GATE DEGREE AND PG COLLEEGE

BCA-FIRST SEMESTER

BUSINESS ORGANISATION

SYLLABUS

Unit 1: Business: Meaning and Definition of Business – Characteristic Features-objectives of Business – Functions of Business – Difference between Industry, Trade, Commerce and Profession.

Unit 2: Promotion of Business: Qualities of a successful Business man – Forms of Business organization – Merits and Demerits of Sole proprietorship – Partnership – Joint Stock Company – Difference between Private Company and Public company- Concept of one Person Company.

Unit 3: Plant Location and Layout: Meaning of Plant Location – Factors affecting Plant Location – Meaning of Plant Layout Factors affecting Plant layout – optimum size of Business Unit – Factors 1 determining the optimum size of business unit.

Unit 4: Business Combination: Meaning – Characteristics – Objectives of Business Combination. Meaning, Characteristics, Objectives of Rationalization.

Unit 5: Computer Essentials: Meaning and Definition of Computer – Block diagram of a computer – generations of a computer – Types of Computer – Internet-Types of Networks.

UNIT-I
BUSINESS

INTRODUCTION TO BUSINESS

Everything that surrounds us is a chain of business, from a laptop to the chair we sit. With every change in technology, human being demand also changes. Giving business persons to grow their business or start a new venture.

A business can be described as an organization or enterprising entity that engages in professional, commercial or industrial activities. There can be different types of businesses depending on various factors. Some are for-profit, while some are non-profit. Similarly, their ownership also makes them different from each other. For instance, there are sole proprietorships, partnerships, corporations, and more. Business is also the efforts and activities of a person who is producing goods or offering services with the intent to sell them for profit.

Businesses should aim to improve customers' quality of life. This is done by trading goods and services and improving the production quality of goods and services to satisfy consumers' needs. There is much more to the business process, though.

The term business refers to an organization or enterprising entity engaged in commercial, industrial, or professional activities. The purpose of a business is to organize some sort of economic production of goods or services. Businesses can be for-profit entities or non-profit organizations fulfilling a charitable mission or furthering a social cause. Businesses range in scale and scope from sole proprietorships to large, international corporations.

The term business also refers to the efforts and activities undertaken by individuals to produce and sell goods and services for profit.

DEFINITION OF BUSINESS

1. Business is an economic activity that involves the exchange, purchase, sale or production of goods and services with a motive to earn profits and satisfy the needs of customers. Businesses can be both profit or non-profit organizations that function to gain profits or achieve a social cause respectively.
2. Business refers to an enterprising entity or organization that carries out professional activities. They can be commercial, industrial, or others. For-profit business entities do business to earn a profit, while non-profit ones do it for a charitable mission. Business ownership includes partnerships, sole proprietorships, corporations, etc. Businesses can be small-scale or large-scale. Some of the biggest businesses in the world are Amazon and Walmart.
3. Business is economic activity that involves the exchange of products and/or services for profits, or other motives. It is a transactional activity. Business looks to satisfy customers' needs through the provision and production of necessary services or goods.
4. 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.

NATURE OF BUSINESS

1. Economic activity:

Business is an economic activity of production and distribution of goods and services. It provides employment opportunities in different sectors like banking, insurance, transport, industries, trade etc. it is an economic activity corned with creation of utilities for the satisfaction of human wants.

It provides a source of income to the society. Business results into generation of employment opportunities thereby leading to growth of the economy. It brings about industrial and economic development of the country.

2. Buying and Selling:

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

3. Continuous process:

Business is not a single time activity. It is a continuous process of production and distribution of goods and services. A single transaction of trade cannot be termed as a business. A business should be conducted regularly in order to grow and gain regular returns.

Business should continuously involve in research and developmental activities to gain competitive advantage. A continuous improvement strategy helps to increase profitability of the business firm.

4. Profit Motive:

Profit is an indicator of success and failure of business. It is the difference between income and expenses of the business. The primary goal of a business is usually to obtain the highest possible level of profit through the production and sale of goods and services. It is a return on investment. Profit acts as a driving force behind all business activities.

Profit is required for survival, growth and expansion of the business. It is clear that every business operates to earn profit. Business has many goals but profit making is the primary goal of every business. It is required to create economic growth.

5. Risk and Uncertainties:

Risk is defined as the effect of uncertainty arising on the objectives of the business. Risk is associated with every business. Business is exposed to two types of risk, Insurable and Non-insurable. Insurable risk is predictable.

Predictable factors are controllable to some extent, such as:

- Taxes
- Change in the volume of expected sales
- Cost of supplies and equipment
- Overhead costs
- Salaries
- Cost of goods and services offered

Unpredictable factors include:

- Changes in trends and tastes of customers.
- Impact of the local economy on customer base.
- Any unexpected action taken by your competitors.

The calculation and management of the risk is vital to ensure the success of a business firm. Insurance and Risk management helps in minimizing the risk associated with the business.

6. Creative and Dynamic:

Modern business is creative and dynamic in nature. Business firm has to come out with creative ideas, approaches and concepts for production and distribution of goods and services. It means to bring things in fresh, new and inventive way. One has to be innovative because the business operates under constantly changing economic, social and technological environment. Business should also come out with new products to satisfy the growing needs of the consumers.

7. Customer satisfaction:

The phase of business has changed from traditional concept to modern concept. Now a day, business adopts a consumer-oriented approach. Customer satisfaction is the ultimate aim of all economic activities.

Modern business believes in satisfying the customers by providing quality product at a reasonable price. It emphasize not only on profit but also on customer satisfaction. Consumers are satisfied only when they get real value for their purchase. The purpose of the business is to create and retain the customers. The ability to identify and satisfy the customers is the prime ingredient for the business success.

8. Social Activity:

Business is a socio-economic activity. Both business and society are interdependent. Modern business runs in the area of social responsibility.

Business has some responsibility towards the society and in turn it needs the support of various social groups like investors, employees, customers, creditors etc. by making goods available to various sections of the society, business performs an important social function and meets social needs. Business needs support of different section of the society for its proper functioning.

9. Government control:

Business organisations are subject to government control. They have to follow certain rules and regulations enacted by the government. Government ensures that the business is conducted for social good by keeping effective supervision and control by enacting and amending laws and rules from time to time.

Some important acts framed by the government include:

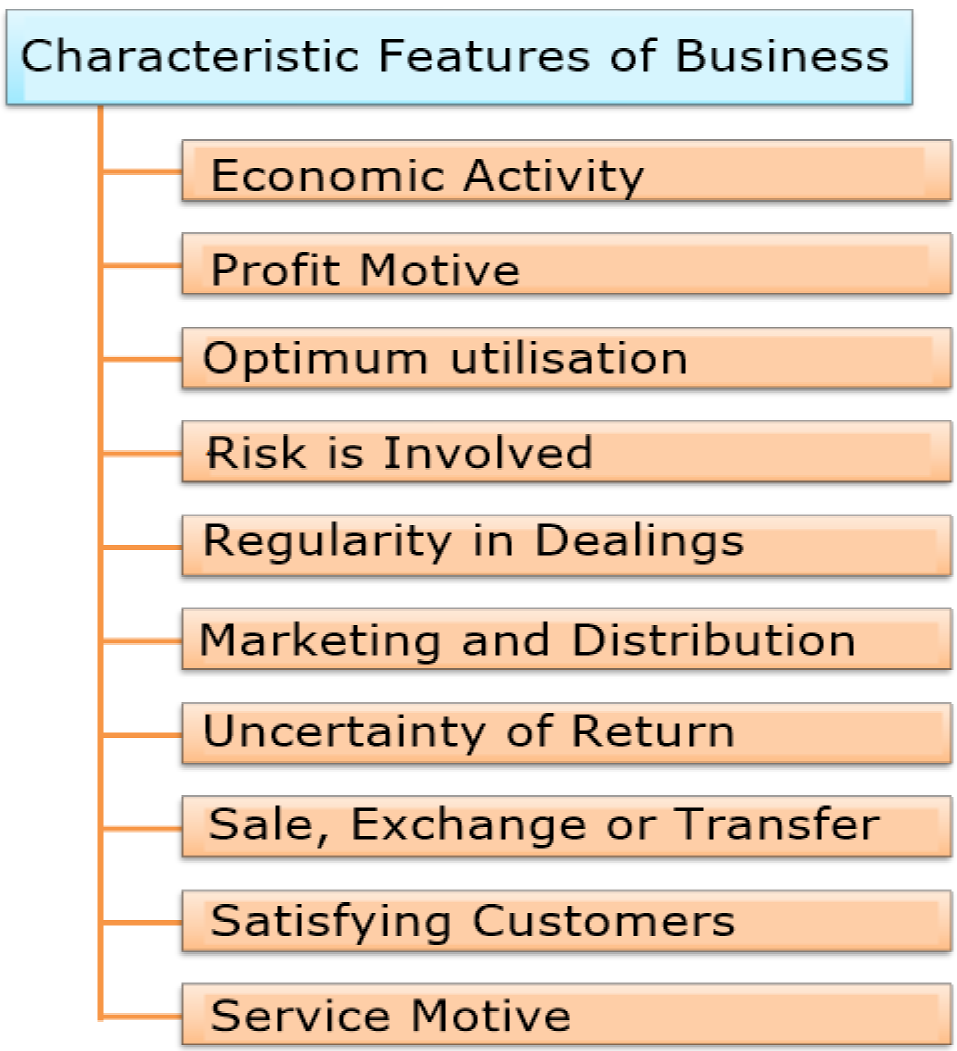
- The Competition Act, 2002
- Foreign Exchange Management Act, 1999

- The Environment Act, 1986
- Indian Companies Act, 1956
- Consumer protection Act

10. Optimum utilisation of resources:

Business facilitates optimum utilisation of countries material and non-material resources and achieves economic progress. The scarce resources are brought to its fullest use for concentrating economic wealth and satisfying the needs and wants of the consumers.

