

I B. A ECONOMICS

ENGLISH MEDIUM

UNIT I TO UNIT III

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I – B.A ECONOMICS

PRINCIPLES OF COMMERCE (ALLIED)



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B.A. ECONOMICS

SEMESTER – I

ALLIED – PRINCIPLES OF COMMERCE

OBJECTIVES

1. To explain the basic principles of Commerce to the students
2. To teach the students about business organization and stock exchanges.

UNIT – I INTRODUCTION

Nature and Scope of Business – Objectives Concepts of Business – Importance and essentials of Business – Trade Commerce – Essentials of Successful Business – Qualities of a Successful Business man.

UNIT – II FORMS OF BUSINESS ORGANISATION

Sole Trade – Partnership – Company – Joint Hindu Family system – Co-operatives

UNIT – III TRADE ASSOCIATION

Chamber of Commerce – Plant – Location – Localization of Business

UNIT – IV BANKS

Types – Commercial Bank and Central Bank – Function

UNIT – V STOCK EXCHANGE

Functions – Procedure of Trading – Working Service – Regulation of Stock Exchange in India – BSE and NSE.

REFERENCE BOOK

1. Kathiresan – Business Organisation
2. Radha - Business Organisation
3. Jhingan.M.L. Monetary economics

QUESTION PATTERN

SECTION - A	1 Mark Question	15X1=15	
SECTION - B	5 Questions	02X5=10	5 questions – 1 each from every unit
SECTION - C	Detail answer questions of either (Like 1 a (or) b	05X10=50	2 questions from every unit

UNIT-I

INTRODUCTION OF BUSINESS

Definition:

Business is defined as an organized economic activity, wherein the exchange of goods and services takes place, for adequate consideration. It is nothing but a method of making money, from commercial transactions. It includes all those activities whose sole aim is to make available the desired goods and services to the society, in an effective manner.

Definition: Business is a regular process of earning a profit by satisfying consumer's needs through the manufacturing of goods, reselling of products, providing services or carrying out all three together. It is an occupation which requires a particular set of skills and expertise to derive maximum profit out of it.

It is a systematic attempt of the businesspersons to produce goods and services, and sell them at the market, to reap the reward, by way of profit.

Profit plays a pivotal role, as all the business activities are directed towards it, because it works an incentive to the entrepreneurs, for their efforts, and thus, necessary for every business.

Concept of Business

In Layman terms, business means to get something at low cost and sell it at a higher cost, meanwhile, the margin produced between that is the profit. Business's only purpose is profit, it is driven by it. Business is derived from the word 'busyness' meaning engaged in an activity.

If we were to define business in much finer terms, we can say that "*Business is any occupation which includes all activities which are connected with production or procurement of goods for sale and adding a profit margin to that costs for further selling it to the customer for the satisfaction of their needs.*"

Most importantly, the business aims at a profit but only through the satisfaction of the needs of the customers. The business includes every occupation in which people are busy in earning the income by the means of either producing, purchasing, selling or exchanging goods or services to fulfill needs of other people with the objective of making a profit.



(Source – Amazon services)

What is a Barter System?

A barter system is an old method of exchange. This system has been used for centuries and long before money was invented. People exchanged services and goods for other services and goods in return. Today, bartering has made a comeback using techniques that are more sophisticated to aid in trading; for instance, the Internet. In ancient times, this system involved people in the same area, however today bartering is global. The value of bartering items can be negotiated with the other party. Bartering doesn't involve money which is one of the advantages. You can buy items by exchanging an item you have but no longer want or need. Generally, trading in this manner is done through Online auctions and swap markets.

History of Bartering

The history of bartering dates all the way back to 6000 BC. Introduced by Mesopotamia tribes, bartering was adopted by Phoenicians. Phoenicians bartered goods to those located in various other cities across oceans. Babylonians also developed an improved bartering system. Goods were exchanged for food, tea, weapons, and spices. At times, human skulls were used as well. Salt was another popular item exchanged. Salt was so valuable that Roman soldiers' salaries were paid with it. In the Middle Ages, Europeans traveled around the globe to barter crafts and furs in exchange for silks and perfumes. Colonial Americans exchanged musket balls, deer skins, and wheat. When money was invented, bartering did not end, it became more organized.

Due to lack of money, bartering became popular in the 1930s during the Great Depression. It was used to obtain food and various other services. It was done through groups or between people who acted similar to banks. If any items were sold, the owner would receive credit and the buyer's account would be debited.

Disadvantages and Advantages of Bartering

Just as with most things, there are disadvantages and advantages of bartering. A complication of bartering is determining how trustworthy the person you are trading with is. The other person does not have any proof or certification that they are legitimate, and there is no consumer protection or warranties involved. This means that services and goods you are exchanging may be exchanged for poor or defective items. You would not want to exchange a toy that is almost brand new and in perfect working condition for a toy that is worn and does not work at all would you? It may be a good idea to limit exchanges to family and friends in the beginning because good bartering requires skill and experience. At times, it is easy to think the item you desire is worth more than it actually is and underestimate the value of your own item.

On the positive side, there are great advantages to bartering. As mentioned earlier, you do not need money to barter. Another advantage is that there is flexibility in bartering. For instance, related products can be traded such as portable tablets in exchange for laptops. Or, items that are completely different can be traded such as lawn mowers for televisions. Homes can now be exchanged when people are traveling, which can save both parties money. For instance, if your parents have friends in another state and they need somewhere to stay while on a family vacation, their friends may trade their home for a week or so in exchange for your parents allowing them to use your home.

Another advantage of bartering is that you do not have to part with material items. Instead, you can offer a service in exchange for an item. For instance, if your friend has a skateboard that you want and their bicycle needs work, if you are good at fixing things, you can offer to fix their bike in exchange for the skateboard. With bartering two parties can get something they want or need from each other without having to spend any money

Characteristics of Business



- **Economic Activity:** Business is an economic activity, as it is conducted with the primary objective of earning money, i.e. for an economic motive.
- **Production/purchase of goods and services:** Goods and services are produced or procured by business entities, so as to add value and sell them to the consumer. Goods are either manufactured by the company or procured from the supplier, with the aim of selling it further to the consumer, for profit.
- **Selling of goods and services:** Business must involve the transfer of goods to the customer for value, through selling, meaning that if the goods are acquired for personal consumption, then the transaction will not amount to business activity.
- **Continuity in dealings:** Every business requires regularity in transactions, i.e. an isolated transaction of exchange of goods or services will not be considered as business. So, to constitute business, the dealings must be carried out on a regular basis.
- **Profit earning:** The basic purpose of business is to make the profit from its activities. It is the spine of business, which keeps the business going, in the long term.

- **Element of risk:** Risk is the key element of every business, concerned with exposure to loss. Efforts are made to forecast future events and plan the business strategies accordingly. However, the factors that affect business are uncertain and so does the business opportunities, which can be a shift in demand, floods, fall in prices, strikes, lockout, money market fluctuation, etc.
- **Uncertain return:** In business, the return is never predictable and guaranteed, i.e. the amount of money which the business is going to reap is not certain. It may be possible that the business earns a huge profit or suffer heavy losses.
- **Legal and Lawful:** No matter, in which type of business the company is engaged, it should be legal in the eyes of the law, or else it will not be considered as business.
- **Consumer satisfaction:** The aim of business is to supply goods and services to consumers, so as to satisfy their wants, as when the consumer (final user) is satisfied, he/she will purchase the goods or services. But, if they are not, there are chances that they will look for substitutes.

The consumer is regarded as the king, and so all the activities of the business are aligned towards the satisfaction of consumers. This can be done by making available quality-riched goods easily available to them, at reasonable prices.

Classification of Business Activities

1. Industry:

Industry implies the economic activities that are associated with the conversion of resources into goods that are ready for use. This involves production, processing, mining of goods. The industry is further divided into three broad categories; primary industry, secondary industry and tertiary industry.

2. Commerce:

In simple terms, commerce refers to the buying and selling of goods for value, and includes all those activities which facilitate the transaction. Further, commerce encompasses two types of activities, trade and auxiliaries to trade.

From the past few years, the entire concept of business has undergone a drastic change, i.e. it has been turned from producer-oriented activity to consumer-oriented activity. Previously, the approach is 'to sell what is produced', but now the approach is 'to produce what is demanded'.

Following activities cannot be considered as a business:

- Preparing food and distributing it in an orphanage;
- Selling of drugs;
- A mother teaches her child.

Content: Business

1. Nature
2. Types
3. Importance
4. Conclusion

Nature of Business

Business is derived from 'busy-ness,' i.e. keeping oneself occupied with one or the other work, but it is much more than just being busy.

To have a better understanding of what a business is, we must go through the following points:



- **Regular Process:** It is an activity which is performed repeatedly to generate profit.
- **Economic Activity:** The whole sole purpose is maximising wealth.
- **Creates Utility:** The goods or service must be such that it creates form utility – conversion of products in a consumable form, time utility – making the goods and services available

when needed; and place utility – availability of goods or services wherever required, for the consumers.

- **Capital Requirement:** Any venture requires fund depending on the size and its type.
- **Deals in Goods and Services:** It is related to manufacturing and offering goods for sale or catering services.
- **Risk:** All businesses have a risk factor or uncertainties of failure and loss.
- **Profit Earning Motive:** The initial motive of a businessman is making a profit out of his venture.
- **Satisfaction of Consumer's Need:** It is concerned with the fulfilment of the customer's demands and needs.
- **Involves Buyer and Seller:** There are majorly two parties involved, the customer and the merchandise.
- **Social Obligations:** It has some social responsibilities, like creating job opportunities, dealing with licensed products, etc.

Types of Business

The previous instance has made it clear that business involves goods or services or both. A person has first to select the kind of business line he wants to operate.

Thus, a business can be broadly classified as into the following types:



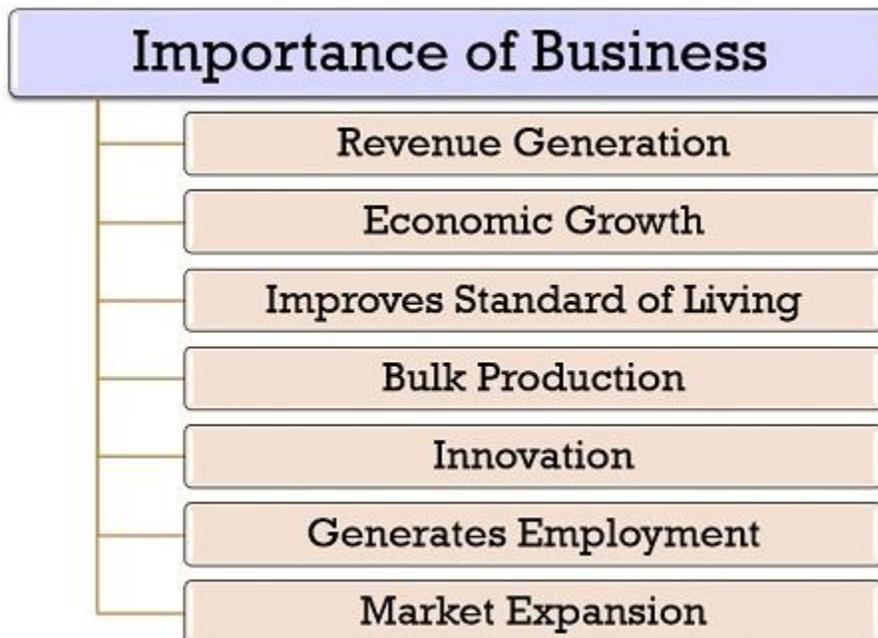
- **Service:** An activity performed to earn money through customer satisfaction is known as a service. It involves professional skills and expertise.
E.g. A professional teacher earns money by taking tuition class

- **Merchandising:** Merchandising means procurement of goods from manufacturers or wholesalers, at a low price and selling it at a higher price to make a profit. It is also known as a retail business.
E.g. A florist selling flowers
- **Manufacturing:** Making profit through production or creation of goods from raw material in such a way that it derives some utility to the consumer is known as a manufacturing business.
E.g. Processing of sugarcane in a sugar mill to get fine sugar
- **Hybrid:** A business which involves all the three activities, i.e. manufacturing of goods, merchandising of products and delivering service falls under the hybrid category.
E.g. A furniture seller, who manufactures furniture, buys old furniture and sells it at a higher price after repairing and also provides services for polishing old furniture.

