical discrepancies:

High Non-Performing Assets (NPAs): Nearly 35% of the total loan portfolio was classified as overdue or bad debts. A deeper look showed that the Chairman and Secretary had bypassed standard credit appraisal norms to grant large, low-collateral loans to their close relatives and friends.

Lack of Internal Controls: The Secretary was solely responsible for receiving deposits, approving small cash disbursements, and writing the accounts. There was no segregation of duties or regular internal audits

Liquidity Management Failure: The society invested its reserve funds in long-term, illiquid real estate schemes rather than liquid government securities or approved cooperative banks, violating the statutory investment mandates.

Member Apathy: Attendance at AGMs had consistently dropped below 15%. Most members treated the society merely as a savings account, completely ignoring their democratic right to monitor the management.

Discussion Questions

1. Analyze the ethical violations committed by the Board of Directors of Navodaya Cooperative Credit Society. Which core principles of "Cooperation" were violated?
2. As a financial consultant, design a robust internal check and control system for cash transactions and loan disbursements suitable for this society.
3. According to cooperative society laws, what are the legal restrictions regarding the investment of a society's funds and lending to non-members/relatives?
4. Formulate a step-by-step recovery and restructuring plan to recover the bad loans and restore the liquidity of the society.

11.5 Joint Stock Company

A company is an association of persons formed for carrying out business activities and has a legal status independent of its members. A company can be described as an artificial person having a separate legal entity, perpetual succession and a common seal. The company form of organization is governed by The Companies Act, 2013. As per section 2(20) of Act 2013, a company means company incorporated under this Act or any other previous company law.
The shareholders are the owners of the company while the Board of Directors is the chief managing body elected by the shareholders. Usually, the owners exercise an indirect control over the business. The capital of the company is divided into smaller parts called 'shares' which can be transferred freely from one shareholder to another person (except in a private company).

11.5.1 Characteristics

The definition of a joint stock company highlights the following features of a company.

(i) **Artificial person:** A company is a creation of law and exists independent of its members. Like natural persons, a company can own property, incur debts, borrow money, enter into contracts, sue and be sued but unlike them it cannot breathe, eat, run, talk and so on. It is, therefore, called an artificial person.

(ii) **Separate legal entity:** From the day of its incorporation, a company acquires an identity, distinct from its members. Its assets and liabilities are separate from those of its owners. The law does not recognise the business and owners to be one and the same.

(iii) **Formation:** The formation of a company is a time consuming, expensive and complicated process. It involves the preparation of several documents and compliance with several legal requirements before it can start functioning. Incorporation of companies is compulsory under The Companies Act 2013 or any of the previous company law, as state earlier. Such companies which are incorporated under companies Act 1956 or any company law shall be included in the list of companies.

(iv) **Perpetual succession:** A company being a creation of the law, can be brought to an end only by law. It will only cease to exist when a specific procedure for its closure, called winding up, is completed. Members may come and members may go, but the company continues to exist.

(v) **(v) Control:** The management and control of the affairs of the company is undertaken by the Board of Directors, which appoints the top management officials for running the business. The directors hold a position of immense significance as they are directly accountable to the shareholders for the working of the company. The shareholders, however, do not have the right to be involved in the day-to-day running of the business.

(vi) **Liability:** The liability of the members is limited to the extent of the capital contributed by them in a company. The creditors can use only the assets of the company to settle their claims since it is the company and not the members that owes the debt. The members can be asked to contribute to the loss only to the extent of the unpaid amount of share held by them. Suppose Akshay is a shareholder in a company holding 2,000 shares of Rs.10 each on which he has already paid Rs. 7 per share. His liability in the event of losses or company's failure to pay debts can be only up to Rs. 6,000 — the unpaid amount of his share capital (Rs. 3 per share on 2,000 shares held in the company). Beyond this, he is not liable to pay anything towards the debts or losses of the company.

(vii) **Risk bearing:** The risk of losses in a company is borne by all the share holders. This is unlike the case of sole proprietorship or partnership firm where one or few persons respectively bear the losses. In the face of financial difficulties, all shareholders in a company have to contribute to the debts to the extent of their shares in the company's capital. The risk of loss thus gets spread over a large number of shareholders.