CHARACTERISTIC FEATURES OF BUSINESS



1. **An Economic Activity:**
    - A business is an economic activity which includes the purchase & sale of goods or rendering of services to earn money.
    - It is not concerned with the achievement of social and emotional objectives.

    Example: Wholesaler sell goods to the retailers and retailers sell goods to the customers.
2. **Manufacturing or Procurement of Services and Goods:**
    - Before offering goods to the consumer for consumption it should be manufactured or procured by businesses.
    - Business enterprise converts the raw material into finished goods.
    - Organizations also procure finished goods& services from the producers to meet the needs of the customers in the market.
    - Goods can be a Consumer good like sugar, pen, ghee, etc. capital goods include machinery, furniture, services like transportation, banking, etc.

    Example: Individual retailer buys the toffees from wholesalers in a specific quantity and sells it to the ultimate consumer.
3. **Exchange or Sale of Goods and Services for the Satisfaction of Human Needs**
    - Every business activity includes an exchange or transfer of services and goods to earn value.
    - Producing goods for the goal of personal consumption is not included in business activity.
    - So, there should be the process of sale or exchange of goods or services exits among the seller and the buyer.

    Example: A lady who bakes pastries and cakes at home and sells it to the pastry shop is a business activity.
4. **Dealings With Goods and Services on a Daily Basis:**
    - Every business, rendering either services or goods should deal on a daily basis.
    - A one-time sale is not considered a business activity.

Example: If a person sells his old car through OLX even at a profit will not be considered as a business activity. But if he is engaged in regularly trading of cars at his showroom will be considered as business activity.

5. **Profit Earning:**
   - No business can last for long, without making a profit.
   - The purpose to conduct the business is to earn profits and minimize the cost.
     Example: A business house tries to reduce the cost of production and the cost of raw material to earn high profits.
6. **Uncertainty of Return:**
   - The possibility of earning profit or loss is very uncertain and can't be anticipated by the entrepreneur.
   - Hence, no business can totally do away with risks.

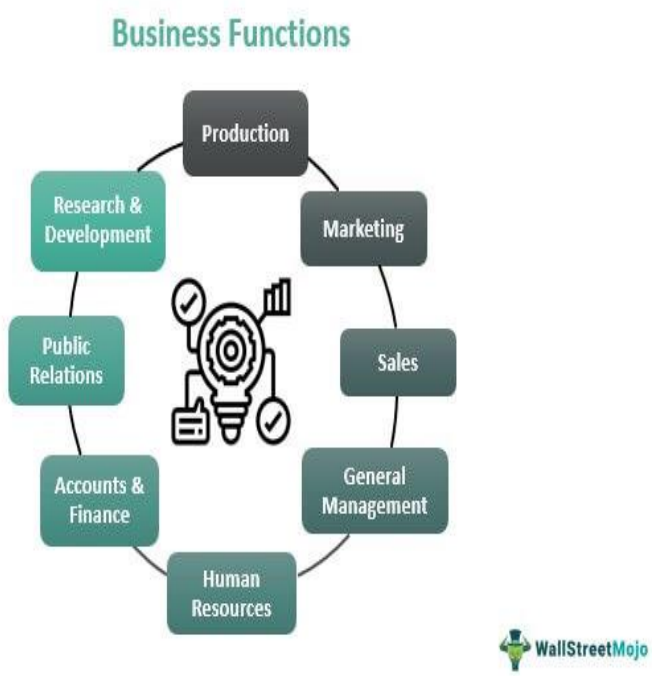
OBJECTIVES OF BUSINESS

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.

- **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.
- **Provision of credit by banks:** Commercial banks and specialized institutions are providing credit facilities to traders for producing goods and doing business on large scale.
- **Communication and transport:** The fast-developed means of Communication and transport help traders these days in providing goods to customers at the right times, right place, and at the right price.
- **Insurance:** The various types of business risks which may happen due to fire, theft, flood, earthquake, strikes, etc. can be insured, and the loss if any arising out of the risks and be recovered. So insurance has given stability to the business.

FUNCTIONS OF BUSINESS



The various functions of business can be grouped into the following broad categories:

1. Production Function
2. Marketing Function

3. Finance Function;
4. Human Resource Function;
5. Management Information Function;
6. Innovation (Research & Development).

1. Production function:

Production is the creation of goods and services with the help of certain processes. The production of goods depends essentially on the organisation of men, money, materials, and facilities into a smoothly operating business. In modern organisations, production is highly organised, mechanized, and specialised mass production, and, therefore, its overall charge is entrusted to the Production Manager.

A production manager has four basic responsibilities in this regard:

- to ensure the production of goods and services in specified quantities,
- to meet the specified time schedule or delivery dates,
- to fulfill the quantity requirements, and
- to perform all production operations at the minimum cost.

In order to fulfill these responsibilities, the production manager has to perform a number of functions, such as production planning, production engineering (concerned with design of tools, jigs, and installation or equipment), plant layout, plant building, materials handling, purchasing, inventory management, work improvement and work measurement, production control, and the maintenance of physical environment of production.

2. Marketing function:

Marketing is the process of getting goods and services into the hands of the consumer with a view to satisfying the needs and desires of consumers and producers. In other words, the marketing function creates a process through which producers and consumers are brought together in an exchange relationship and transfer of ownership takes place.

For this, the marketing manager must make judicious decisions regarding 4 P's:

- product (decisions about new product development, packaging, branding, etc.);
- physical distribution (decisions about marketing channels, and policies and procedures relating to warehousing, transportation, etc.);

- promotion (involving advertising, salesmanship, sales promotion, and publicity); and
- pricing (policies and procedures relating to the setting up of profitable prices).

3. Finance function:

Finance function of business is basically responsible for three decisions and their proper implementation, viz.,

- investment decisions (financial planning, capital budgeting, etc.)
- Financial decisions (capital structure—fixed and working; short and long-term and
- dividend decisions.

Business maintains relationship with financial markets including institutions and major shareholders and also takes care of other concerns such as share buybacks, capital raising sources of borrowings and risk management.

4. Human Resource (HR) function:

The HR function deals with the human side of business. It is concerned with increasing the effectiveness of human performance in any organisation. Specifically stated, the HR function aims at obtaining arid maintaining a capable and effective workforce, motivating the employees individually and in groups to contribute their maximum to the fulfilment of organisational goals.

In order to accomplish the goals of dynamic HR management, the HR manager has to undertake the following functions :

- selection—determination of manpower requirements, job analysis, nature and sources of recruitment, employee selection, and induction and follow-up;
- training—human resource development;
- promotions and transfers,
- employee compensation—wage and salary administration;
- employee involvement and welfare activities; and
- industrial relations—industrial discipline, industrial unrest, trade unionism, and workers' participation in management. For the accomplishment of these functions, the personnel department renders specialised services.

5. Information function:

Like production, marketing, finance, and human resource, the information function is equally important in a modern business. It is being increasingly recognised that the modern business cannot be managed without the assistance of efficient information function. The information function is basically concerned with records.

The net result of the preparation of records is the generation of a mass of "information", and therefore, the purpose of information function is to collect, generate, and communicate, in clearly and easily intelligible form the information to all those who need it, especially to executives for purposes of decision making and policy formulation.

Thus, information cell acts as a storehouse of valuable information and real brain behind every activity of a business concern. The responsibility of performing this function should be entrusted to the information manager in the organisation because information function is a specialist function requiring an expert knowledge and technical skill in this area of the operation. The scope of information function in a modern business is very wide.

- The information manager is generally burdened with the following three broad functions: information function (receiving and collecting, recording and preserving, arranging and analysing, and providing information);
- operational function (such as systems and procedures, records management, etc.); and
- public relations function.

6. Innovation:

"An innovation is the implementation of a new or significantly improved product (good or service), or process, a new marketing method, or a new organisation method in business practice, workplace organisation or external relations." Thus, innovation, which means creativity as well, is more of a philosophy and the entire business function needs to adopt it.

Here in terms of new product development we are talking about Research and Development. In this age of increasing rivalry among competing firms, the importance of innovation is hardly exaggerating. Normally businesses innovate through product or process.

Innovation often is stimulated by creative thinking on the part of people who are willing to think 'outside the box'.

DIFFERENCE BETWEEN INDUSTRY AND COMMERCE

Business is an economic activity, concerned with the provision of goods and services with an aim of earning a profit. There is two major classification of business activities, i.e. industry and commerce. The **industry** is all about the production of goods, whereas **commerce** focuses on their distribution of goods and services. Industry implies all the activities that are concerned with the conversion of raw materials into finished goods. Conversely, commerce aims at providing goods at the right place, in proper quantity, in the right condition and at right time. **Trade** simply means buying and selling of goods and services in return for money or money's worth. The scope of commerce is wider than that of trade, which not only refers to the exchange of goods and services but also includes all those activities that are vital for the completion of that exchange.