Importance of Business

Business is a self-employment opportunity for a person to become self-independent and master of his ideas. It is not only beneficial to the owner but also makes an impact on society.

To get a detailed understanding of the importance of trading activities to the owner and the society, let us go through the following points:



- **Revenue Generation:** It is the key to revenue generation for the business owner since it brings in profit and proves to be a source of income for the owner.
- **Economic Growth:** It is essential for the economic growth of a country since high revenue means higher tax collection.
- **Improves Standard of Living:** A country with more industrial units and companies experience a higher rate of employment and better living standards.
- **Bulk Production:** Manufacturing units involve large-scale production, which ultimately reduces the cost of production, and people get a continuous supply of goods at a reasonable price.
- **Innovation:** It involves brainstorming and generation of new ideas which opens up the way for innovation and creativity.
- **Generates Employment:** It is a long-term process which requires the human resource to function correctly. Therefore, it creates job opportunities.
- **Market Expansion:** A good strategy and high customer satisfaction lead to a strong customer base aiming at market expansion.

Conclusion

In the present scenario, most of the people in search of becoming independent and create their own identity are opening startups. Though many of them fail, the ones with a proper business strategy and excellence in their operations tend to succeed.

Business is all about deriving profit out of selling goods and services ethically.

The risk is an integral part of any business, but taking the right decision at the right time is all that you need to achieve your business goals.

Some pre-requisites of the success of Business are as under:

1. Setting Objectives:

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

2. Proper Planning:

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

3. Sound Organisation:

Organisation is an arrangement by which tasks are assigned to employees so that their individual efforts contribute effectively to the achievement of clearly defined purposes. The duties and responsibilities of all persons are defined and they should know what they are to do.

An effective organisation system is essential for the success of a business. Firstly, a decision should be taken about the form of ownership, i.e., sole trade, partnership, Joint Stock Company. Then a suitable internal organisation should be developed. No work should be left unassigned. The supervisors and subordinates should know their roles in the business.

4. Proper Financial Planning:

The requirements of finance and its possible sources should be decided at the time of starting the enterprise. The purpose of financial planning is to make sure that adequate funds are raised at

the minimum of cost. The required capital should be made available at all times, otherwise, it will hamper the work. The scarcity of capital and too much of it both will be bad for the concern.

The availability of excess capital may tempt the management to spend more money on inventory and on fixed assets. A proper plan is necessary for providing funds for the present needs and future developmental plans.

A financial plan will determine:

- (a) The needs of capital
- (b) Sources for collecting funds, and
- (c) Administration of capital structure.

5. Location and layout of Plant:

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

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

6. Marketing System

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

7. Research:

In the changing technological world, it is essential to use latest devices for production and marketing of goods. Change is the essence of business. Every day, new production methods are found. Consumers' needs and preferences should be taken into consideration in devising production and marketing policies. Research and development should be given due place in the business.

One can compete with changing business world only through research programmes. If attention is not given to research work then it will become difficult to stay in business for a large period. So, research activities are necessary for the success of an enterprise.

8. Dynamic leadership:

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

CONCLUSION

A business has to co-ordinate various factors of production for achieving a given objective. All factors are equally important for making the business a success. Various departments should work in co-ordination with each other and organisational and financial planning should be properly determined.

Modern business has become complex and complicated. The improvements in technology and changing consumer preferences are creating more challenges for the businessman. All aspects of an enterprise, i.e., production, financing, organisation and marketing should be properly arranged and co-ordinated to make a business successful.

QUALITIES OF A SUCCESSFUL BUSINESSMAN:

The qualities are:

- ❖ Knowledge of Business

- ❖ Accuracy
- ❖ Time Sense and Foresight
- ❖ Alertness
- ❖ Honesty and Morality
- ❖ Initiative and Capacity to Make Decisions
- ❖ Ability to Co-Operate
- ❖ Consistency and Dependability
- ❖ Energy
- ❖ Personal Qualities.

1. Knowledge of Business:

The businessman should have a thorough understanding of his business. He should be clear about the aims and objectives of the business. The knowledge of business should be supplemented by knowledge of finance, marketing and mercantile laws. The knowledge of all these aspects is essential to tackle the problems of complex business.

2. Accuracy:

The next main quality is that he realises what he is talking about and what he means. Precision in regard to the orders and their execution is imperative. It is essential that he should be a man of right thinking. He must be able to grasp his problems by treating them quantitatively.

3. Time Sense and Foresight:

It is imperative for a modern business to appreciate the time and think in terms of time. There is a chain of action which must conform to the rapidly changing needs of the ultimate consumer. He must be able to forecast with foresight and look into the future. Having detected the wants, he must be capable enough to proceed intelligently to meet those wants.

4. Alertness:

The businessman is required to keep in touch with the developments taking place in his own country and the world. He cannot be successful if isolated. He must be alert in not only meeting the wants but in creation of the wa

5. Honesty and Morality:

It is of utmost importance that the businessman should adequately satisfy consumer demands most honestly. He must use his ability to provide precisely what is demanded from him. He must maintain quality standard most honestly. The honesty and optimism which goes with it are attributes of the businessman at his best. Honesty with him should not only be the policy but actual practice.

6. Initiative and Capacity to Make Decisions:

The success of businessman largely depends upon his ability to make decisions promptly and boldly. Indecision very often results in missing profitable business opportunities. Decision-making is the basic ingredient of executing any task. Accordingly, it is necessary that businessman should be in position to take correct and prompt decision.

7. Ability to Co-Operate:

He must be soft-spoken and adopt co-operative and accommodating attitude towards all those with whom he comes in contact with. He must be able to compromise, adjust, adopt and be willing to admit that his judgement on occasions was wrong. He must also be temperamentally fitted to exercise divided authority. Understanding others is viewed as a pre-requisite-par-excellence as a most expedient stepping-stone for success.

8. Consistency and Dependability:

The businessman must be of consistent mind so as to be able to exercise his firmness in the right direction in dealing with others. He should hold the organisation constant and hence dependable. A dependable businessman satisfies co-workers who are loyal to him and the unit directed by him. Therefore a businessman who wants results should avoid inconsistency, and its inevitable result, unfairness, etc.

9. Energy:

A bountiful endowment of physical and nervous energy is another essential without which other qualities are hardly of any value. In addition to energy, he should be capable of putting up forcefully his suggestions and points of view which he considers to be in the right direction.

10. Personal Qualities:

The businessman in addition to the above should also possess qualities common to a leader. He should be kind-hearted and have human approach to problems. He should be intelligent, mentally alert, of constructive imagination, self-confident, self-restraint, honest and sincere. Above all, he should be social and be a man of high character.

UNIT - II

TYPES OF ORGANIZATION

A business entity is an organization that needs fund, labour, machines or inputs to provide goods or services to the customers with the transactions through the medium of money or in monetary terms. But such an organization can take many forms. Let us take a look.

or a business owner first and the most important decision is to decide how the business organization should be structured. There are many factors that decide the choice of business structure:

- Size and nature of the business.
- Control level
- The level of “structure”.
- Willingness to take risks for any legal suits if any.
- The implication of tax
- Profit (or loss) of the business.
- Access to cash.

There are different types and different forms of ownership of a business organization. Let us take a look.

Types of Firms

1] Service Business

Service type firm provides the professional which are skilled in nature, expertise people which have experiences, advice and suggestions and other similar products. For example, salons, repair shops, schools, banks, accounting firms, law etc.

Forms of Business Organisations

- Sole Proprietorship
- Joint Hindu Family Business
- Cooperative Society
- Partnership
- Partnership Deed and Registration
- Types of Companies
- Joint Stock Company
- Forms of Organising Public Sector

2] Merchandising Business

This type of business buys products in a bulk which helps to get the product at low cost at wholesale price and then sells the same at a higher rate or maximum retail price, which are known as buy and sell the business. Thus the profit is generated by purchasing the product at lower cost and then selling it to the market at the maximum retail price.

3] Manufacturing Business

A manufacturing business buys the product with the intention of using them as materials in making a new product. A manufacturing business is a combination of raw material, labour and factory overheads in its production process. The manufactured goods will then be sold to the customers.

4] Hybrid Business

Hybrid businesses are companies that may be classified in more than one type of business. Nonetheless, these companies may be classified according to their major business interest.



There are two types of organization, which are given below:

- 1) Sole Proprietorship
- 2) Partnership

1 SOLE PROPRIETORSHIP

It is the form of business organization in which an individual introduces his own capital, uses his own skills and intelligence in the management of its affairs and is solely responsible for the result of its operations. He may run the business alone or obtain assistance of employees. It is the easiest to form and is also the simplest in organization. The sole proprietor may borrow or use other people's money in doing his business.

The individual proprietor is the supreme judge of all matters pertaining to his business, subject only to the general laws of the land and to such special legislation a may effect his particular business.

ADVANTAGES OF SOLE PROPRIETORSHIP

1. EASY TO START

The formation of sole proprietorship is quite easy than partnership and joint stock company. There are no legal formalities for the starting this business, like agreement, memorandum of association, or articles of associations.

2. EASY TO DISSOLVE

It is easy to dissolve because the sole trader is not required to take permission for the dissolution either from share holder in the general meeting as in the case of joint stock companies or consult all the partners in the case of partnership.

3. FREEDOM OF ACTION

A sole trader has maximum freedom to take decision at his own end. His decision is final he may expand his business by adding new products or can discontinue old ones. He can wind up his business or he can change his business place from one place to another.

4. FREEDOM OF GOVERNMENT CONTROL

He is free from government control to a great extent than any other form of organization. A sole trader is not required to send his periodical balance sheet to the government.

5. OWNERS OF ALL PROFIT

No other organization permits to retain cent percent profit they earn. But in sole proprietorship the sole trader is the master of his business and is entitled to retain the entire profit of the business.

6. LOW TAXES

He has to pay minimum income tax and other taxes than in partnership and Joint Stock Company. In this manner he saves much out of his profit.

7. SECRECY

Secrecy is base of a business and it should not be disclosed. Success of business depends upon secrecy. A sole trader can maintain secrets of his business but it is not possible to keep secret in partnership or Joint Stock Company.

8. LOW COST ORGANIZATION

A sole trader is not required to pay registration fees as paid by stock company and legal fees in the formation of partnership.

9. FULL CONTROL

He has got full control over his planning. Nobody is there to interfere in his business.

10. IMMEDIATE ACTION AND QUICK DECISION

In business it becomes very essential to take decision on particular times and for that purpose immediate action is required. Sole trader can take immediate action and decision but in partnership and joint stock companies actions cannot be taken without permission of owners and meetings should be called for this purpose. In this way business cannot take proper advantage of time.

11. FLEXIBILITY OF ORGANIZATION

If any change is business is called of the sole proprietor has a right to bring about the change. A good number of giant-sized concerns fall on account of their inability to change their policies

promptly with a change in situation.

12. SOCIAL DIS-LIABILITIES

From the social point of view

- i) Continuity of individual proprietorship ensures that too much wealth does not get concentrated in a few hands.
- ii) The unlimited liability ensures sufficient responsibilities to the society.
- iii) It brings into full play the qualities of self-confidence, diligence and tact among business people.
- iv) The growing number of sole proprietorships firms contributes to the commercial development of the country.

13. PERSONAL INCENTIVES

A man in business for him has everything lose if his efforts are not successful to earn profits. This fact makes him willing to devote maximum time, thought and energy to the successful prosecution of the activities of business ha has organized.