11.5.2 Merits

The company form of organization offers a multitude of advantages, some of which are discussed below.

(i) **Limited liability:** The shareholders are liable to the extent of the amount unpaid on the shares held by them. Also, only the assets of the company can be used to settle the debts, leaving the owner's personal property free from any charge. This reduces the degree of risk borne by an investor

(ii) **Transfer of interest:** The ease of transfer of ownership adds to the advantage of investing in a company as the share of a public limited company can be sold in the market and as such can be easily converted into cash in case the need arises. This avoids blockage of investment and presents the company as a favorable avenue for investment purposes.

(iii) **Perpetual existence:** Existence of a company is not affected by the death, retirement, resignation, insolvency or insanity of its members as it has a separate entity from its members. A company will continue to exist even if all the members die. It can be liquidated only as per the provisions of the Companies Act, 2013.

(iv) **Scope for expansion:** As compared to the sole proprietorship and partnership forms of organization, a company has large financial resources. Further, capital can be attracted from the public as well as through loans from banks and financial institutions. Thus there is greater scope for expansion. The investors are inclined to invest in shares because of the limited liability, transferable ownership and possibility of high returns in a company.

(v) **Professional management:** A company can afford to pay higher salaries to specialists and professionals. It can, therefore, employ people who are experts in their area of specializations. The scale of operations in a company leads to division of work. Each department deals with a particular activity and is headed by an expert. This leads to balanced decision making as well as greater efficiency in the company's operations.

11.5.3 Demerit

The major limitations of a company form of organisation are as follows:

(i) **Complexity in formation:** The formation of a company requires greater time, effort and extensive knowledge of legal requirements and the procedures involved. As compared to sole proprietorship and partnership form of organisations, formation of a company is more complex.

(ii) **Lack of secrecy:** The Companies Act requires each public company to provide from time-to-time a lot of information to the office of the registrar of companies. Such information is available to the general public also. It is, therefore, difficult to maintain complete secrecy about the operations of company.

(iii) **Impersonal work environment:** Separation of ownership and management leads to situations in which there is lack of effort as well as personal involvement on the part of the officers of a company. The large size of a company further makes it difficult for the owners and top management to maintain personal contact with the employees, customers and creditors.

(iv) **Numerous regulations:** The functioning of a company is subject to many legal provisions and compulsions. A company is burdened with numerous restrictions in respect of aspects including audit, voting, filing of reports and preparation of documents, and is required to obtain various certificates from different agencies, viz., registrar, SEBI, etc. This reduces the freedom of operations of a company and takes away a lot of time, effort and money.

(v) **Delay in decision making:** Companies are democratically managed through the Board of Directors which is followed by the top management, middle management and lower level management. Communication as well as approval of various proposals may cause delays not only in taking decisions but also in acting upon them.

(vi) **Oligarchic management:** In theory, a company is a democratic institution wherein the Board of Directors are representatives of the shareholders who are the owners. In practice, however, in most large sized organisations having a multitude of shareholders; the owners have minimal influence in terms of controlling or running the business. It is so because the shareholders are spread all over the country and a very small percentage attend the general meetings. The Board of Directors as such enjoy considerable freedom in exercising their power which they sometimes use even contrary to the interests of the shareholders. Dissatisfied shareholders in such a situation have no option but to sell their shares and exit the company. As the directors virtually enjoy the rights to take all major decisions, it leads to rule by a few.

(vii) **Conflict in interests:** There may be conflict of interest amongst various stakeholders of a company. The employees, for example, may be interested in higher salaries, consumers desire higher quality products at lower prices, and the shareholders want higher returns in the form of dividends and increase in the intrinsic value of their shares. These demands pose problems in managing the company as it often becomes difficult to satisfy such diverse interests.