Definition of Industry:

Economic activities associated with the procurement or extraction of raw materials and converting them into finished products which reach the final customer is known as an industry. The term 'industry' is used to denote those activities which involve the use of mechanical appliances and technical skills, i.e. activities with the manufacturing, production, and processing of products. It indicates the supply side of the market. The activities covered under industry are as under:

- Extraction of materials such as coal, petroleum etc.

- Conversion of raw materials into useful goods like soaps, fans, cement, etc.
- Construction of buildings, dams, roads etc.

The industry represents a group of factories, specialized in a specific product line. The different types of industries are as under:

1. **Primary Industry**: Industry concerned with obtaining and providing natural raw materials like mining, agriculture or forestry.
2. **Secondary Industry**: Industry engaged in conversion activities, i.e. converting raw material provided by primary industry, into finished products.
3. **Tertiary Industry**: Industry that provides support services to the primary and secondary industry.

Definition of trade:

In trade, the ownership of goods or services is transferred from one person to the another in consideration of cash or cash equivalents. Trade can be done between two parties or more than two parties. When the buying and selling take place between two persons, it is called bilateral trade whereas when it is done between more than two persons, then it is called multilateral trade.

Earlier the trade was little cumbersome since it followed the barter system where goods were exchanged in return of other goods or commodities. It is hard to evaluate the exact value because of the different commodities type involved in the exchange. With the advent of money, this process became more convenient for both the sellers and buyers.

Trade can be domestic as well as foreign. Domestic trade means within the border of the country, and foreign trade means across the borders. Foreign trade is done through investment in securities or funds and can be termed as imports and exports.

Definition of Commerce:

Commerce includes all the activities that help in facilitating the exchange of goods and services from the manufacturer or the producer to the ultimate consumers. Majorly the activities are transportation, banking, insurance, advertising, warehousing, etc. that act as an aide in the successful completion of the exchange.

Once the products are manufactured these cannot reach directly to the customer, the same has to pass through a series of activities. The first wholesaler will purchase the product, and with the use of transportation, the goods will be made available to the stores and at the same banking and insurance service will be availed by him to have protection against the loss of goods. The retailer will then sell to the ultimate consumer. All these activities come under the commerce head.

In short, it can be said that commerce is the branch of business that helps to overcome all the hindrances that arise in the facilitation of exchange. Its major function is to satisfy human wants both basic and secondary by making the goods available to different parts of the country. No matter where the goods have been manufactured the commerce has made it possible to reach the world – wide.

Industry	Commerce	Trade
	1. Meaning	
The industry is concerned with the production of goods and services.	Commerce is the process of the distribution of goods and services.	Trade means the transfer of ownership of goods and services.
	2. Utility	
The Industry creates form utility.	Commerce creates a place and time utility.	Trade creates possession utility.
	3. Scope	
It includes all the activities needed to produce the final product.	It includes aids to trade.	It includes home trade and foreign trade.

4. Requirement of capital		
a large amount of capital	Lesser capital as compared to industry.	Less capital depends on the nature of the business.
5. Risk		
more risk is involved	Less risk as compared to the industry.	Least risk
6. Ownership and control		
by industrialists	By merchants	By traders
7. Place of workforce		
Place of work for industry takes place in Firms, factories, mines, workshops.	There is no particular place as distribution takes place in the form of means of transport. (From one place to another)	Trade takes place in the market

DIFFERENCE BETWEEN BUSINESS AND PROFESSION

Human activities are primarily classified into two categories, i.e. economic activities, and non-economic activities. Economic Activities are the activities conducted with an aim of earning money or livelihood. Further, these activities are sub-divided into business, profession and employment. There is a huge difference between business and profession in the sense that there is no minimum qualification required for starting a business. It means an activity that is related to buying and selling of goods.

On the other hand, a profession is nothing but a paid occupation that requires a person to be formally qualified, expert and trained in a particular field to be called as a professional.

Definition of Business:

'Business,' a term which has its origin from the word 'busy,' that refers to the act of being busy. In simple terms, business is the regular occupation of a person in which they engage in an activity to earn the profit and acquire wealth.

The business represents an entity involved in production or purchase and sale of merchandise and supply of services, for the purpose of satisfying the needs of customers. It can be a for-profit entity, like publicly owned or privately owned company or not-for-profit entity. There are mainly five forms of business organisation which are Sole Proprietorship, Partnership, Cooperative Societies, Joint Hindu family business, and Joint Stock Company. The main characteristics of business are:

- An economic activity
- Production or purchase and sale of goods and services on a regular basis.
- The main purpose is to earn profit
- Uncertainty of return
- Presence of element of risk

Definition of Profession:

The profession is defined as a paid occupation in which a person is formally qualified and has undergone prolonged training, render services to general public. It refers to any activity that requires expertise in specialised knowledge and skills acquired by way of formal learning and practical experience, to be applied by the individual in their respective occupation. Some common examples of the profession are Doctors, Lawyers, Chartered Accountants, Engineers, Architects, etc.

To be called as a professional, a person should be a registered member of a profession. In every profession, there are certain rules called as the professional code of ethics; that governs it. The purpose of a profession is to provide services to those who need it, for a direct and certain compensation called fee.

Basis for Comparison	Business	Profession
Meaning	Business is an economic activity concerned with the production or purchase and sale of merchandise and rendering of services with the purpose of earning profit.	Profession is a form of economic activities, wherein special skills, knowledge and expertise is required to be applied by the person, in his occupation.
Basic objective	Earning profit	Rendering services

Establishment	On the decision of entrepreneur and fulfillment of legal formalities.	Membership of the respective professional body and certificate of practice.
Qualification	No minimum qualification	Specialized knowledge of study is required.
Capital	Required as per the size and nature of business.	Limited capital is required.
Reward	Profit	Professional fee
Code of conduct	No prescribed code of conduct.	Code of conduct prescribed by the professional bodies needs to be followed.
Advertisement	Products and services are advertised to increase sales.	Advertisement is prohibited as per professional code of conduct.
Transfer of interest	Possible	Not possible
Risk factor	Always present	Not always present

UNIT-II

PROMOTION OF BUSINESS

QUALITIES OF A SUCCESSFUL BUSINESSMAN

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 organisation. He should have a thorough understanding of different functional areas. The knowledge of business should be supplemented by the knowledge of trade, finance, marketing, mercantile laws. The knowledge of all these aspects is essential to tackle complex business problems.

2. Impressive Personality:

A pleasing personality is always an asset. Personality includes various qualities and talents which arc necessary for making a businessman successful. The businessman should be able to impress people and should be able to get all round co-operations from them. He should be friendly with his employees and customers. The pleasing manners of a person also encourage others to have business dealings with him. On the contrary, people avoid to deal with a man with bad manners and short temper.

3. Hard Working:

A businessman should be hard working. There is no substitute for hard work. Success and hard work go together. He should be dedicated to his work. His hard work will motivate his employees to work with the same zeal. A person who himself shirks hard work will not be able to get more work from others.

4. Co-operative:

A businessman has to deal with many complex problems. He has to seek the co-operation of a large number of persons in solving his problems. The dependence on others is a necessity in the present day business world. The businessman should co-operate with others and should also have the capacity to get co-operation from them. He should be able to adapt himself to all kinds of people and situations.

5. Courageous:

One has to deal with a number of problems in the business. Sometimes, there are conflicting demands from different sides. The consumers, employees and government want the businessman to be considerate to their demands. He has to reconcile various interests. The courage and foresightedness of the businessman will help him to take important decisions. He should not feel helpless in the face of difficulties. Business is not an easy task these days. Only those persons will be successful who will have the capacity to face difficulties with a smiling face.

6. Initiative and Decision-making Power:

A businessman has to tackle many problems every day. He has also to take difficult decisions. He should have the ability to decide things at the proper time. He has to channelise the energies of the group in a bid to achieve organisational goals. He should take initiative in tackling various problems and should take them as a challenge

7. Cordial Relations with Employees and Customers:

Customers and employees are an integral part of the business. He should tactfully deal with their problems. "Customers' satisfaction" is essential to stay in business. He should try to understand the likings and dis-likings of his customers and should try to satisfy them. He should also try to understand the difficulties of his employees. They should be given incentive for doing more work. Cordial relations with employees and customers will help him to build up goodwill for the business.

8. Honesty:

This is one of the most essential qualities a businessman must have. He should be honest in his dealings with others. If a businessman sells his goods on false promises or on the basis of advertisements, he will not be able to retain the customers for long. On the other hand, if he is honest with his customers he will be able to earn good reputation for his products. A dishonest businessman will not be able to befool the customers for ever.

9. Assumption of Responsibility:

A businessman should assume responsibility of various activities of his subordinates. As a leader he exercises all authority and responsibility. He should fry to shift burden or responsibility on others. The subordinates should not feel let down in the moments of trail. This quality will give confidence to the employees and they will face things more courageously.