14. CREDIT WORTHINESS

Sole proprietor's liabilities are unlimited as the creditor can even recover his amount from the personal belongings of the trader. Therefore, this fact makes a sole proprietor credit worthy.

DISADVANTAGES OF SOLE PROPRIETORSHIP

The sole proprietorship has some disadvantages which are as follows:

1. LIMITED FINANCE

The sole proprietorship can face financial problems. He can depend only his own resources. It is neither safe nor easy for him to borrow large amount of money from banks or other financial institutions.

2. DIFFICULTIES IN MANAGEMENT

Each individual has particular attitude or ability in particular respects. Modern business is full of complications arising especially from the changing nature of market and the various laws that are being enacted. An individual may not be expert in all matters. Therefore, sometimes his decision may be unbalanced and would lead to the failure of the business.

3. LIMITED SPAN OF SUPERVISION

A sole proprietor however qualified and clever will find it hard to supervise the work of his subordinate beyond a certain limit e.g. in case of large general store owned by single person, it will be difficult for the owner to keep an eye on all the departments and employee and to ensure that the customers are treated nicely. The problems will be more acute if store has its branches in other places.

4. LIMITATION ON SIZE

Because of limitation of finance, managerial skills and span of supervision a sole proprietor has to manage the size of the business up to a certain limit. This deprives the firm of the opportunity of reaping the economics of large-scale production.

5. UNLIMITED LIABILITY

He has great risks. It is true that he receives all the profits of the business but likewise he has to face the entire losses. Not only the assets of the business but also his private assets will be used to pay off the firm's debts and losses. Unlimited liability also discourages the expansion of business.

6. LACK OF CONTINUITY

Any personal problem or illness which is affecting the sole proprietor has direct effect on his business. It ends with the retirement, death or bankrupt of the owner. If the business is rendering useful services to the society the closure of such a business will be social loss. Similarly, with the death of the proprietor, the business may pass on to his successors who may not possess the same degree of self-reliance, ability and intelligence.

7. EASE OF FORMATION

The very ease and cheapness of entering business as a proprietor may be disadvantages. Many people go into business with too little capital and training and are dashed by the competition of the business. As a result, a number of business failures are proprietorships.

SUITABILITY OF SOLE PROPRIETORSHIP

One-man control over the business would be most efficient and profitable. If only that one man has the capability of managing everything indefinitely. Unfortunately, such a person does not exist. This form of organization is therefore suitable for the following cases.

- a) Where the capital required is small and risk is not heavy since merchandise and services of one kind are sold. E.g. magazine and newspaper stand, bakeries teashops, rental libraries etc.
- b) Where quickness in decision is needed i.e. Bullion dealers, share brokers etc.
- c) Where services are sold and customer requires personnel attention egg. Patient, lawyers, dentist, cobblers, accountant.
- d) Where special regard has to be shown to the tastes of the customers egg. Tailoring, restaurant, managing etc.
- e) Where market is limited eg. Retail trade.

Thus sole proprietorship has its own scope of activities and continuous to exist in spite of development of bigger organizations like partnership and joint stock companies.

2. PARTNERSHIP

It is rare that person combines in himself all that is essential to make him successful businessman. Beside to reap the economies of large-scale operation sole proprietor may fail to cope up with demands of expansion. He may possess adequate capital but he may be handicapped by the lack of experience. Skills and managerial ability. Or it may be the other way around. Therefore, a combination of two or more or more persons, some having capital and others having skill or experience proves to be beneficial.

According to section 4 of the Indian partnership Act of 1932, partnership is defined as “the relating between persons, who having agreed to share profits of a business carried on by all or any one of them acting for all”

The above definition reveals that:

1. An agreement between partners is necessary.
2. The agreement must be in regard to the sharing of the profit of the business.
3. The business must be carried by all or any one of them acting for all.

The individual who constitute the partnership are called partners and they collectively form the firm. The name in which there business is carried on is called the firm name.

FEATURES OR ELEMENTS OR CHARACTERISTICS OF PARTNERSHIP

Partnership is the result of contract between two or more person who has agreed to carry out on a business with the object of earning profit. The followings are the main features of partnership.

1. AGREEMENT

The most important element without which partnership cannot be formed is the agreement between the partners. It is immaterial whether the agreement is written or oral but its existence is essential. Besides, the agreement must be done in carrying the business and sharing of profit.

2. NUMBERS OF PARTNERS

There must be an association of two or more person to constitute a partnership. The maximum number of partners is 10 for banking business and 20 for general business.

3. BUSINESS PURPOSE

The main idea of partnership is to do business and distribute the share of profit earn during the course of business among the partners. The aim of business must be earring of money.

4. SHARING OF PROFIT

The partners carry out business with the view to earn profit which is distributed among them in

agreed ratio. In similar way, if there is a loss all partners are going to bear it.

5. CAPITAL

The partners provide capital from their own pockets but they can also borrow money at their own risk. One can become partner of a firm even without contributing any money towards the business. In that case, his time, energy and intelligence will be regarded as capital for which he will take a share of profit. If the partners devote the maximum amount of his time in business he would also be paid a salary.

6. MUTUAL TRUST, CONFIDENCE AND UTMOST FAITH

All the partners must trust each other. They work in closed cooperation to make the enterprise a success. The partnership agreement is made on utmost trust and faith. The partners must disclose every information and must present true accounts to one another.

7. PRESENCE OF AGENCY

The other most important element of partnership is the presence of agency between partners. Each partner is liable for the act of other partner. It may be possible that one partner transact whole business on behalf of other partner with their consents.

8. BUSINESS IN WIDER SENSE

The term business is very wide and it includes every kind of trade, profession and occupation. Thus the partnership is not confined to a particular kind of trade or profession. Thus partnership has no limitation of duration and it may be formed for a single transaction.

9. UNLIMITED LIABILITIES

Every partner has unlimited liabilities toward the firm's debt. The creditors can recover debt from the personal property of the partners.

10. NO SEPARATE LEGAL ENTITY

Generally partnership has no legal status as entity. The assets are used and liabilities are owned by the partners collectively.

11. EFFECTS OF PARTNER'S DEATH

Unless the partnership agreement provides otherwise the death of partner automatically dissolves the partnership business.

12. RESTRICTION ON RETIREMENT OF PARTNERS

The partner cannot retire without the consent of the co-partners.

The partnership organization has following types of partners.

TYPES OF PARTNERSHIP

1. ACTIVE OR WORKING PARTNER

These are those members of partnership who contribute to the capital of the firm and taken the active part in the conduct and administration of the business. He is considered as agent of the firm by other partners.

2. DORMANT OR SLEEPING PARTNER

They contribute to the capital of the firm but do not take any part in management. Their names do not appear anywhere as partners but in reality they are partners. They also share profit. They are liable to the third parties on behalf of the firm. He has every right to inspect and copy the books of accounts.

3. NOMINAL PARTNER

He is the one who neither contribute any capital to the firm nor takes any active part in conduct and administration of the business he only lends the use of his name to the firm. He is not entitled to share the profit. He is liable for all acts of firm.

4. QUASI PARTNER

A quasi partner is a retired partner who has left his capitals with the firm as loans. He gets interest on his loan at the rate varying with the profit of the firm.

5. LIMITED PARTNER

The liability of the limited partner is limited to the extent of his investment in the business. Such a partner is not allowed to take part in the management of the firm. In case of failure he cannot lose anything from his private property.

6. MINOR PARTNER

With the consent of all partners a minor person can be admitted to the benefits of the firm only. Such a partner cannot be held liable for the firm's debts.

7. SELF STYLED PARTNER

Any person who calls himself by his gesture and posture or conduct or by his words of mouth or by written expression to be the partner of the firm is known as self-styled partner.

8. SALARIED PARTNER

Generally in professions, it is not seen that some person is admitted as a partner who invested his capital in the business nor has interest in goodwill of the firm such a partner is remunerated in

different way.

ADVANTAGES OF PARTNERSHIP

1. LARGE AMOUNT OF CAPITAL

In sole proprietary ship the amount of capital is limited to personal fortune and credit of one individual. In a partnership the capital can easily be raised according to requirements by bringing additional workers.

2. COMBINED JUDGEMENTS AND MANAGERIAL SKILLS

In partnership business there are more than one owner, it is therefore possible to combine the abilities and knowledge of every partner to the best interest of the business. With combine decision and judgment business is greatly benefited and more profit is possibly earned.

3. PERSONAL INTEREST

Since each general partner is responsible not only for his acts but also for the acts of his partners, he shall devote his personal attention and interest to the activities of the firm and this will enable a firm to attain maximum efficiency.

4. HIGH CREDIT STANDING

A partnership has little difficulty in obtaining credit. Especially if the partners have their personal wealth. If there are several partners and one of them has several extensive private means, creditors have little reason to doubt that the debt of partnership will be paid in fall.

5. EASE OF FORMATION

A partnership business is easy to start with as it is free from all legal formalities. It does not suffer the legal handicaps. The business can be easily increased or decreased to the suitable condition.

6. RETAINING OF VALUABLE PERSON/ PROVISION OF NEW BLOOD TO THE BUSINESS

New blood can be infused into the business by admitting new partners. Then the business can utilize the genius of an enterprising young man.

7. CO-ORDINATED DECISION

The decisions which take place in the partner ship are the coordinated decision i.e. the decision which are jointly take by all the partners.

8. LIGHTER RISK

Risk is spread here over several persons who are the partners. All the partners pool together their

abilities and their income.

9. UNLIMITED LIABILITIES

Each partner has an unlimited liability towards the firm debt. The creditors can recover the debts from the personal property of the partners.

10. FLEXIBILITY OF THE ORGANIZATION

A partnership organization is extremely mobile, flexible and elastic. The partners are at ease to carry on any legal business.

DISADVANTAGES OF PARTNERSHIP

1. POSSIBILITY OF DISAGREEMENT BETWEEN THE PARTNERS

Two or more men start out together as close friends or as relatives. However they may develop difference over a year that will make for unpleasantness and inability to work together for the best interest of their firm.

2. UNLIMITED LIABILITIES

The greatest disadvantage is that of unlimited liability of the partners. At general partners are liable personally for the partnership debts. Where there are heavy losses the partner having much property will have to sustain the entire loss.

3. DIVIDED CONTROL/ DELAY IN DECISION MAKING

In the partnership more than one person is involved in every decision reached. If partner are not active in the operations it may be necessary to delay the making of an important decision.

Therefore divided control leads to delay in decision.

4. FROZEN OR BLOCK INVESTMENT

For an individual who wishes to invest some money in a business, the partnership form may prove to be a poor investment from the view point of liquidity and transferability. It is correct to say that it is easy to invest money but is difficult to withdraw it, because it would mean the termination of business

5. LIMITATION ON SIZE

Since maximum number of partners is 20, it might ne possible that at some time the capital becomes short. If it happens the business has to be converted into a joint stock company.

Therefore a big business cannot be started even if they get a chance to expand it, because the capital of 20 people may not be sufficient.

6. NO LEGAL ENTITY

Law does not recognize a partnership as an organization having an entity existence separate from the partners who comprises it.

7. LACK OF SECRECY

Secrecy in business is necessary for its success. It is not possible sometimes in partnership.

PARTNERSHIP DEEDS OR PARTNERSHIP AGREEMENT

It is document in which the term and condition of partnership agreement are written. Hence contract is said to be the essence of partnership business. It can be oral or written. The written document of partnership is known as partnership deeds. Partnership may be formed and condition of the contract put down in black and white. The partner is to be free from future confusions and misunderstandings. Good relation between partners may not continue for a long time.

In future there may be difference of opinion between the partners on some points. The differences may only be removed if the terms and conditions are in the document to avoid future disputes and misunderstanding between partners. A well-drawn up partnership deed usually contains the following forms:

1. Name of the firm
2. The nature and object of the business
3. The duration of the business.
4. The names and address of the partners.
5. The amount of capital of the firm and the amount contributed by each partners.
6. The ratio of sharing of profits and losses of the firm
7. The management of the firm.
8. Salaries if any paid to partners.
9. Interest on partners.
10. The rights and duties of the partners.
11. The valuation and treatment of good will in case of dissolution of the firm.
12. Rules and regulation regarding the admission of new partners and expulsion and retirement of an existing partner.
13. Appointment of an arbitrator to settle disputes if any among the partners.
14. The names of banks where firm accounts will be opened.
15. The names of auditor or who will inspect the books of accounts.