11.5.2 Exercise

1. What is a Joint Stock Company?

2. State any three main features of a Joint Stock Company.

Apex Motors Ltd. is a registered public joint stock company incorporated under the Companies Act. The company manufactures electric two-wheelers. It has an authorized share capital of ₹50 crores divided into 50 lakh equity shares of ₹100 each.Mr. Rohan holds 10,000 shares (worth ₹10,00,000) in the company, on which he has fully paid the face value. Recently, Apex Motors Ltd. faced a severe market downturn due to faulty battery supplies, resulting in an accumulated debt of ₹15 crores that the company's assets cannot cover. Concurrently, a major fire broke out in the main warehouse, destroying inventory worth ₹5 crores.A group of trade creditors filed a legal suit demanding recovery of their dues directly from the personal assets of major shareholders, including Mr. Rohan. Separately, two members of the Board of Directors passed away in an accident, and a faction of shareholders demanded the immediate dissolution of the company. **Questions** Can the creditors recover company debts from Mr. Rohan's personal property? Does the death of directors and major operational loss dissolve Apex Motors Ltd.? What distinguishes Apex Motors Ltd. from a partnership firm in this scenario?

12 Private Company

A private company means a company which:

(a) restricts the right of members to transfer its shares;
(b) has a minimum of 2 and a maximum of 200 members, excluding the present and past employees;
(c) does not invite public to subscribe to its securities and It is necessary for a private company to use the word *private limited* after its name. If a private company contravenes any of the aforesaid provisions, it ceases to be a private company and loses all the exemptions and privileges to which it is entitled.

13 Public Company

A public company means a company which is not a private company. As per The Companies Act, a public company is one which:
(a) has a minimum of 7 members and no limit on maximum members;
(b) has no restriction on transfer securities; and
(c) is not prohibited from inviting the public to subscribe to its securities.
However, a private company which is a subsidiary of a public company is also treated as a public company

13.1 Exercise

1. Define a Private Company.

2. Define a Public Company.

3. What is a Prospectus? Can a Private Company issue one?

4. State any three privileges enjoyed by a Private Company over a Public Company.

14 Difference Between Private and Public Company

Basis of Distinction	Private Company	Public Company
Legal Definition	Governed under **Section 2(68)** of the Companies Act, 2013.	Governed under **Section 2(71)** of the Companies Act, 2013.
Minimum Members	Requires a minimum of **2 members**.	Requires a minimum of **7 members**.
Maximum Members	Restricted to a maximum of **200 members** *(excluding employees)*.	**No upper limit** on the maximum number of members.
Transfer of Shares	Share transferability is highly **restricted** by its Articles of Association (AOA).	Shares are **freely transferable** without any restrictions.
Public Subscription	Cannot invite the public to subscribe to its shares or debentures.	Can invite the general public to subscribe to its securities
Prospectus	Prohibited from issuing a prospectus.	Must issue a prospectus or a statement in lieu of a prospectus before inviting the public.
Name Suffix	Must use "**Private Limited**" or "**Pvt. Ltd.**" at the end of its name.	Must use "**Limited**" or "**Ltd.**" at the end of its name.
Statutory Meeting	Holding a statutory meeting is **optional**.	Holding a statutory meeting and filing a statutory report is **compulsory**.
Quorum at Meetings	Minimum **2 members** must be	Minimum **5 to 30 members**

	personally present.	(depending on total membership size) must be personally present.
Regulatory Burden	Enjoys numerous privileges with **fewer compliance** requirements.	Subject to **strict compliance** and monitoring by SEBI and the Ministry of Corporate Affairs.

The Scenario: The Growth Dilemma of "Apex Agro Products"
In 2021, three agricultural graduates—Rahul, Priya, and Vikram—incorporated Apex Agro Products Private Limited in Pune. Each held an equal share in the business. The company grew rapidly by processing organic fruits and exporting them to European markets.

By 2026, the company's dynamics changed significantly:

The Member Expansion: To motivate senior managers, the founders issued shares to 195 employees. Additionally, they allocated shares to 10 outside angel investors to clear local debts.

The Tragic Event: In June 2026, Vikram tragically passed away in an accident. His legal heirs decided not to join the business and requested a buyback or transfer of shares. Rahul and Priya continued managing the business alone.