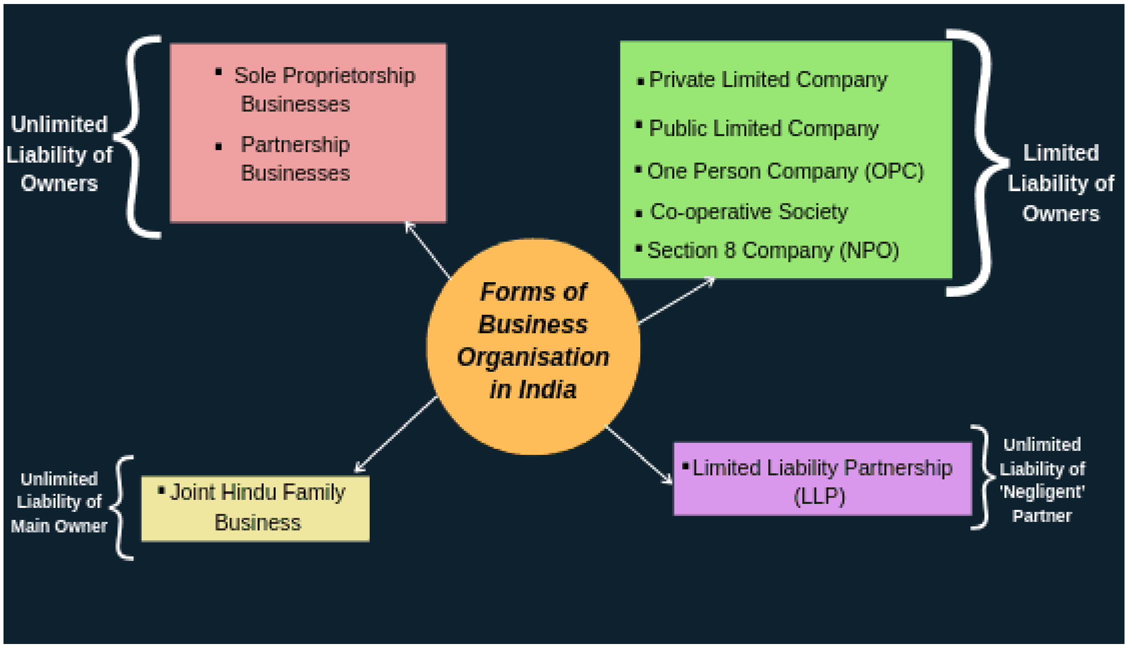
10. Disciplinarian:

Discipline is an essential trait in the personality of successful businessman. He should give a lead to his employees. He should follow various rules and regulations strictly. First, he should be disciplined, only then he can expect others to be disciplined. No organisation can work without discipline.

11. Adaptability:

A businessman should be able to adjust according to the situations. There may be a frequent change of situations. He is expected to face a few challenges with courage. He should not lose heart and should be able to adapt to new environments. A business cannot be operated under static conditions. All types of changes arc witnessed in business activities. The changing business world demands dynamism in the businessman. So, a good businessman should be able to adjust himself according to the necessities of the situations.

FORMS OF BUSINESS ORGANISATION



There are many forms in the business world, but the most common forms of business organisation are.

1. INDIVIDUAL OWNERSHIP OR SOLE PROPRIETORSHIP

This is the simplest and oldest form of business organisation. In this type of business organisation the individual entrepreneur supplies the entire capital, employs labour and machines. The entire authority and responsibility in the matter of decision making and working belongs to him and all profit and losses are of his own.

This type of enterprise can be started by anyone having initiative, selling aptitude and little capital to enter into business. It is owned managed and controlled by only single man hence it is also known as Individual Ownership. In such organization owner himself is responsible for all the liabilities. Hence creditor can collect the money even from his personal property.

Applications:

This form of ownership is most satisfactory in the following cases:

- For small scale business requiring small amount of capital which can be easily arranged by one man, e.g. small scale industry, commercial shop, retail trade or professional services.
- Where risk involved is not too heavy.
- Where one man management is possible.
- Where local market is available.

Advantages:

- **Simple and Easy to Manage:** This type of ownership is simple in nature and easy to manage.
- **Least Legal Restrictions:** It does not require much legal formalities or complicated procedures to start the business.
- **Quick Decisions and Prompt Actions:** Since the whole business is controlled by one man, therefore, he can take decisions quickly and implement them in right time.
- **Quality Production:** Personal attention and supervision of the owner leads to quality production.
- **Better Labour Relationship:** In view of small business and close contact between owner and workers good employee-employer relationships are maintained.

- **Personal Attention to Customer Complaints:** It is possible to pay personal attention to customers and their requirements and to give them entire satisfaction regarding their complaints about the product as the business is small.
- **Small Capital:** Talented men of a small means can start business as small capital is required.
- It is easy to maintain business secrets as it is one man show.

Limitations:

- Amount of capital that is required for investment is small, therefore, modern factory cannot be started with this system of organization.
- Work suffers since the owner cannot be master of all techniques like management, sales and engineering processes.
- Owner cannot take risk to start big business due to unlimited liabilities.

2. PARTNERSHIP ORGANIZATION

Some drawbacks of private companies are removed in this type of business organisation to a considerable extent.

Partnership is the relationship between the people interested in starting a business and they combine together to increase their resources i.e., capital, labour, ability and skill. The success of partnership depends upon understanding cooperation and adjustment of the members to accommodate and appreciate each other's view. All business partners should work hard to earn greater and greater profit.

Partnership business is owned by two or more (up to 20) who share the powers, responsibilities and profits according to an agreement reached among them.

A person may possess exceptional business ability experience and talent but no capital, he can have a financial partner. Similarly a financier may require a managerial expert as well as a technical expert and all of them may form a partnership enterprise.

Types of Partners:

- **General Partners:** All partners who are in the partnership business are known as general partners.
- **Active Partners:** Active partners are those who take active part in the management and formulation of policies.
- **Sleeping and Silent Partners:** Persons who just invest money and do not take any part in the management are silent partners. They are liable for all liabilities of the enterprise as partners and they get their share in the profit of the firm.
- **Nominal Partners:** They lend their reputed name for the company's reputation. They do not invest any money and do not take any active part in the management. Nominal partners may however associate themselves only after ascertaining the soundness of the business.
- **Secret Partners:** These partners take part in the management secretly but nowhere their names appear.
- **Minor Partners:** Minor partners are those whose age are below 18 years and associated with the business. Such partners can be allowed only with the consent of other members. His liability is limited to their investment only.

Advantages:

- The formation of partnership is easier as compared to joint stock companies. It does not involve much legal formalities and heavy expenditure of registration and stamp duty.
- This type of organization enjoys more freedom and is not subject to strict Govt., checks.

- The amount of capital collected is more due to large number of owners than that in case of sole trade organization.
- In this type of organization people possessing different abilities and skills may come together. Thus money and knowledge both are combined to earn profit.
- A problem is examined from more than one point of view therefore, the decisions taken are likely to be sounder than in one man business.
- The working of the enterprise can be easily kept secret and confidential.

Limitations:

- Due to unlimited liability, risk involved is more. This frightens away moneylenders.
- After the death or retirement of a partner, the partnership may come to an end.
- It can raise much less capital as compared to Joint Stock Company. Therefore, it is unsuitable for modern industries requiring huge capital and a large number of managerial abilities
- A partner may withdraw from the firm and establish his own enterprise with the knowledge of the secret of the business.
- All the partners are jointly and severally liable for the acts of the partner, who is in charge of management. Thus mistake of one partner may cause a big loss to all the partners.
- The profits are shared by the partners. So there is no incentive for hard work. Sometimes, it encourages lavish expenditure.

Formation of Partnership:

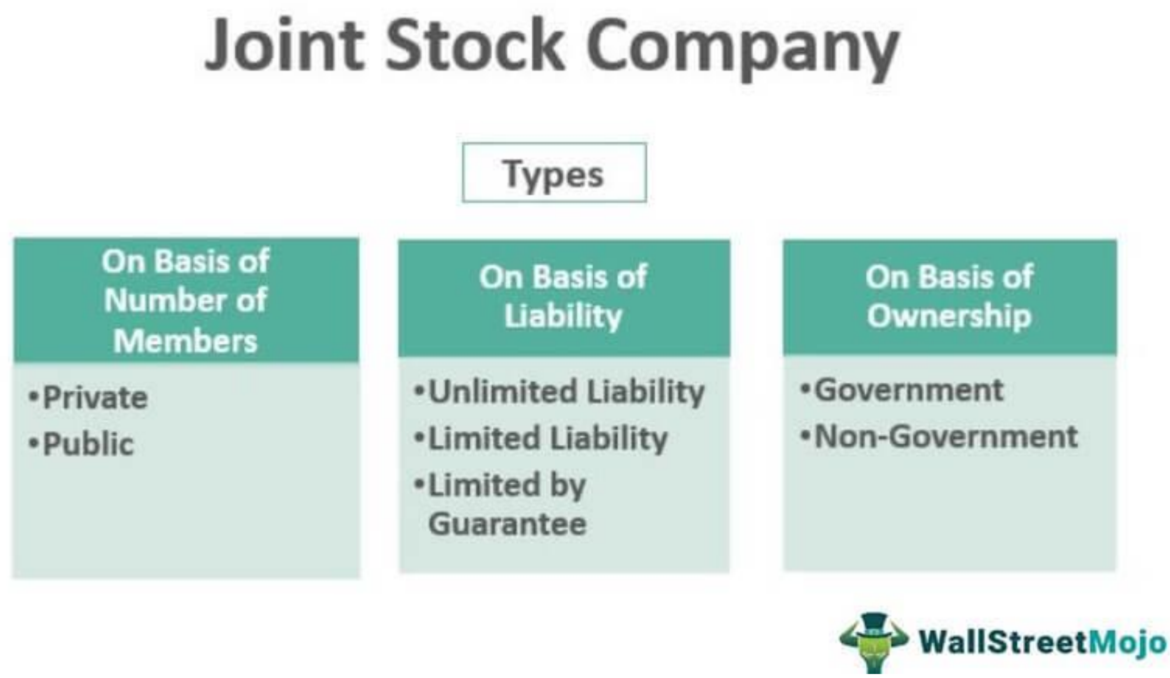
Partnership can be formed either verbally or by written agreement but to avoid the possibility to conflict at later stage, it is desirable to enter into written agreement. The written agreement is called “Partnership Deed”. The partnership deed contains the terms and conditions relating to partnership and the regulations governing its internal management.