16. The names of partners who will sign the important document.
 17. The procedure of the dissolution of the firm and settlement of accounts.
 18. Any other clause or clauses necessary for future safety for the conveniences of the partner.
- The partnership deeds must be signed by all the partners.

RULES APPLICABLE IN THE ABSENCE OF AN AGREEMENT

In the absence of any agreement, the following rules are applicable. These rules are contained in Section 12 to 17 of the Indian Partnership Act as adopted in Pakistan.

1. Every partner has a right to take part in the conduct of the business.
2. In case of any difference arising out in ordinary matter connected with the business, the decision may be taken by a majority of the partners.
3. No change can be made in the nature of the business without the consent of all the partners.
4. Partners have right to see, inspect and copy any of the books of the firm. No remuneration is allowed to any partner.
5. All the partners will share equality in the profits and contribute equally to the losses.
6. Six percent interest is to be paid on the loan advanced by any partner.
7. The partnership firm must indemnify a partner in respect of payment made by the partner to the third party and also any liability incurred by any partner in the ordinary and proper conduct of the business.
8. A partner must indemnify the firm for any loss caused to the firm by his willful neglect in the conduct of the business of the firm.
9. All the property of the firm is to be held and used by the partners exclusively for the purposes of the business. In case a partner carries out any business competing with that of the firm, all profits made by him in that business should be paid to the firm.

REGISTRATION OF PARTNERSHIP FIRM

The partnership act of 1932 has not made registration of the firm compulsory in our country. It is quite optional. It depends upon the willingness of the partners whether the firm has to be registered or not. If they wish they can register their firm with the registrar of the firms by filing with him a statement containing certain information and depositing requisite registration fees. It is essential that statement must be signed by all the partners and should contain following particulars;

1. the name of the firm,

2. The principal place of the business.
3. The names of the other places where firm may carry out its business.
4. The date on which each partner entered into the firm.
5. The names and permanent addresses of all the partners of the firm.
6. the duration of the firm

Now if the registrar is satisfied with the information provided and he thinks it is necessary then he will register the firm. The name of the firm is then recorded in the register maintained for the purpose in the office of the registrar. The partnership act does not make the registration compulsory. However it imposes certain disabilities on the partners of an unregistered firm. If it is not registered, it will not be able to enforce its claim against third party against his fellow partners.

DISSOLUTION OR LIQUIDATION

A partnership may be dissolved in any of the following manners.

1. DISSOLUTION BY AGREEMENT

A partnership may be dissolved when the partner is of one opinion to dissolve the firm, or it may be dissolved according to the contracts between the partners.

2. DISSOLUTION ON THE HAPPENING OF CERTAIN CONTINGENCIES

- a) If a partnership has been formed for a fixed term, then it can be dissolved after the expiry of the term.
- b) If the partnership has been formed for carrying on one or more ventures, then it can be dissolved after completion of that venture or ventures.
- c) On the death of partner it may be resolved.
- d) By adjudication of a partner as insolvent by the court of law.
- e) A partnership may be dissolved on the insolvency of itself.

3. DISSOLUTION BY NOTICE OF PARTNERSHIP AT-WILL

A partnership at will may be dissolved at any time if any one of the partners gives notice in writing to all the partners of the firm of his intention to dissolve the firm.

4. COMPULSORY DISSOLUTION

- a) By the adjudication of all the partners or of all but one partner as insolvent.
- b) By the happening of an event which makes it illegal or unlawful for the business to be carried on.

5. DISSOLUTION BY THE COURT

If any partner brings a suit in the court, the court may dissolve the firm on any on any of the following grounds.

- a) When a partner becomes of unsound mind.
- b) When the partner becomes permanently incapable of performing his duties as a partner.
- c) When the partner becomes guilty of his misconducts in carrying on business.
- d) If partner willfully commits breach of agreements in the matter of managing the affairs of the firm or his misconducts is such that it is not possible on the part of other partners to carry on business of the firm with him.
- e) If the partners transfers his entire share to other or his share in the firm have been changed by the court for his debts.
- f) Where a partnership cannot be carried on except at a loss.
- g) On any other grounds on which the court thinks just and equitable to wind up the business.

Hindu Undivided Family (HUF)

The Joint Hindu Family Business or the Hindu Undivided Family (HUF) is a unique type of business entity. It is governed and dictated by the Hindu Law, which is one of the several religious laws prevalent in India.

So, who all are members of such an organization? Well, any person born into the family (boy or girl) up to the next coming three generations is a part of the HUF. These members are the coparceners. The head of such a Joint Family Business is the eldest member of the family, the “Karta”. He is the main person responsible for the business and the finances.

Features of a HUF

- **Formation:** To begin a Hindu Undivided Family there must be a minimum of two related family members. There must be some assets, business or ancestral property that they have inherited or will eventually inherit. The formation of a HUF does not require any documentation and admission of new members is by birth.

- **Liability:** The liability of all the various co-parceners is only up to their share of the property or business. So, they have limited liability. But the Karta being the head of the HUF has unlimited liability.
- **Control:** The entire control of the entity lies with the Karta. He may choose to confer with the co-parceners about various decisions, but his decision can be independent. His actions will be final and also legally binding.
- **Continuity:** The HUF can be continued perpetually. At the death of the Karta, the next eldest member will become the Karta. However, keep in mind a Hindu Undivided Family can be dissolved if all members mutually agree.
- **Minority:** As we saw earlier the members are eligible to be co-parceners by the virtue of their birth into the family. So in this case, even minor members will be a part of the HUF. But they will enjoy only the benefits of the organisation.

Advantages of the HUF

- A Hindu Undivided family is comprised of family members running a business. Like any other organisation, there is scope for disagreements and conflicts. But since the Karta has absolute power and takes all decisions by himself, it will lead to effective management.
- Just like a company, the existence of a HUF is perpetual. The death or retirement of one member or even the Karta will not affect it, and it will continue on.
- Since the co-parceners do not have any effective control over the management of the HUF, and all power lies with the Karta, the liability of the members has also been limited to only their share of the property. This keeps the balance between power and responsibility.
- Also, since all members of the HUF are relatives and members of the same family, there is a sense of loyalty and cooperation. The trust among members is also there and leads to overall cooperation.

Disadvantages of the HUF

- No outside members other than family members can be introduced to the HUF. This makes it very difficult to get additional capital from the market. With limited capital, the chances of expansion are very low. It limits the scope of the business.
- While the Karta has all the power, he also has the burden of unlimited liability. This may make him overly cautious and timid in his business dealings. In turn, the business could suffer. Another factor is that he may even be held responsible for the actions of other members.
- Also, the absolute dominance of the Karta overall business and financial decisions make cause conflict among the HUF. His decisions and business acumen may be questioned by other members, and cause issues within the HUF.
- Another issue may be that the Karta may not be the most qualified person to lead the business. The position is given to the senior most family member, whether he is the most qualified or not is not taken into consideration.

Joint Stock Company

DEFINITION

In the modern times the business and industry has been developed on a large scale the capital required for such industry and trade is huge which cannot be accumulated either in a sole proprietorship or a partnership organization. As a result of this change, a new form of organization has become quite popular in modern times which are known as Joint Stock Company. It is normally defined as;

“An association of many person who contribute money or money’s worth to common stock or employ it in some trade and business, and who share profit or loss arising from there.”

It means the joint stock company is a voluntary association of individual who contribute their money or profit to a common stock for carrying on a particular business. The money or money's worth contributed by the member known as 'share holders' forms the capital of the company. The capital is divided into numbers of unit called share. Each share carries definite face value and is transferable in the market without any restriction or formalities.

A company as soon as incorporated takes a legal entity distinct from the shareholder who composes it. It is managed by a group of persons known as directors. Directors are the representatives of shareholders.

FORMATION OF JOINT STOCK COMPANY

All the joint stock companies whether public or private are governed by the company's ordinance 1984 and must be formed according to the procedures laid down in that act. For the formulation of Joint Stock Company the following document must be submitted to the registrar, joint stock Company;

1. The list of directors along with their address.
2. the memorandum of association on which at least 7 persons, who are promoters should sign in case of public limited company and two in case of private limited company. In addition of this it is also essential for the, to purchase the qualification share.
3. Articles of association duly signed as memorandum of association.
4. The consent of all the directors to act as directors.
5. A formal declaration by the secretary that all the formalities are duly completed.
6. A statement of normal capital.

Along with the above documents, registration fees, which varies with the amount of share capital is paid off to the treasury.

When the registrar of the joint stock companies is satisfied from all the formalities he will enter the name of the company in the register and will issue a certificate of incorporation. Now the company will have its separate existence.

CLASSES OF COMPANIES

There are following classes of Joint Stock Company:

1. CHARTERED COMPANY
2. STATUTORY COMPANY
3. REGISTERED COMPANY
 -(A) LIMITED COMPANY
 - (I) PRIVATE LIMITED COMPANY
 - (II) PUBLIC LIMITED COMPANY
 - * COMPANY LIMITED BY GUARANTEE
 - * COMPANY LIMITED BY SHARES

.....(B) UNLIMITED COMPANY

1. CHARTERED COMPANY

This type of company was formed in England and many other European countries before the passing of company acts. They are called chartered companies because they created by the royal charter of sovereign of a country. Such companies are rarely formed in present days. The chartered bank of England, the chartered mercantile of India, the imperial bank of east India Company has been formed under such chartered. In such companies the shareholder are not responsible for the debt of the company. It can be dissolved by the king. After the passing of the companies Act such companies began to register under companies Act.

2. STATUTORY COMPANY

They are formed under the special act of the legislature. These are not regulated by the companies act. The special act of the legislature under which they are formed gives them monopolistic power to trade in the particular field of operation. Government took the initiative and created national bank of Pakistan, P.I.B.C and state bank of Pakistan etc. its functioning is more or less the same as the registered companies. Government controls more of the share than the public. Other example of this company are P.I.A etc.

3. REGISTERED COMPANY

This is most common form which is created under companies act. Before a registered company can be formed certain legal formalities are required to be completed and documents are to be filled with the registrar of the joint stock companies of the providence. In Pakistan these companies are incorporated under the company's ordinance. It is of two types.

a) UNLIMITED COMPANIES

These companies are registered under the companies act. The liabilities of shareholder of such companies is unlimited. An unlimited company can take numerous members. It has a separate entity and is managed by the board of directors and its share is freely transferable.

b) LIMITED COMPANIES

The liabilities of the members of limited company is limited by the total value of the share they hold or by the amount they have promised to contribute in the event of liquidation of the company. It is of two types.

i) PRIVATE LIMITED COMPANY

It is composed of at least two members and in no case can the number of its member exceed 50. It cannot issues share or debenture. It share cannot be transferred to other.

ii) PUBLIC LIMITED COMPANY

It is formed by at least 7 members but there is no limited to the number of people. It can issue prospectus in order to sell its share in the market. Its share is transferable to others

It has two types:

i) Company Limited by Share The liability of the shareholder of the company limited by the share is limited to the extend of the face value of the share held by them.

ii) Company Limited By Guarantee The members of such company undertake to shoulder a definite amount of extra liability over and above the total value of the share they hold.

MEMORANDUM OF ASSOCIATION

The first thing in the formation of joint stock company is the preparation of memorandum of association. It is the document which sets out the constitution of the company and as such is really the foundation on which the structure of company rests. That is why this document has often being called the charter of the company in its relation to the outside world. The document is prepared by the promoters of the company. It must contain the following clauses.