The Mega Expansion Plan: The company secured a massive supply contract from an international supermarket chain. This requires setting up a new automated plant costing ₹15 Crores. The remaining founders cannot raise this capital through personal savings or bank loans alone. They want to raise funds from the general public by issuing equity shares.

Questions

1. Does the addition of 195 employee-shareholders and 10 angel investors violate the maximum member limit of a private limited company? Explai

2. What legal consequences will Rahul and Priya face if they continue to operate the business with only two members following Vikram's death?

3. If Apex Agro wants to raise ₹15 Crores from the public, what statutory process must they adopt? Highlight at least three operational privileges they will lose after this shift.

15 One Person Company

A One Person Company (OPC) is a revolutionary business structure introduced in India under the Companies Act, 2013.It is a that combines the operational flexibility of a sole proprietorship with the legal advantages and limited liability of a private limited company.Prior to the 2013 Act, a single individual could only form a Sole Proprietorship, which exposed their personal assets to risk. The OPC structure allows solo entrepreneurs to step into the corporate world independently.

15.1 Legal Definition

According to Section 2(62) of the Companies Act, 2013, a One Person Company is defined as "a company which has only one person as a member"

- A "member" refers to the shareholder or the subscriber to the company's Memorandum of Association (MoA)
- Legally, an OPC is treated as a Private Limited Company for all practical purposes, except for certain specific exemptions.

15.2 Characteristics

a **Single Shareholder & Director**: There is only one member who holds 100% of the share capital. However, while there can only be one shareholder, an OPC can appoint up to 15 directors if needed.

b **Separate Legal Entity**: The Company is a distinct judicial person separate from its owner. It can own property, incur debt, and sue or be sued in its own name.

c **Limited Liability**: The ultimate benefit over a proprietorship. The shareholder's liability is strictly limited to the unpaid value of the shares they hold. Personal assets (like your house or bank accounts) cannot be attached to clear company debts.

d **Nominee Clause**: It is mandatory for the sole member to nominate a person while registering. In the event of the member's death or incapacity, this nominee takes charge of the company.

e **Perpetual Succession**: Unlike a proprietorship, which ends with the owner, an OPC enjoys continuous existence because the chosen nominee immediately takes over upon the owner's death.

f **Strict Criteria for Founders**: Only a natural person who is an Indian citizen and a resident of India is eligible to incorporate an OPC or act as a nominee.

15.3 Merits

a **Corporate Status**: Enhances credibility among banks, vendors, and clients.

b **Asset Protection**: Keeps the owner's personal wealth safe from financial business failure.

c **Less Compliance**: Enjoy exemptions under the law. For instance, an OPC is not legally required to hold Annual General Meetings (AGMs).

d **Complete Control**: Total executive control remains in the hands of the single promoter.

15.4 Demerit

a **No Public Fundraising**: An OPC cannot issue shares or invite the public to subscribe to its securities.

b **Higher Tax Burden**: It is taxed flat as a corporate entity, which may be higher than initial personal income slabs for micro-scale revenues.

c **No Non-Banking Financial Activities**: An OPC cannot carry out non-banking financial investment activities or invest in securities of other corporate bodies

15.5 Exercise

1. What is One Person Company?

Mr. Advait, an Indian citizen and resident, incorporated an OPC named "Advait Tech Solutions (OPC) Pvt. Ltd." in Mumbai. He named his close friend, Mr. Vinod (also an Indian citizen and resident), as the nominee in the Memorandum of Association (MoA).
After one year of successful operations, the following situations arise:

Situation A: Mr. Vinod gets a permanent job offer in London and decides to leave India permanently. Consequently, he withdraws his consent to act as a nominee. Mr. Advait wants to appoint his 17-year-old son, Rahul, as the new nominee.

Situation B: Mr. Advait is highly impressed by the OPC model and wants to incorporate another separate OPC for his e-commerce clothing business

Questions

1. Can Mr. Advait legally appoint his 17-year-old son Rahul as the new nominee? State the relevant legal provisions.

2. Mr. Advait incorporate a second One Person Company while running his first one? Explain.