The partnership deed should have the following details:

1. Name of the firm.
2. Nature of the business.
3. Date of starting partnership.
4. Duration of partnership.

5. Money contributed by each partner.
6. Allotment of managerial functions among the partners.
7. Share of profit and losses.
8. Salary if any allowed to managing partners.
9. Rate of interest on capital investment, if any.
10. The amount which can be withdrawn by each partner.
11. The basis for inclusion of any new partner.
12. Accounts of the firm and authority for signing cheques, bills of exchange etc.
13. The aim of partnership as well as the manner in which it can be dissolved.
14. Loans and advances plus interest on them by partners, if any.
15. Provision for arbitration for setting the disputes which may arise in future.

3. JOINT STOCK COMPANY



With the change in the scale of production from small scale to large scale and with the widening of the market from local to national and international, the individual ownership and partnership firm with their limited financial resources, limited managerial skill and unlimited liability failed to meet the requirements of joint stock companies. They have limited liability.

In this type, capital is contributed by a large number of persons in the form of shares of different values. The capital is raised by selling shares of different values. Persons who purchase the share is known as shareholders and the managing body is called “Board of Directors” are elected by these shareholders.

The board of directors is responsible for policy making, taking important financial and technical decisions for efficient working of the enterprise.

In this form of business organisation liability of the shareholder is limited to the extent of the amount of shares held by him and he is free from the responsibility of debts and claims on the company beyond the value of shares. People of all sections are encouraged to contribute for the company because of this benefit. These shares are transferable.

Types of Joint Stock Companies:

There are two types of joint stock companies:

1. Private Limited Company.
2. Public Limited Company.

(a) PRIVATE LIMITED COMPANY

This type of company can be formed by two or more members. The maximum number of membership is limited to 50 (excluding the employees). The company is registered under Indian Company's Act 1956. In this the transfer of shares is limited to members only and general public cannot be invited to purchase shares. Normally, the members of such a company are friends and relatives.

In this system' persons who want to make use of limited liability and at the same time keep the business private, forms the Private Ltd. company. Most of the middle sized industries are run in this manner.

The Private Ltd. Company need not circulate the Balance Sheet Profit and Loss Account etc. among its members but it should hold its annual general body meeting and place such documents (financial statement etc.) in the meeting. The government does not interfere in the working of the company.

(b) PUBLIC LIMITED COMPANY

As indicated by its name, the membership of public limited company is open to general public. The minimum number required to form such company is seven and there is no upper limit. Such companies can advertise, to offer its shares to general public.

Such companies are subject to greater control and supervision by the Government. This control is essential to protect the interest of the shareholders and members of public. Shares are transferable without any prior approval.

The affairs of company are managed by an elected body called Board of Directors. The number of members of Board of Directors is limited to seven. Liquidation: If the liability becomes much more than assets and when creditors press for payment of loans, it becomes difficult to run the company. At this time, the company has to be dissolved. This is called liquidation.

Liquidation may be voluntary or compulsory or under the supervision of the Court. If the resources do not permit the payment, then the assets of the company have to be sold after that the amount is paid to the creditors, in proportion. If some amount is left after payments then it is distributed among the shareholders.

Amalgamation:

An amalgamation is a combining together of two business. It usually results in more efficient operation because of economics of large scales, administrative and marketing economies etc.

Certainly both parties in a proposed amalgamation will have some existing assets and liabilities which could be set out in a balance sheet or statement of affairs at the date of amalgamation. The existing condition may or may not be acceptable to the proposed partner. Generally, some adjustment will be made to one or both the balance sheets to adjust the objections raised by the other party.

Finance Generation for Joint Stock Companies:

Money may be required for expansion, replacement, alteration and to keep the business running. The required capital is supplied by individuals, societies and associations. Funds can also be arranged from banks and financial corporation's etc. in the form of loans. Following are the other sources which can provide money for the enterprise.

- **Issue of Shares:** A part of the capital required may be collected in the form of shares.
- **Issue of Debentures:** When company desires to raise the required finance through loans instead of shares then debentures are issued. These are advantageous because debenture holder cannot claim ownership and they are paid interest only. Debentures may be issued for meeting initial requirements or for development purposes.
- Bank Loans.
- State loans from Industrial Development Corporation, State Finance Corporation or from Industrial Corporations.

Advantages:

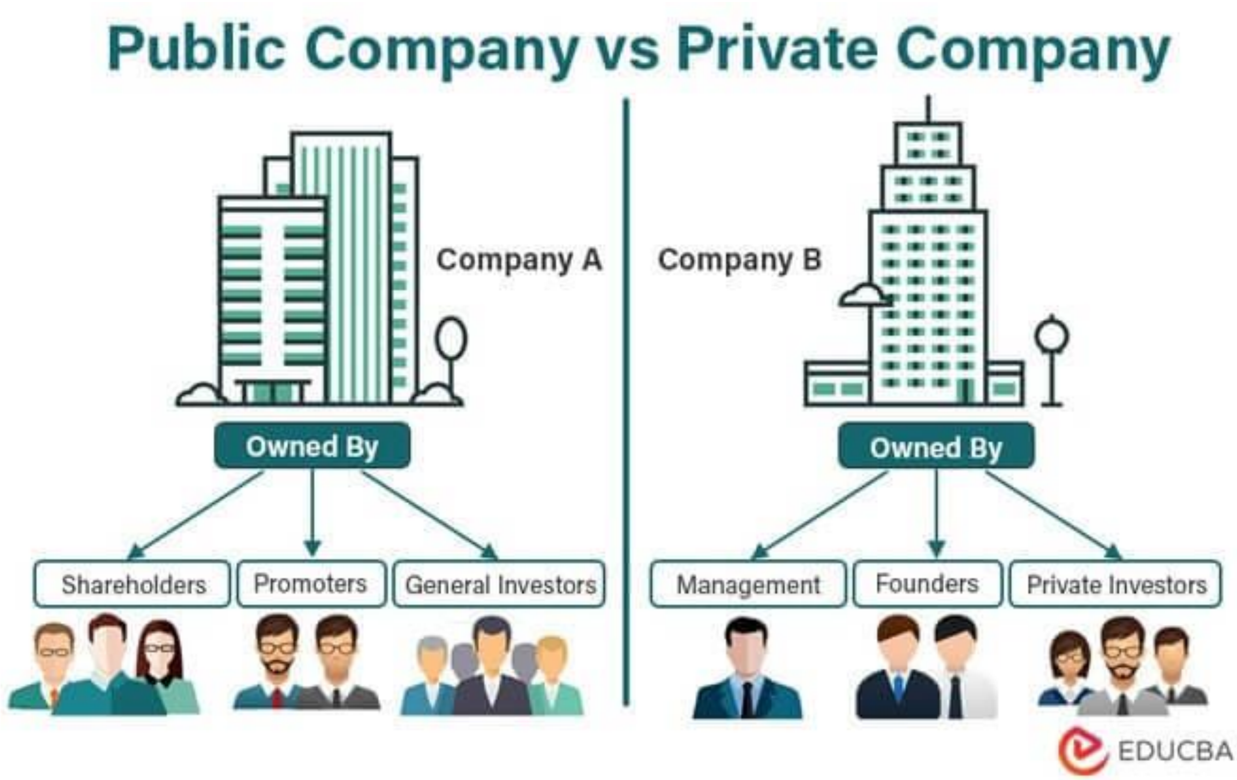
- The shareholders bear no risk as the liability is limited, more and more people are encouraged to invest capital.

- An average person can contribute capital without much hesitation because of large number of investors' risk of loss is divided.
- The work is divided among different groups of persons hence better work can be done.
- Administration can be run better as Joint Stock Company can bear the high salaries of good managing agents.
- Joint stock companies are not affected by the retirement of any of the shareholders.
- It possesses great potentialities for expansion.

Limitations:

- Lack of personal interest on the part of salaried managers leads to inefficiency and waste.
- With the intimate knowledge of financial position of the company there is sufficient scope for members of management for their personal profits. Because they can sell and purchase shares accordingly.
- It requires a large number of legal formalities to be observed.
- It is difficult to preserve secrets in the joint stock companies.