1. NAME CLAUSE

In this clause the full name of the company is shown and the last word of the name of the company must be limited. The company can adopt any name but there are certain restriction and the words like “ROYAL, IMPERIAL, EMPIRE, ESTATE’ etc cannot be used without the special permission of the government.

2. OBJECT CLAUSE

This clause is very important one must be very carefully drafted as it determines the activities of the company. Here each and every detail of activities of the business to be carried out must be laid down. Once the object clause is completed it becomes very difficult to make any amendments. The value of the share the utmost money must be given in detail.

3. SITUATION CLAUSE

This act provides that the company must have a registered office so that registrar may be able to send notice etc. to the company at the registered office.

4. LIABILITY CLAUSE

A declaration that the share holder liability is limited.

5. CAPITAL CLAUSE

This clause must contain a statement as to the amount of capital with which the company proposes to be registered and the division therefore into share at certain fixes amounts.

ARTICLES OF ASSOCIATION

This is an important document which must be prepared and filled with the registrar of the company. It contains rule and regulation regarding the internal work and management of the company. It defines the power, rights, and duties of directors, shareholders and other officer of

the company. The purpose of this document is to carry out the object set out in the memorandum. The memorandum limits the jurisdiction beyond which the article of association cannot go. It states how general meeting are to be held, how the voting is to be done. How the shares are to be transferred, and how they are to be forfeited, how accounts are to be kept. If the company does not prepare the article of association than it can adopt its table A of company ordinance. The article must be seriously drafted, seriously numbered and printed and then filed with the registrar of Joint Stock Company. The article must be signed by the subscriber and witness as in the case of memorandum. It is usual to print memorandum and article in one booklet, as the company required to provide the copies to members on request.

DIFFERENCE BETWEEN PRIVATE AND PUBLIC LIMITED COMPANIES

1. NUMBER OF SHAREHOLDERS

In private limited company minimum number of share holder is 2 and maximum is 50 but in a public limited company the minimum number of share holder is 7 and there is no limitation on the maximum number which may increase to thousand.

2. SUBSCRIPTION OF SHARES

A private limited company cannot invite the general public for the purchase of share and debentures. But a public limited company can invite the general public for the purchase of share and debentures.

3. DIRECTORS

A private limited company may or may not have directors; there is no restriction on it. But in case of public limited company there must be at least three directors. There is no limitation fixed for the appointment of directors.

4. CONSENT PARTNER

If there is partner in private company his written consents are not required but in case of Public limited company, his written consents are required.

5. CERTIFICATE OF INCORPORATION

A private limited company can start the business without registration or incorporation certificate but public limited company cannot start without registration.

6. PROSPECTUS

A private limited company can issue a prospectus or statement in lieu of prospectus. But it is necessary for the public limited company to issue a prospectus or statement in lieu of prospectus.

7. AUDIT OF ACCOUNT

The account of private limited company may be checked by any person, or by the body of the company. But the accounts of public limited company must be audit by chartered accountants or registered accounts.

8. ADVERTISING ACCOUNTS

It is not necessary for the private limited company to advertise the copy of balance sheet and profit or loss account every year. But for public limited company it is necessary to advertise the copy of balance sheet and profit or loss account every year.

9. STATUTORY MEETINGS

It is not necessary for the private limited company to call a statutory meeting. But statutory meeting must be called within 6 months from the commencement of the business in public limited company.

10. APPOINTMENT OF MANAGING AGENTS

Managing agent in private limited company can be appointed for a period, but managing agent in the public limited company can be appointed for the 20 years at-most.

11. QUALIFICATION OF SHARE FOR DIRECTORS

In private limited company there is no qualification of shares for directors but in public limited company a person will have to purchase qualification share for becoming the director of company.

12. CONDITION OF MINIMUM SUBSCRIPTION

The condition of minimum subscription is not applicable for private limed company. But for the public limited company the minimum subscription must be raised before the almost of shares of the general public.

ADVANTAGES OF JOINT STOCK COMPANY

1. HUGE AMMOUNT OF CAPITAL

It is in position to raise large amount of capital required for big business. The reason is the limitation of liabilities and ease of transferability of share. A small value of share allows charge number of people to invest. Therefore, large capital can be raised by Joint Stock Company.

2. ALL PEOPLE CAN INVEST

The shares are of different kinds and they are purchased by person of different temperaments.

The small value of share allows the poor people to also purchase it. Besides the company can also raise fiancé by the issue of debentures and bonds.

3. LIMITED LIABILITIES OF SHAREHOLDERS

The liabilities are limited. It means that the risk is spread over a large number of share holders and possibility of hardship on few is reduced. Secondly if the business is lost the shareholder are not going to loose anything from their private properties.

4. EFFICIENT MANAGEMENT

The management is carried out by the people who are able, experienced and trustees of shareholders. It is thus in the hand of few exporters. Secondly the company can also hire efficient and qualified staff since it can pay their wages.

5. STABILITY OF BUSINESS

The success of business also depends upon the life of the business. The joint stock company is more suited in this respect, for a company is a legal person having a perpetual succession.

6. EASE OF EXPANSION:

In joint stock Company if it is desirable to expand the business it can be easily done by the issue of more and more shares.

7. EASY TRANSFERABILITY OF SHARE:

The share of company are easily bought and sold in stock exchange market like ordinary commodities, and the shareholder can withdraw his money whenever required by selling his shares to others. This fact encourages the public to invest money.

8. LEGAL ENTITY

The company has legal entity distinct from the shareholders. The company can enter into any contract with any person on behalf of the company's name.

9. TAX CONCESSIONS

The income tax has provided special concession to joint stock companies which are not available to sole proprietorship or partnership organization.

10. MASS PRODUCTION

The greatest benefit of the joint stock companies is that it has made possible production on larger scale. Modern and mass production needs huge capital which can be accumulated in such a form to business organization.

DISADVANTAGES OF JOINT STOCK COMPANY

1. DIFFICULTY IN FORMATION

The promoters has to under go under certain legal formalities to create the business. They have to prepare and file the necessary documents and pay the registration fee.

2. SEPARATION OF OWNERSHIP FROM CONTROL

The management of the company is entirely in the hands of directors and the shareholder, who are the actual owners have no say in it. The directors may be dishonest and may deceive the public.

3. LACK OF PERSONAL INTEREST

As compared to other forms of business such organization lacks personnel interest, because the management knows that they will be paid in any condition and secondly the directors know the profit will be divided into number of share holders. This situation leads to the absence of personal interest.

4. LACK OF SECRECY

A successful requires secrecy sometimes in certain matters. Secrecy cannot be maintained here because each and every formula or terms are exposed to all the shareholders regarding the volumes at sales margin of profits etc.

5. MONOPOLY

Another danger lies in a tendency for the joint stock company to form themselves into a combination exercising monopolistic powers and monopoly is against public interest.

6. CORRUPTION

The share being easily sale able, shrewd directors sell them whenever they suspect any danger in the business and shift the loss of the company on general public.

7. DIVIDED RESPONSIBILITIES

The work of company is divided among various departments and the in charge of the company is quite independent. This sometimes causes much hardship and result in- Efficiency

8. SOURCE OF DECEIVING INVESTORS

By forming bogus companies the promoters can deceive the general public.

CO-OPERATIVE SOCIETY

INTRODUCTION

Co-operative society is voluntary association of small producers or consumers for their mutual benefits. It is formed for producing and supplying goods in accordance with the needs and requirements of the member who compose it. The members form and carry on the business of co-operative societies themselves. They are the owners, workers and managers of the society. They have democratic control over its organization and management. It is formed for the purpose of achieving economic, social and educative benefits. Profit making is not the main aim of such organizations. Its aim is to eliminate the services of middlemen. It brings benefits for the welfare of the members with the help of applying the principals of all for each and each for all into practice. Its success depends on how much mutual co-operation in between the members has been developed.

CHARACTERISTICS OF CO-OPERATIVE SOCIETY:

The following are the main features of the Co-operative society: -

1. OBJECT

Its main aim is to bring mutual benefit to the members who compose it. Money making is not the main aim of the Co-operative Society. The Society looks after the welfare of the members. It aims producing and supplying goods to meet requirement of the members.

2. CAPITAL

It collects capital from the members. The members purchase shares in the cooperative society and provide necessary capital to it. The cooperative society is divided into fix number of shares. To become a member of the society one must purchase at least one share.

3. MEMBERSHIP

There must be at least 15 members in a cooperative society. But one cannot become a member of

the society unless he attains the age of maturity.

4. DEMOCRATIC PRINCIPLE

The cooperative society is based on the principle of democracy. Every member enjoys rights. Everyone has got only one vote. Policies of the society can be criticized by the members. So the members have a democratic control over the affairs of the society.

5. TRANSFERABILITY OF SHARE

The shares of the cooperative society can be transferred to the members of the society. They cannot be transferred to nonmember.

6. DIVISION OF PROFIT

Although it is not the main idea of the cooperative society to earn profit at any cost yet it often earns a handsome profit. The profit of the society is distributed to the members on the paid-up capital but the profits of the consumers cooperative society are distributed in proportion to their total purchases during the trading period.

7. ENTITY

The cooperative society has a separate artificial entity. Thus, its entity is independent of the members.

Types of Cooperative Society

1] Producer Cooperative

To protect the interest of small producers, these societies are set up. The co-operative society members may be farmers, landowners, owners of the fishing operations. To increase the marketing possibilities and production efficiency, producers decide to work together or as separate entities.

They perform several activities like processing, marketing & distributing their own products. This helps in lower costs and strains in each area with a mutual benefit to each producer.

2] Consumer Cooperative

These businesses are owned and governed by consumers of a particular area for their mutual benefit. Their view is to provide daily necessary commodities at an optimum price. Rather than earning a pecuniary profit, their aim is towards providing service to the consumers.

3] Credit Unions

Credit unions are generally member-owned financial cooperatives. Their principle is of people helping people. They provide credit and financial services to the members at competitive prices. Each and every depositor has the right to become a member. Members attend the annual meeting and are given rights to elect a board of directors.

4] Marketing Cooperative Society

With an aim of helping small producers in selling their products, these societies are established. The producers who wish to obtain reasonable prices for their output are the members of this society.

For securing a favorable market for the products they eliminate the middlemen and improve the competitive position of its members. It collects the output of individual members. Various marketing functions like transportation, packaging, warehousing, etc are performed by the cooperative societies to sell the product at the best possible price.

5] Housing Cooperative Society

To help people with limited income to construct houses at reasonable costs, these societies are established. Their aim is to solve the housing problems of the members. A member of this society aims to procure the residential house at lower cost.

They construct the houses and give the option to members to pay in installments to purchase the house. They construct flats or provide plots to members on which the members themselves can construct the houses as per their choice.

ADVANTAGES OF COOPERATIVE SOCIETY

1. ELIMINATION OF MIDDLEMAN

The consumers get their requirements direct from the producers or they supply their own requirements. hence the cooperative society eliminated middleman and makes the goods available to the consumers at cheaper rate.

2. ECONOMY

Certain economies can be enjoyed by the members of cooperative society in the field of production and distribution. The society has not to bother from marketing the goods. the members are its regular customers and it need not advertise its good in the market.

3. CAPTURE MARKET

The cooperative society sells goods at a cheaper rate. hence it can easily attract a good number of

customers.

4. NO SURPLUS STOCK

The society has got regular customers so it has not to keep any surplus stock in hand.

5. SAVING OF MANAGEMENT EXPENSE

Sometimes the members render free services to manage the affairs of the society. They do not demand any remuneration.

6. EDUCATIVE VALUE

The members are able to learn the principles of cooperation. They learn how to render services for the mutual benefits of themselves. They learn about economic and social aspects of human life.

7. PROVISION FOR THE MAINTENANCE OF THE POOR

Poor people accumulate and invest their small saving in the society which brings for them a better standard of living particularly it increases the income of agriculturists and the people who have been engaged in small and cottage industry.

8. SOCIAL BENEFITS

It develops self-confidence and self-reliance among the general people. They learn the principal 'Self-help is the best help'. At the same time it develops them a sense of cooperation and sacrifices.