DIFFERENCE BETWEEN PRIVATE AND PUBLIC COMPANY



Public limited company:

According to the Companies' Act 2013, a public limited company is not private. This means a public limited company is a joint-stock company governed by the provision of the Indian Companies' Act 2013. There is no limit to the number of members, and it is formed by an association where people are voluntarily paid up to five lakhs rupees capital. There is no restriction in transferability, and in time of incorporation, the term public limited is added to its name. A public limited company offers shares to the public. It is more open to the public about its details and also listed in the stock market.

Private limited company:

According to the Companies' Act 2013, private companies are restricted from transferring their share. In simple words, a private limited company is a joint-stock company governed under the Indian Companies' Act 2013. It has limitations in the number of members. Still, the voluntary association of the company should be paid a minimum of 1 lakh rupees capital. The maximum number of members should be 200, and it does not include current or ex-employees who are not listed in the employment term. Employees are allowed to continue as a member after the termination of employment in the company. There is a restriction in transferring the shares. The term private limited is used in the name of the company.

Public company advantage:

- Directional insights from stakeholders
- Reduction in personal liabilities
- Improve branding and reputation
- Corporation link improvement and alternate growth
- Raise capital through public buyers

Public company disadvantage

- Potential loss of control
- A different direction for the business
- Stock market vulnerability
- Increase legal implication

Private sector advantages

- No minimum capital
- Limited liabilities
- Easy fundraising
- Easy shares transfer
- Uninterrupted existence
- Credibility building

Private sector disadvantages

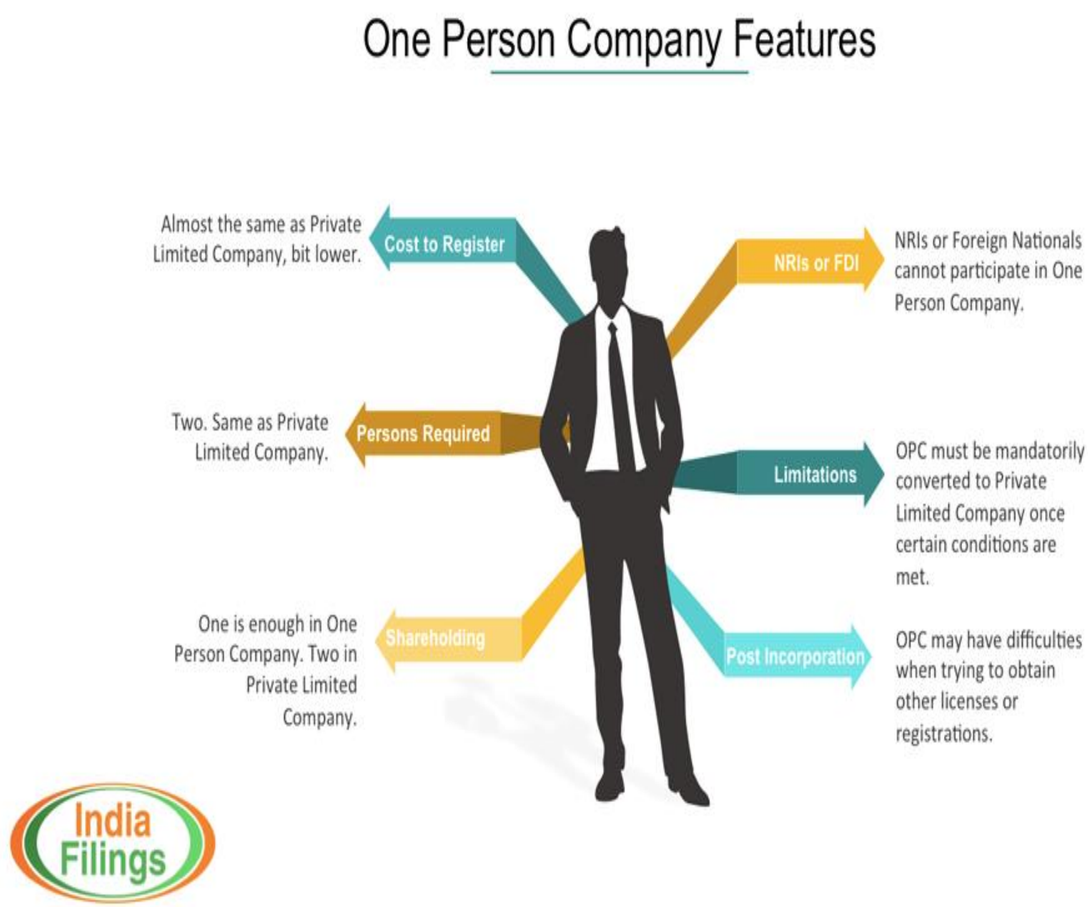
- Restricted transferability in shares
- The number of shareholders cannot be exceeded 50
- It cannot use the prospectus to the public
- Stock exchange share cannot be quoted

Basis for Comparison	Private Limited Company	Public Limited Company
Meaning	Private Limited Company refers to the company which is not listed on a stock exchange and the shares are held privately by the members concerned.	Public Limited Company implies a company that is listed on a recognized stock exchange and whose shares are traded openly by the public.
Minimum number of members	2	7
Maximum number of members	200, except in case of one person company	Unlimited
Minimum number of directors	2	3
Articles of Association	It must frame its own articles of association.	It can frame its own articles of association or adopt Table F.
Transfer of Shares	The shares of a private company	The shares of a public company are

	are **not freely transferable**, as there are restrictions in Articles of Association.	**freely transferable**, i.e. freely traded in an open market called a stock exchange.
Public Subscription	Issue of shares or debentures to the public is **prohibited**.	It **can invite** the public to subscribe to its shares or debentures.
Issue of prospectus	Prohibited from issuing a prospectus.	It can issue a prospectus or it can also opt for private placement.
Minimum amount of allotment	The company **can** allot shares, without obtaining minimum subscription.	The company **cannot** allot shares unless the minimum subscription stated in the prospectus is obtained.
Commencement of Business	The company **cannot** allot shares unless the minimum subscription stated in the prospectus is obtained.	It requires a certificate of commencement of business after it is incorporated.
Appointment of Director	Two or more directors can be appointed by a single resolution.	One Director can be appointed by a single resolution.
Filing of Consent to act as Director	Directors **need not** require the filing of their consent to act as a director.	Directors **must** file their consent to act as a director, within 30 days of appointment with the Registrar.
Retirement of Directors by rotation	The directors are **not required** to retire by rotation. The directors can be permanent.	2/3rd of the total number of directors **must** retire by rotation.
Place of Holding AGM	AGM can be held anywhere.	AGM is held at the registered office or any other place where the registered office is situated.
Statutory Meeting	Optional	Compulsory
Quorum	2 members who are personally present at the meeting, constitute a quorum, irrespective of the number of members.	**5** members are required to present in person when the number of members as on the date of the meeting is 1000 or less.

		15 members are required to present in person when the number of members as on the date of the meeting is more than 1000 but less than 5000. **30** members are required to present in person when the number of members as on the date of the meeting is more than 5000.
Exemptions	Enjoys many privileges and exemptions.	Enjoys many privileges and exemptions.

ONE PERSON COMPANY



The Companies Act, 2013 completely revolutionized corporate laws in India by introducing several new concepts that did not exist previously. On such game-changer was the introduction of One Person Company concept. This led to the recognition of a completely new way of starting businesses that accorded flexibility which a company form of entity can offer, while also providing the protection of limited liability that sole proprietorship or partnerships lacked.

On the basis of ownership, a company can be of three types: 1. One Person Company 2. Private Company 3. Public Company. The Companies Act, of 2013, introduced a number of ideas that had never before been used in Indian corporate law. One such major shift was the emergence of the one-person company concept. Before the new Companies Act was passed in 2013, several other nations had previously acknowledged the capability of people to create a corporation. China, Singapore, the UK, Australia, and the USA were a few of these.

Meaning of One Person Company:

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

It is incorporated as a private company which has only one member. Therefore, a corporation can be registered even when it only has one shareholder or member. The main aim of One Person Company was to encourage corporatization of micro-businesses and entrepreneurship. The JJ Irani Expert Committee recommended the formation of OPC in India, in 2005. It has all the benefits of a private limited company, such as a separate legal entity, protecting personal assets from the liabilities of the business and perpetual succession.

Definition:

Section 2(62) of Companies Act defines a one-person company as a company that has only one person as to its member. Furthermore, members of a company are nothing but subscribers to its memorandum of association, or its shareholders. So, an OPC is effectively a company that has only one shareholder as its member.

Such companies are generally created when there is only one founder/promoter for the business. Entrepreneurs whose businesses lie in early stages prefer to create OPCs instead of sole proprietorship business because of the several advantages that OPCs offer.

Difference between One Person Company and Sole Proprietorships

- An OPC and a sole proprietorship form of business might come across to be alike since both the forms of businesses have a single person involved who owns the business, but in reality, they are quite different from each other. The nature of the liabilities carried by both of them is the major difference between the two forms.
- OPC being a separate legal entity on its own which is distinctive from its promoter has its own liabilities and assets. The promoter cannot be held liable personally to pay off the debts of the company.
- Whereas, the sole proprietorship and its proprietor are the same. So, in the case of non-fulfilment of the liabilities of the business, the promoter's assets are attached and sold by the law.

Characteristics of a One Person Company:

The characteristics of One Person Company are as follows:

- Only a natural person, who is an Indian citizen and resident in India: a) shall be eligible to incorporate a One Person Company; b) shall be a nominee for the sole member of a One Person Company. The term 'resident' of India' means a person who has stayed in India for a period of not less than one hundred and eighty two days during the immediately preceding one calendar year.
- OPCs differ from other types of businesses in that the sole member of the company must appoint a nominee when registering the business. No person shall be eligible to incorporate more than one OPC or become a nominee in more than one such company.
- No minor shall become a member or nominee of the OPC or can hold share with beneficial interests.
- Under Section 8 of the Act, OPC cannot be incorporated or converted into a company.
- OPC cannot carry out non-banking financial investment activities, including investment in securities of any corporate.
- OPC cannot convert voluntarily into any kind of company unless two years have expired from the date of incorporation of One Person Company, except when paid-up capital is

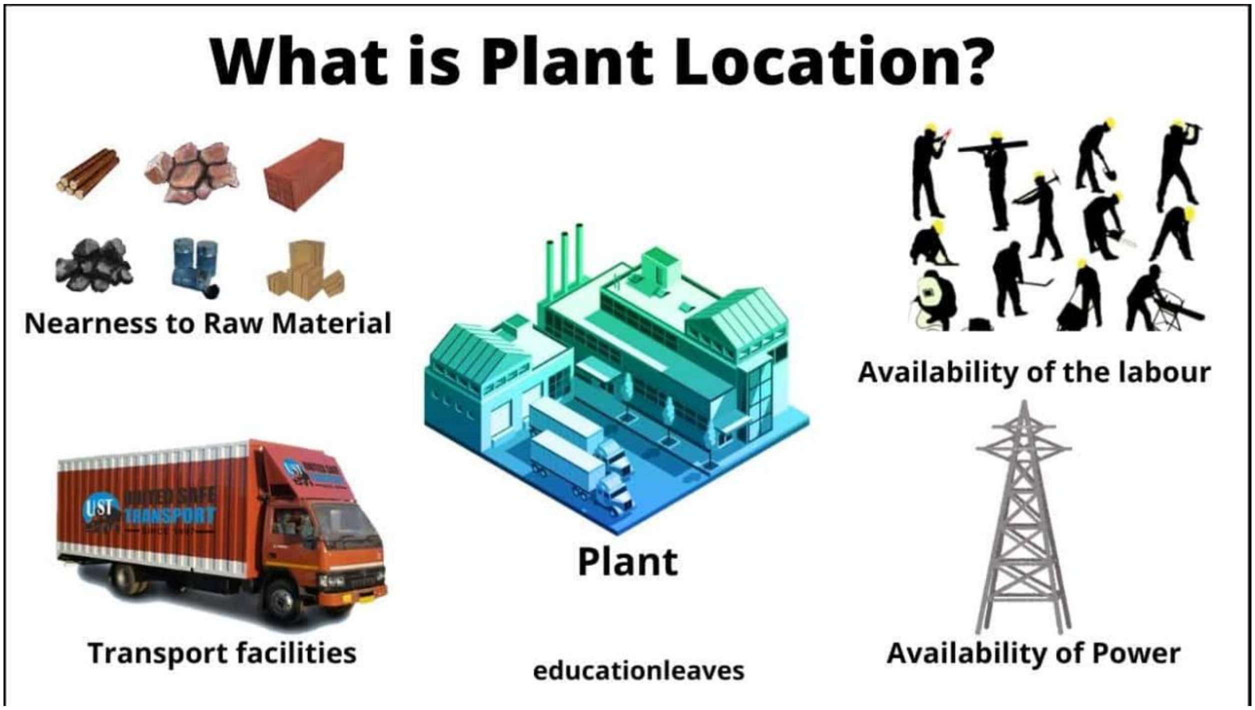
increased beyond 50 lakh rupees or its average annual turnover during the relevant period exceeds 2 crore rupees.

- When a natural person, being a member in OPC becomes a member in another OPC by virtue of his being a nominee in that OPC within a period of one hundred and eighty days, i.e., he shall withdraw his membership from either of the OPCs within one hundred and eighty days.
- The word “One Person Company” shall be mentioned in bracket below the name of such company, wherever its name is printed, affixed or engraved.

UNIT-III

PLANT LOCATION AND LAYOUT

PLANT LOCATION



A Plant Location is a place, where men, money, material, machinery, etc are brought together for manufacturing products.

Plant location refers to the choice of the region where men, materials, money, machinery and equipment are brought together for setting up a business or factory.

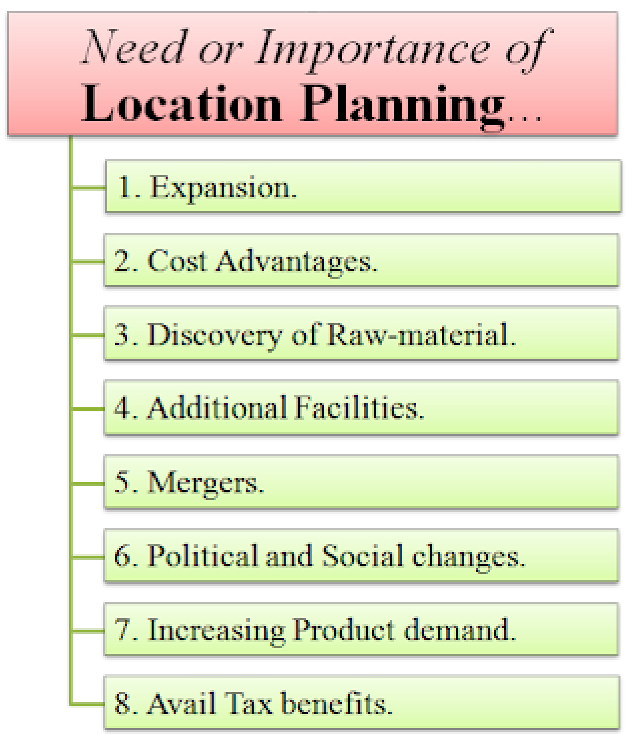
Identifying an ideal location is very crucial, it should always maximize the net advantage, must minimize the unit cost of production and distribution. Plant location decisions are very important because once the plant is located at a particular site then the organization has to face the pros and cons of that initial decision.

Plant location refers to the process of selecting a suitable site or place for establishing a manufacturing facility or industrial plant. It is a critical decision for businesses, as the location of a plant can significantly impact the company's overall success and competitiveness. Plant location considerations are important across various industries, including manufacturing, agriculture, energy generation, and more.

IMPORTANCE OF PLANT LOCATION

Location planning decisions are very important for all types of business units. This is because it affects the cost, selling price, and demand of the product. It is a non-recurring heavy expenditure. Large companies take the help of different professionals like lawyers, accountants, environmentalist, etc. for selecting the proper location of plant.

Plant location with thorough analysis leads the organisation towards success. The basic objective of organisation is to maximise the profit level. Hence, it will be beneficial for both i.e. newly established business and already established business. The profit maximisation can be done by increasing sales price, increasing sales with reduced production cost, by analysing market trend, nature and 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.

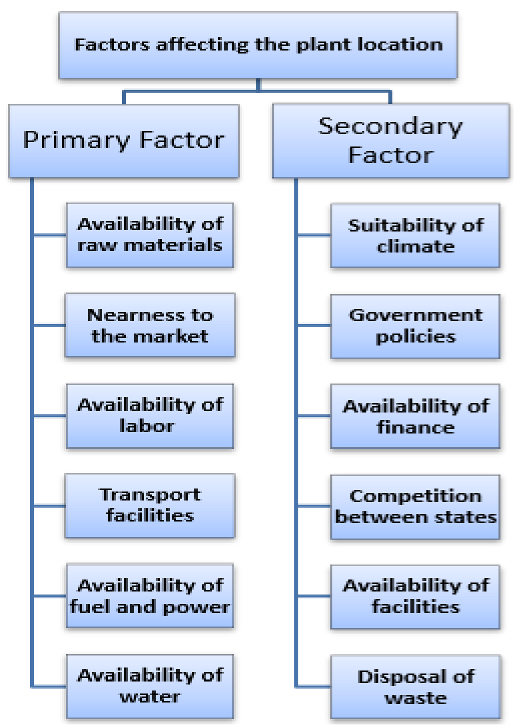


Location planning is important because it affects the cost, selling price, and demand of the product. It is a one time and non-recurring heavy expenditure.