9. PROVISION FOR EMPLOYMENT

It solves unemployment problems of the under developed countries. People find employment in small and cottage industries to earn their livelihood.

10. INTEGRATION

Under this system of production and distribution a complete integration between the manufacturers wholesalers and the retailers is possible.

11. EQUAL DISTRIBUTION OF WEALTH

Under the system of production and distribution wealth cannot be concentrated in few hands. Equal distribution of wealth takes place under this system.

12. EQUAL STATUS

There is no master servant relationship in between the members of cooperative society. All are the owners managers, and workers of the cooperative society.

DISADVANTAGES OF COOPERATIVE SOCIETY

1. LACK OF CAPITAL

It suffers from lack of capital because it is an organization of poor people. They cannot afford large amount of capital so they cannot afford to expand the size of the business.

2. LACK OF INTEREST

As the market for the products of cooperative society has been guaranteed so the organizers and managers do not pay keen interest in the management of cooperative society.

3. LACK OF EFFICIENT PERSON

It fails to accommodate men of talent, skills and initiative because it requires free services from them. Such people may not be interested to join the cooperative society.

4. LACK OF COOPERATION

It requires cooperation and selflessness and other facilities which are rarely found in the general people. There is no scarcity of mean-minded people living within individuals of the society. The society remains for its success.

5. UN-EDUCATION

Most of the members of the cooperative society are uneducated and unskilled. So the management of the society may fall in the clutches of selfish people.

6. FREQUENT CHANGE IN DEMAND OF GOODS

The cooperative society cannot be carried on successively in the fields where the demand for goods changes frequently.

Differences between Joint Stock Company and Partnership Business

A company that operates its business by getting combined capital, limited liability, having a distinct personality and perpetual succession by law is called a Joint Stock Company. On the other hand, two or more persons taking unlimited liabilities for the purpose of earning a profit, being operated by all or by one on the behalf of all on the basis of the agreement is called partnership business. Though both businesses are formed by many people, there are many differences between them as well because of the characteristics and the fields of operations or floors of functions are as follows:

Joint Stock Company

- Formation: A company can be formed only after fulfilling legal formalities and its incorporation under the Act is essential. A joint-stock company is created by registration under the Companies Act- 1994.
- Legal Status: A company has a separate legal entity independent of its members. A joint-stock company is a legal person and regarded by law as having an Artificial Personality.
- A number of members: A private company must have at least two members and a maximum of 50 members.
- Contractual Capacities: The shareholders of a company can enter into a contract with the company and can be employees of the company.
- Statutory obligations: A company is required to comply with various statutory obligations regarding the management e.g. filing a balance sheet, maintaining prescribed registers.
- Liability: The liability of a member of a company may be limited by shares or by guarantee.
- Transferable of shares: Shares in a company are freely transferable unless the company's constitution is provided restrictions, of course, appear in the articles of a private company.
- Mutual right: The members of the Board of Directors are elected by the direct polling of the vote of the shareholders.
- Profit Distribution: Profits in the case of a company can be distributed according to the provision of the articles of the company act.
- Audit: Audit in the case of a company is compulsory. A company must maintain its accounts in the prescribed form and must get them audited by a qualified auditor.

Partnership Business

- Formation: In the formation of partnership no legal formalities are involved and registration of the firm is not compulsory. A partnership is created by an agreement that may be expressed or implied from the conduct of the partners and is subject to the Partnership Act-1932.
- Legal Status: Partnership is not a legal person and partnership is the partners who own the property of the firm and liable for the contracts of the partnership firm jointly. A partnership firm has no separate legal entity different from its partners. Partners and the firms are one and the same in the eyes of law.
- The number of members: A partnership consists of a minimum of 2 and maximum of 20 persons (maximum 10 persons for banking business).
- Contractual Capacities: Partners can contract with other partners but not with the firm as a whole.
- Statutory obligations: In the case of a partnership, there are no statutory obligations in the business activities.
- Liability: The liability of a partner is unlimited.
- Transferable of shares: A partner can transfer his shares in the firm, but the assignee does not become a partner and is merely entitled to the assigning partner's share of the profits.
- Mutual right: A little formality is needed to elect the Board of Directors. Sometimes partners are responsible for conducting business activities.

- Profit Distribution: Profits of a firm are distributed in agreed proportion or equally in the absence of agreement among the partners.
- Audit: In case of partnership firm audit is not compulsory. Accounts and audit are not obligatory for a partnership unless the total sales turnover or gross receipts in a year exceed (Money amount).

From the above discussion, we can say that there are vast differences between the two types of business and hence anyone should study in detail the pros and cons of both companies as well as a partnership before taking any decision on whether to enter into a partnership or incorporate a company. Joint Stock Company is a large, up to date perpetual succession and all-over recognized business organization. On the other side, the Partnership business is a small and medium business organization confined by various limitations and operated on the basis of agreement.

UNIT – III

Chamber of Commerce

Introduction

Chamber of commerce and industry is a voluntary non-trading association of persons who are directly or indirectly connected with commerce and industry. Its purpose is to promote trade

and business and protect the business interest of its members. Thus, only the businessmen, industrialists, bankers and professional men like accountants, auditors are entitled to be members of the Chamber of Commerce. The Chamber of Commerce is organized on regional basis. The businessmen of a particular area form such organization e.g. Karachi Chamber of Commerce, Lahore Chamber of Commerce, Peshawar Chamber of Commerce.

Chamber of Commerce may be formed under Companies Ordinance as a Joint Stock Company or under Trade Union Act. Usually, the liability of the members is limited by guarantee. The members pay an annual fee to the Chamber of Commerce. Generally Chamber of Commerce and Industry is governed by a board of directors and a president. The board appoints a secretary who is responsible for discharging all the work of the organization. He formulates the program, holds the meeting and manages the office.

Functions of Chamber of Commerce

1. It helps to develop trade and industry of a country and looks after and protects their interest.
2. It collects all sorts of information concerning commerce and industry and maintains numerous records which are necessary in connection therein.
3. It issues reports and Journals at regular intervals full of information regarding commerce and industry for its own members as well as for the general public.
4. Advisory services on labour practices and disputes are provided.
5. It helps the members in recovering debts.
6. It provides trade reference information about financial status of its members.
7. It protects trademarks and patterns and thereby encourages the cause of national commerce and industry.
8. It acts as arbitrator in case there is any dispute between businessmen.
9. It helps the exporters and importers by furnishing information of various natures in connection with import and export.
10. It issues export certificate and certificates of origin which are very common instruments in international commerce.
11. It advances commercial and technical education in the country.
12. Nowadays, an active part is played by the Chamber in influencing economic policy of the

government. It examines the budget every year and suggests appropriated modification in the tax proposals.

13. It invites the attention of the government and public on matters affecting trade, commerce and industry of the country.

Define Plant location, importance of plant location

Introduction:

Plant location is an important factor that determines the performance of an organization. Planned industrialization offers smooth working of the industry. Also it maintains social and economical structure of the country. In olden days, the location was selected randomly, with convenience of manufacturer and by considering social factors, which caused in failure of an organization.

Plant location selection decision plays a very important role in both manufacturing unit and assembly unit. The location is decided as per nature and size of the organization & product to be manufactured.

Importance of Plant Location

Plant location with thorough analysis leads the organization towards success. The basic objective of organization is to maximize the profit level. Hence, it will be beneficial for both i.e. newly established business & already established business. The profit maximization can be done by increasing sales price, increasing sales with reduced production cost, by analyzing market trend, nature & level of competition etc. Production cost can also be reduced, if firm is located at a place where all the basic requirements (that fulfill input needs) will be available easily.

Selection of appropriate location is necessary due to following reasons:

- Plant location partially determines operating and capital cost. It determines the nature of investment.

- Each plant location requires some basic facilities like transportation, availability of water, electricity, fuel, cheap labors etc.
- Each prospective location implies a new allocation of capacity to respective market area.
- Government plays an important role in the choice of the location keeping in view the national benefits.

Factors Affecting the Plant Location:

Many factors are considered while selecting a site. According to their importance these are classified as primary factors & secondary factors.

Primary factors:

- **Raw material supply:** Production process will continue properly when adequate supply of raw material is there. Raw material cost is a part of total production cost. Inadequate supply of raw material will result in the reduction in production. It will increase downtime & hence reduce efficiency of industry. Due to this inadequacy, profit maximization may not be obtained. The time to transport & cost of transportation is also important. Hence, industries are situated where raw material is available easily.
- **Nearness to market:** This factor will produce the product to customer in short time period and hence it will be less damage to the product. It also reduces transportation cost. Also it will help the supplier to know the requirement of customers.
- **Transportation Facility:** While selecting a site one thing has to be considered that is transportation of any raw material, semi- finished & finished goods should be as less as possible. By this factor material will be transported less, which will affect the material quality, cost of transportation, time to transport etc. Hence for all above reasons producer has to select cheap & speedy transportation with various sources like road, airways, railways, waterways etc.
- **Labor Supply:** Labor is most effective part of the industry, who produces the product. The producer has to choose the site in such a way that labor should present in adequate quantity

with low cost and labor would be skilled or unskilled. If labors are not present in sufficient numbers it will increase downtime of production and decrease plant efficiency.

- **Power Supply:** Electrical, diesel, automatic etc. energies are required to produce the product and also required for transportation. For continuous production process regular and sufficient supply is necessary. Many companies follow the industrial area because of availability of regular & sufficient power supply.
- **Supply of Capital:** Capital is required for the industries for production, day to day working, expansion, marketing etc. Large scale production requires large amount of capital which may be raised by shares, debentures etc.

Secondary factors:

- **Natural factors:** Factors like land, water, climate etc. are very important for industries.
- **Government Policy:** in particular area new plant cannot be started due to some rules and regulations made by government. Also, there are some subsidies and other facilities to support small scale industries to grow up.
- **Availability:** Availability of housing, hospitality, entertainment, education facilities also helps in deciding plant location.
- **Miscellaneous factors:**
 1. Sufficient water supply
 2. Danger of attack during war
 3. Personal factors
 4. Environmental & ecological factors
 5. Availability of safety facilities like fire- fighting, police etc.

Selection of Site As Per Area:

Broadly, the area can be classified as rural, suburban and urban area.

1. Rural area:

In some cases, rural area is selected to start a production unit. Government is providing various incentives & subsidies to entrepreneurs to start plant in rural area instead of urban area.

Advantages of rural area:

- Land is available in abundance with cheap rate.
- Large number of labors is available with less salary & wages due to lower standard of living.
- Taxes are not there in rural area.
- More stable labors are available. Less chances of job hopping due to less job opportunities.
- No hostile environment between labor & managers.
- No restrictions for height of building, drainage etc.
- Rural environment is healthy. Slum & dirty area is not present in rural area.

Disadvantages of rural area:

- Less transportation facility.
- Poor communication facilities. Sometimes, postal, telegraph, telephone services may not work properly.
- Less modernization.
- Support industries are not available.
- Unskilled labors are available in large number than skilled labors.
- Water supply, drainage, fire- fighting facilities is not available.
- Poor education, entertainment, hospital facilities.

2. Urban area:

Urban area is exactly opposite to rural area. Now-a-days, large plants are not allowed in cities, only offices are allowed.

Advantages of rural area:

- All types of transportation are available.
- Big market is available for the product. Most of the companies first introduce product in city area.
- Skilled labors are available, so no need to train them.
- All municipal facilities like water supply, drainage, fire- fighting is available.
- Banking & insurance facilities are found good in cities.

- All types of supporting industries are available.
- Entertainment, education, hospital, postal services are available easily as compared to rural area.

Disadvantages of rural area:

- Higher land cost.
- Higher labor cost due to high standard of living.
- Due to availability of jobs, employee changes job consistently. Job snatching also takes place in cities by giving more salary or by good incentive schemes.
- Some restrictions are made by municipal in case of height of building, drainage etc.
- Strong trade union movement.
- Industrialization in city increases slum & dirty area.

3. Sub-urban area:

Both city & rural areas have certain limitations. Due to which the trend is towards sub-urban area, which will take advantages of both the areas & eliminate limitations.

Advantages of rural area:

- As compared to urban area, land is available at cheaper rate.
- Adequate land is available for future expansion.
- Skilled & unskilled labors are available.
- Training services for labors are also available.
- Infrastructural facilities like road, water, banking etc. developed by government, authorities or industrial associates.

Disadvantages of rural area:

After few years sub-urban area may be developed into urban area with its advantages & disadvantages.

In general, urban area provides benefits for small enterprises, whereas, rural area provides benefits for large scale industries. Sub-urban area is suitable for medium size industries.

Factors affecting Facility location decision in Operations

Management

Facility location is the process of determining a geographic site for a firm's operations. Managers of both service and manufacturing organizations must weigh many factors when assessing the desirability of a particular site, including proximity to customers and suppliers, labor costs, and transportation costs.

Location conditions are complex and each comprises a different Characteristic of a tangible (i.e. Freight rates, production costs) and non-tangible (i.e. reliability, frequency security, quality) nature.

Location conditions are hard to measure. Tangible cost-based factors such as wages and products costs can be quantified precisely into what makes locations better to compare. On the other hand, non-tangible features, which refer to such characteristics as reliability, availability and security, can only be measured along an ordinal or even nominal scale. Other non-tangible features like the percentage of employees that are unionized can be measured as well. To sum this up non-tangible features are very important for business location decisions.

It is appropriate to divide the factors, which influence the plant location or facility location on the basis of the nature of the organization as

1. **General locational factors**, which include controllable and uncontrollable factors for all type of organizations.
2. **Specific locational factors** specifically required for manufacturing and service organizations.

Location factors can be further divided into two categories: Dominant factors are those derived from competitive priorities (cost, quality, time, and flexibility) and have a particularly strong impact on sales or costs. Secondary factors also are important, but management may downplay or even ignore some of them if other factors are more important.

General Locational Factors

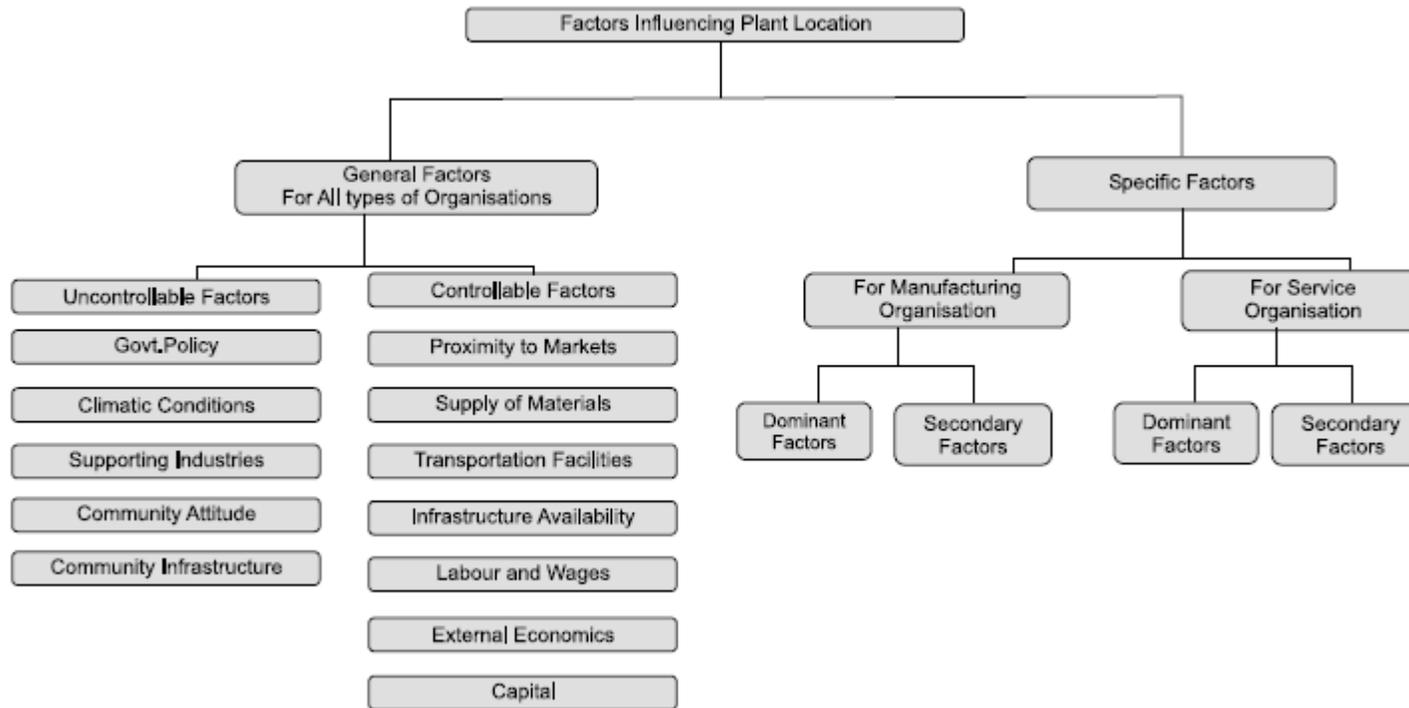
Following are the general factors required for location of plant in case of all types of organizations.

CONTROLLABLE FACTORS

1. Proximity to markets.
2. Supply of materials

3. Transportation facilities
4. Infrastructure availability
5. Labour and wages

Factors influencing plant location



6. External economies
7. Capital

UNCONTROLLABLE FACTORS

8. Government policy
9. Climate conditions
10. Supporting industries and services
11. Community and labor attitudes
12. Community Infrastructure

CONTROLLABLE FACTORS

- ***Proximity to markets:***

Every company is expected to serve its customers by providing goods and services at the time needed and at reasonable price organizations may choose to locate facilities close to the market or away from the market depending upon the product. When the buyers for the

product are concentrated, it is advisable to locate the facilities close to the market. Locating nearer to the market is preferred if

- The products are delicate and susceptible to spoilage.
- After sales services are promptly required very often.
- Transportation cost is high and increase the cost significantly.
- Shelf life of the product is low.

Nearness to the market ensures a consistent supply of goods to customers and reduces the cost of transportation.

- ***Supply of raw material:***

It is essential for the organization to get raw material in right qualities and time in order to have an uninterrupted production. This factor becomes very important if the materials are perishable and cost of transportation is very high.

General guidelines suggested by Yaseen regarding effects of raw materials on plant location are:

- When a single raw material is used without loss of weight, locate the plant at the raw material source, at the market or at any point in between.
- When weight losing raw material is demanded, locate the plant at the raw material source.
- When raw material is universally available, locate close to the market area.
- If the raw materials are processed from variety of locations, the plant may be situated so as to minimize total transportation costs.

Nearness to raw material is important in case of industries such as sugar, cement, jute and cotton textiles.

- ***Transportation facilities:***

Speedy transport facilities ensure timely supply of raw materials to the company and finished goods to the customers. The transport facility is a prerequisite for the location of the plant.

There are five basic modes of physical transportation, air, road, rail, water and pipeline.

Goods that are mainly intended for exports demand a location near to the port or large airport.

The choice of transport method and hence the location will depend on relative costs,

convenience, and suitability. Thus, transportation cost to value added is one of the criteria for plant location.

- ***Infrastructure availability:***

The basic infrastructure facilities like power, water and waste disposal, etc., become the prominent factors in deciding the location. Certain types of industries are power hungry e.g., aluminum and steel and they should be located close to the power station or location where uninterrupted power supply is assured throughout the year. The non-availability of power may become a survival problem for such industries. Process industries like paper, chemical, cement, etc., require continuous. Supply of water in large amount and good quality, and mineral content of water becomes an important factor. A waste disposal facility for process industries is an important factor, which influences the plant location.

- ***Labor and wages:***

The problem of securing adequate number of labor and with skills specific is a factor to be considered both at territorial as well as at community level during plant location. Importing labor is usually costly and involve administrative problem. The history of labor relations in a prospective community is to be studied. Productivity of labor is also an important factor to be considered. Prevailing wage pattern, cost of living and industrial relation and bargaining power of the unions' forms in important considerations.

- ***External economies of scale:***

External economies of scale can be described as urbanization and locational economies of scale. It refers to advantages of a company by setting up operations in a large city while the second one refers to the "settling down" among other companies of related Industries. In the case of urbanization economies, firms derive from locating in larger cities rather than in smaller ones in a search of having access to a large pool of labor, transport facilities, and as well to increase their markets for selling their products and have access to a much wider range of business services.

Location economies of scale in the manufacturing sector have evolved over time and have mainly increased competition due to production facilities and lower production costs as a result of lower transportation and logistical costs. This led to manufacturing districts where many companies of related industries are located more or less in the same area. As large corporations have realized that inventories and warehouses have become a major cost factor, they have tried

reducing inventory costs by launching “Just in Time” production system (the so-called Kanban System). This high efficient production system was one main factor in the Japanese car industry for being so successful. Just in time ensures to get spare parts from suppliers within just a few hours after ordering. To fulfill these criteria corporations, have to be located in the same area increasing their market and service for large corporations.

7. *Capital:*

By looking at capital as a location condition, it is important to distinguish the physiology of fixed capital in buildings and equipment from financial capital. Fixed capital costs as building and construction costs vary from region to region. But on the other hand buildings can also be rented and existing plants can be expanded. Financial capital is highly mobile and does not very much influence decisions. For example, large Multinational Corporations such as Coca-Cola operate in many different countries and can raise capital where interest rates are lowest and conditions are most suitable.

Capital becomes a main factor when it comes to venture capital. In that case young, fast growing (or not) high tech firms are concerned which usually have not many fixed assets. These firms particularly need access to financial capital and also skilled educated employees.

UNCONTROLLABLE FACTORS

8. *Government policy:*

The policies of the state governments and local bodies concerning labor laws, building codes, safety, etc., are the factors that demand attention. In order to have a balanced regional growth of industries, both central and state governments in our country offer the package of incentives to entrepreneurs in particular locations. The incentive package may be in the form of exemption from a sales tax and excise duties for a specific period, soft loan from financial institutions, subsidy in electricity charges and investment subsidy. Some of these incentives may tempt to locate the plant to avail these facilities offered.

9. *Climatic conditions:*

The geology of the area needs to be considered together with climatic conditions (humidity, temperature). Climates greatly influence human efficiency and behavior. Some industries require specific climatic conditions e.g., textile mill will require humidity.

10. *Supporting industries and services:*

Now a day the manufacturing organization will not make all the components and parts by

itself and it subcontracts the work to vendors. So, the source of supply of component parts will be the one of the factors that influences the location.

The various services like communications, banking services professional consultancy services and other civil amenities services will play a vital role in selection of a location.

11. *community and labor attitudes:*

Community attitude towards their work and towards the prospective industries can make or mar the industry. Community attitudes towards supporting trade union activities are important criteria. Facility location in specific location is not desirable even though all factors are favoring because of labor attitude towards management, which brings very often the strikes and lockouts.

12. *Community infrastructure and amenity:*

All manufacturing activities require access to a community infrastructure, most notably economic overhead capital, such as roads, railways, port facilities, power lines and service facilities and social overhead capital like schools, universities and hospitals.

These factors are also needed to be considered by location decisions as infrastructure is enormously expensive to build and for most manufacturing activities the existing stock of infrastructure provides physical restrictions on location possibilities.

Specific Locational Factors for Manufacturing Organization

DOMINANT FACTORS

Factors dominating location decisions for new manufacturing plants can be broadly classified in six groups. They are listed in the order of their importance as follows.

1. Favorable labor climate
2. Proximity to markets
3. Quality of life
4. Proximity to suppliers and resources
5. Utilities, taxes, and real estate costs

1. **Favorable labor climate:**

A favorable labor climate may be the most important factor in location decisions for labour-intensive firms in industries such as textiles, furniture, and consumer electronics. Labor climate includes wage rates, training requirements, attitudes toward work, worker

productivity, and union strength. Many executives consider weak unions or a low probability of union organizing efforts as a distinct advantage.

2. Proximity to markets:

After determining where the demand for goods and services is greatest, management must select a location for the facility that will supply that demand. Locating near markets is particularly important when the final goods are bulky or heavy and outbound transportation rates are high. For example, manufacturers of products such as plastic pipe and heavy metals all emphasize proximity to their markets.

3. Quality of life:

Good schools, recreational facilities, cultural events, and an attractive lifestyle contribute to quality of life. This factor is relatively unimportant on its own, but it can make the difference in location decisions.

4. Proximity to suppliers and resources:

In many companies, plants supply parts to other facilities or rely on other facilities for management and staff support. These require frequent coordination and communication, which can become more difficult as distance increases.

5. Utilities, taxes, and real estate costs:

Other important factors that may emerge include utility costs (telephone, energy, and water), local and state taxes, financing incentives offered by local or state governments, relocation costs, and land costs.

SECONDARYFACTORS

There are some other factors needed to be considered, including room for expansion, construction costs, accessibility to multiple modes of transportation, the cost of shuffling people and materials between plants, competition from other firms for the workforce, community attitudes, and many others. For global operations, firms are emphasizing local employee skills and education and the local infrastructure.

Specific Locational Factors for Service Organization

DOMINANTFACTORS

The factors considered for manufacturers are also applied to service providers, with one important addition the impact of location on sales and customer satisfaction. Customers usually

look about how close a service facility is, particularly if the process requires considerable customercontact

Location is a key factor in determining how conveniently customers can carry on business with a firm. For example, few people would like to go to remotely located dry cleaner or supermarket if another is more convenient. Thus the influence of location on revenues tends to be the dominant factor.

TRANSPORTATION COSTS AND PROXIMITY TO MARKETS

For warehousing and distribution operations, transportation costs and proximity to markets are extremely important. With a warehouse nearby, many firms can hold inventory closer to the customer, thus reducing delivery time and promoting sales.

LOCATION OF COMPETITORS

One complication in estimating the sales potential at different location is the impact of competitors. Management must not only consider the current location of competitors but also try to anticipate their reaction to the firm's new location. Avoiding areas where competitors are already well established often pays. However, in some industries, such as new-car sales showrooms and fast- food chains, locating near competitors is actually advantageous. The strategy is to create a critical mass, whereby several competing firms clustered in one location attract more customers than the total number who would shop at the same stores at scattered locations. Recognizing this effect, some firms use a follow –the leader strategy when selecting new sites.

SECONDARYFACTORS

Retailers also must consider the level of retail activity, residential density, traffic flow, and site visibility. Retail activity in the area is important, as shoppers often decide on impulse to go shopping or to eat in a restaurant. Traffic flows and visibility are important because businesses' customers arrive in cars. Visibility involves distance from the street and size of nearby buildings and signs. High residential density ensures nighttime and weekend business when the population in the area fits the firm's competitive priorities and target market segment.

Localization of Industries:

Meaning and Definition:

By '*localization of industries*' is meant the tendency on the part of industries to be concentrated in regions which are most suited for their development.

Explanation:

Some industries are carried on and developed in certain areas because of their natural or acquired advantages. For example in Pakistan, sugar industry is localized in NWFP and Punjab, paper match box industry in NWFP, cotton industry in Punjab and Sindh, simply on the basis of nearness to source of raw material.

Factors:

The important factors which influence the localization of industries are discussed as below:

(i) Nearness to raw material.

One of the very important factor which affects the birth of an industry in certain areas is the nearness to sources of raw material . The availability of raw material near the location of the industry helps considerably in reducing the transport cost and so the total cost of production of the commodity. It is due to this reason that most of the industries are established in regions where the raw material is available in abundance

(ii) Availability of source of power.

Availability of cheap power resources is another important factor which influences the concentration of industries in particular areas. If for instance, electricity is to be carried over to a long distance where the industry is located or the coal which serves as raw material is to be transported at a far-off distance from whereat is extracted, it will not then be economical to set up the industry at such places which are far away from the sources of power.

(iii) Physical and climate conditions.

Physical and climatic conditions have an important bearing on the growth of industry. If suitable climate and desirable physical conditions exist for a particular industry, that will be established and developed in that region then.

(iv) Nearness to market.

Industries have a tendency to be localized in those areas where the market is near at hand. The goods produced can be easily brought in the market and there can be much saving in the cost of transportation.

(v) Supply of trained labor.

Supply of trained labor is another great attraction for the concentration of an industry in a particular area. If for instance, one wishes to set up a cotton factory, it will be advantageous for him to install it in Faisalabad or Okara.

(vi) Availability of capital.

Industries may spring up in those areas where capital is available at a lower rate.

(vii) Momentum of an early start.

Sometimes, it so happens, that an industry gets itself established and developed in a particularly locality not due to the reasons discussed above but Just by some chance or other. Later on, that locality acquires reputation in the production of the commodity and more industries are set up-there. For instance, sports goods industry is located in Sialkot for no reason other than this that it got an early start there.

Advantages of Localization:

When an industry gets itself established in a locality, it enjoys the following advantages.

Firstly, a localized product gains reputation and thus it becomes easy for a firm to find good market within and outside the country. On the basis of reputation, it is generally able to charge

higher prices than the products of their counterparts situated elsewhere. For instance, the sports and leather goods manufactured in Sialkot have acquired very good commercial reputation and it is easy to sell them at good prices.

Secondly, when an industry is located in a particular region, it is easy to get skilled labor of the industry, industrial skill passes on from father to son. The children team fit almost unconsciously.

Thirdly, localization leads to promotion and growth of subsidiary.

Fourthly, it results in the development of specialized research institutions.

Fifthly, it leads to the spread of fast means of communication and transport.

Sixthly, localization encourages the development of financial facilities. When banks and other financing cooperation find profitable field for investment in a locality, they at once open their branches there.

Finally, localization provides opportunities both for workers and the industrialists to understand each other and to form themselves into an organization in order to safeguard their respective interest.

Disadvantages of Localization:

Localization has certain disadvantages too. They are as following:

(i) Localization is dangerous when the demand for the localized products declines due to the growth of foreign competition or due to the changes in the tastes of the people. In that case there will be mass unemployment in the particular localized industries.

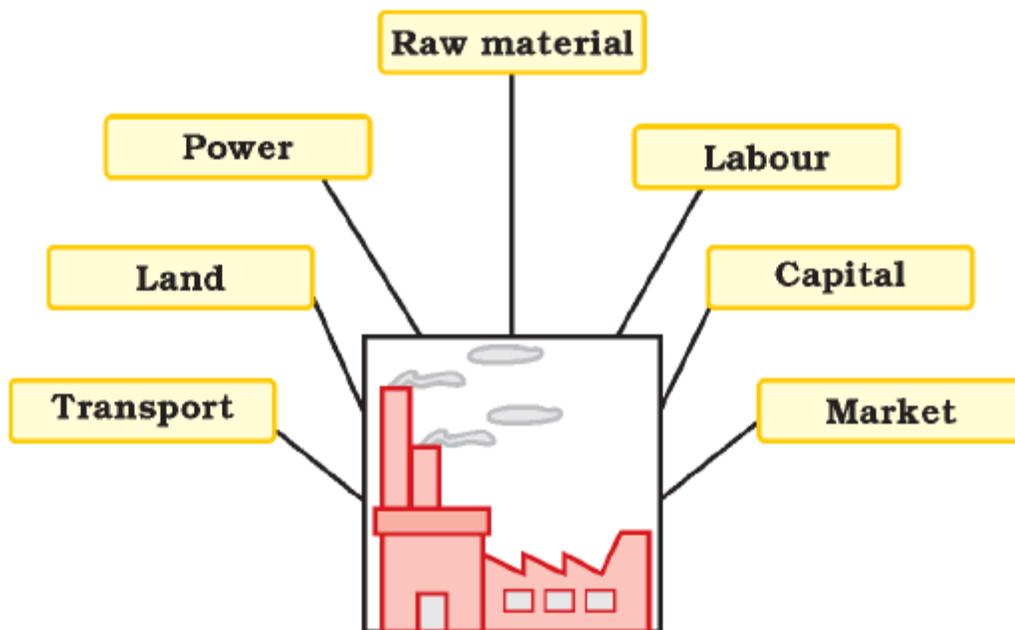
(ii) Localization results in the economic independence of one locality on the other or of one country on the other; if the commodity demanded is one of the basic necessities of life, it can cause much inconvenience to the depending nations.

(iii) People can learn only one type of work in a localized industry. If they wish to go to another place, they may face difficulty in getting employment.

(iv) During war, a localized industry can easily be made a target for bombardment and the whole industry can be ruined to ashes. So, it is not wise to place all eggs in one basket. The industry should be decentralized. It should be spread out in various parts of the country so that it may not become an easy target for enemy's air attack.

Factors responsible for location of Industries

Industrial locations are complex in nature. These are influenced by the availability of many factors. Some of them are: raw material, land, water, labor, capital, power, transport, and market.



Locational factors for industries

For ease of convenience, we can classify the location factors into two: geographical factors and non-geographical factors.

Geographical Factors

1. Raw material: Availability of natural resource that can be used as raw material.
2. Technology: To turn the resource into an asset with value.
3. Power: To utilize the technology.
4. Labour: Human resource in the area who can function as labor to run the processes.
5. Transport: Road/rail connectivity.
6. Storage and warehousing.
7. Marketing feasibility.
8. Characteristics of land and soil.
9. Climate.
10. Precipitation and water resources.
11. Vulnerability to natural resources.

Explanation:

- Raw materials are one of the important factors in an industrial location. The mere location of industries itself may be determined by the availability or location of the raw materials.
- Power – conventional (coal, mineral oil or hydro-electricity) or on- conventional in nature is a necessity for any industrial establishment.
- Availability of labor or skilled workforce is the success mantra for the growth of all industries.
- Availability of easy transportation always influences the location of the industry. So the junction points of waterways, roadways and railways become humming centers of industrial activity.
- The finished goods should reach the market at the end of the process of manufacturing. Thus, nearness to the market is an add-on quality in the process of selecting a location for industry.
- Availability of water is another factor that influences the industrial location. Many industries are established near rivers, canals, and lakes, because of this reason. Iron and

steel industry, textile industries and chemical industries require large quantities of water, for their proper functioning.

- The site that is selected for the establishment of an industry must be flat and well served by adequate transport facilities.
- The climate of the area selected for the industry is important, very harsh climate are not suitable for the successful industrial growth.

Non-geographical Factors

1. Capital investment.
2. Availability of loans.
3. Investment climate.
4. Government policies/regulations.
5. Influence of pressure groups.

Explanation:

- Capital or huge investment is needed for the establishment of industries.
- Government policies are another factor that influences industrial location. The government sets certain restriction in the allocation of land for industries in order to reduce regional disparities, to control excessive pollution and to avoid the excessive clustering of industries in big cities.
- Industrial inertia is the predisposition of industries or companies to avoid relocating facilities even in the face of changing economic circumstances that would otherwise induce them to leave. Often the costs associated with relocating fixed capital assets and labor far outweigh the costs of adapting to the changing conditions of an existing location.
- Efficient and enterprising organization and management are essential for running modern industry successfully.
- The location that has better banking facilities and Insurance are best suited for the establishment of industries.

It is rarely possible to find all these factors available at one place. Consequently, manufacturing activity tends to locate at the most appropriate place where all the factors of industrial location are either available or can be arranged at lower cost. In general, it should also be noted that both lower production cost and lower distribution cost are the two major factors while considering the location of an industry. Sometimes, the government provides incentives like subsidized power, lower transport cost, and other infrastructure so that industries may be located in backward areas.