- **Expansion**: If the company wants to expand and diversify its activities, it will have to search for a new-location for setting up its new business unit. In this case, it will need a location planning.
- **Cost advantages**: If an existing plant is not near a market place, it will increase the transport cost. This will also increase the cost of the product. So, to avoid this, the company will search for a new plant location which is near the market. Such location of plant must be convenient to the employees and must have a regular supply of water and electricity. Overall, this will result in reduction of the cost of production**.**
- **Discovery of raw-material**: Generally, a plant must be located at a place where raw-material is available. For example, if oil and gas are found at some place, then a new petrochemical plant has to be set up there for processing purpose.
- **Additional facilities**: Plant location-related decisions will have to be taken if the organization wants additional facilities. New facilities may be necessary to improve the quality of work, to meet rising demands, etc.
- **Mergers**: Mergers, joint-ventures, and Amalgamations may lead to start a new unit at a new-location. It may even require closure of an existing plant unit. In mergers, production is mostly started at a new place as per the new-agreement.
- **Political and social changes**: Each political party has its own philosophy. Political changes can lead to changes in economic policies of the government. This may make the existing location unattractive for doing business. Social changes may require production of eco-friendly goods. This may require a change in location.
- **Increasing product demand**: Demand for the company's product may increase at other places, especially in abroad countries. So, the company will have to start a branch in another state or in foreign countries. This would lead to a search for new location of plant.
- **Avail tax benefits**: Government may announce some tax benefits for starting a business in rural areas. This may motivate entrepreneurs to start their business units in remote areas.

- 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



I. Primary factors

- **Availability of raw materials:**

Availability of raw materials is the most important factor in plant location decisions. Usually, manufacturing units where there is the conversion of raw materials into finished goods is the main task then such organizations should be located in a place where the raw materials availability is maximum and cheap.

- **Nearness to the market:**

Nearness of market for the finished goods not only reduces the transportation costs, but it can render quick services to the customers. If the plant is located far away from the markets then the chances of spoiling and breakage become high during transport. If the industry is nearer to the market then it can grasp the market share by offering quick services.

- **Availability of labor:**

Another most important factor which influences the plant location decisions is the availability of labor. The combination of the adequate number of labor with suitable skills and reasonable labor wages can highly benefit the firm. However, labor-intensive firms should select the plant location which is nearer to the source of manpower.

- **Transport facilities:**

In order to bring the raw materials to the firm or to carrying the finished goods to the market, transport facilities are very important. Depending on the size of the finished goods or raw materials a suitable transportation is necessary such as roads, water, rail, and air. The transportation costs must be kept low.

- **Availability of fuel and power:**

Unavailability of fuel and power is the major drawback in selecting a location for firms. Fuel and power are necessary for all most all the manufacturing units, so locating firms nearer to the coal beds and power industries can highly reduce the wastage of efforts, money and time due to the unavailability of fuel and power.

- **Availability of water:**

Depending on the nature of the plant firms should give importance to the locations where water is available.

For example, power plants where use water to produce power should be located near the water bodies.

II.<u>Secondary factors</u>

- **Suitability of climate:**

Climate is really an influencing factor for industries such as agriculture, leather, and textile, etc. For such industries extreme humid or dry conditions are not suitable for plant location. Climate can affect the labor efficiency and productivity.

- **Government policies:**

While selecting a location for the plant, it is very important to know the local existed Government policies such as licensing policies, institutional finance, Government subsidies, Government benefits associated with establishing a unit in the urban areas or rural areas, etc.

- **Availability of finance:**

Finance is the most important factor for the smooth running of any business; it should not be far away from the plant location. However, in the case of decisions regarding plant location, it is the secondary important factor because financial needs can be fulfilled easily if the firm is running smoothly. But it should be located nearer to the areas to get the working capital and other financial needs easily.

- **Competition between states:**

In order to attract the investment and large scale industries various states offer subsidies, benefits, and sales tax exemptions to the new units. However, the incentives may not be big but it can help the firms during its startup stages.

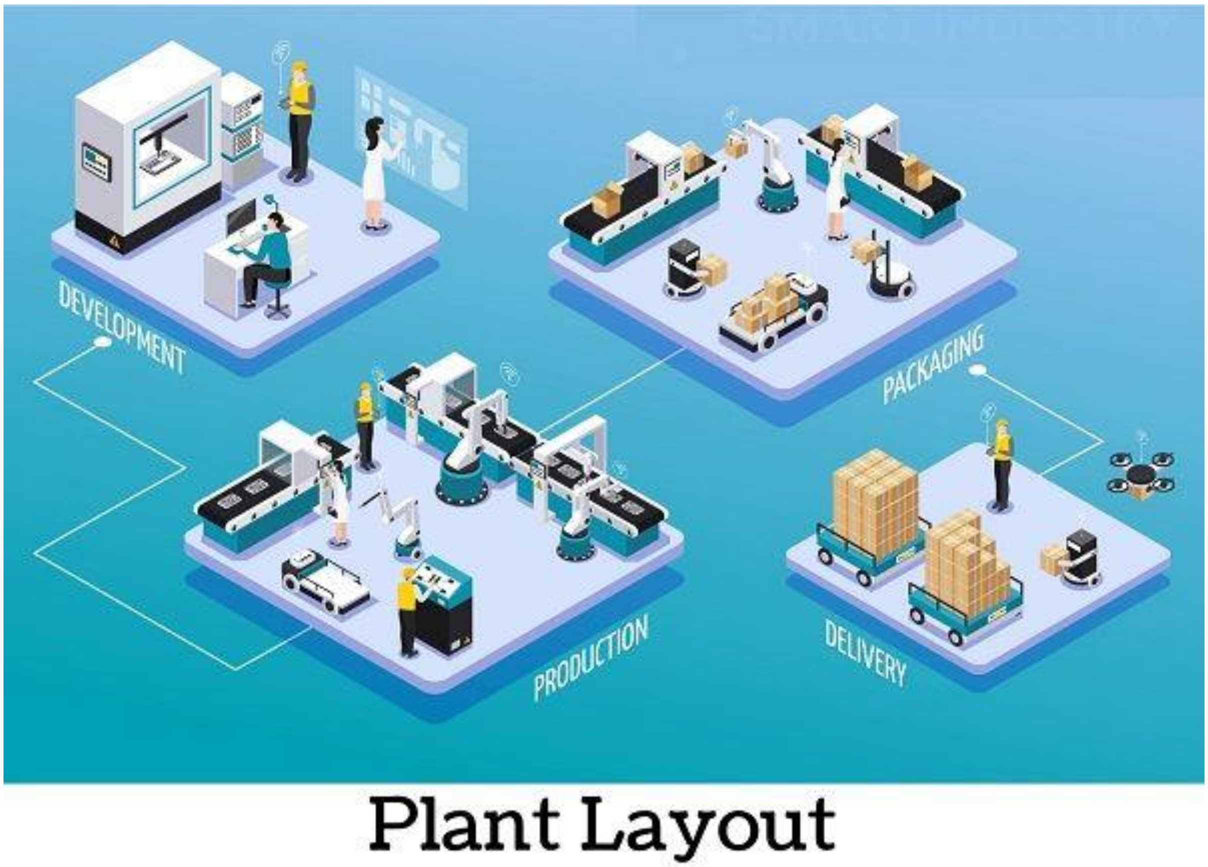
- **Availability of facilities:**

Availability of basic facilities such as schools, hospitals, housing and recreation clubs, etc can motivate the workers to stick to the jobs. On the other hand, these facilities must be provided by the organization, but here most of the employees give preference to work in the locations where all these benefits/facilities are available outside also. So while selecting plant location, organizations must give preference to the location where it is suitable for providing other facilities also.

- **Disposal of waste:**

Disposal of waste is a major problem particularly for industries such as chemical, sugar, and leather, etc. So that the selected plant location should have provision for the disposal of waste.

PLANT LAYOUT



Meaning of Plant Layout:

Once a suitable location of the plant has been decided upon, the next important issue is the design of the layout. Plant layout is the plan for arranging the physical facilities and manpower required to manufacture a product with the objective of utilizing them in an effective manner.

Concept of Plant Layout:

Plant layout is a plan for effective utilisation of facilities for the manufacture of products; involving a most efficient and economical arrangement of machines, materials, personnel, storage space and all supporting services, within available floor space.

Definition of Plant Layout:

According to George R. Terry "Plant layout is the arrangement of machines, work areas and service areas within a factory".

According to Morris E. Hurley "Plant layout involves the development of physical relationship among building, equipment and production operations, which will enable the manufacturing process to be carried on efficiently".

According to F.G. Moore "Any arrangement of machines and facilities is layout".

IMPORTANCE OF PLANT LAYOUT:

- **Increases Efficiency**: A good plant layout will help to increase efficiency by optimizing workflow and reducing material flow.
- **Enhances Productivity**: With fewer obstructions and less wastage, better communication and a more streamlined flow of the production process, a well-organized plant layout can result in higher productivity.
- **Reduces Wastage**: Poor layouts can cause wastage of resources due to inefficient and ineffective production line.
- **Minimizes Risk and Accidents**: Improved safety can be achieved in the workplace by minimising obstructions and unnecessary equipment.
- **Enhances Employee Job Satisfaction**: An efficient layout increases employee job satisfaction as they are able to perform their duties quickly and precisely with less confusion.
- **Responsible for Maximizing Efficiency**: A well-designed plant layout takes into account various factors such as material flow, production demands and human resources. As a result, it can maximize efficiency
- **Develops Economy of Scale**: Plant layouts support economies of scale and can help to increase profits by reducing production costs.
- **Manages Transportation**: A well-thought-out plant layout will limit the amount of transportation necessary. This reduces the cost of production and improves efficiency.
- **Facilitates Communication**: Plant layout makes communication between departments and workers much easier through enhanced visibility.
- **Streamlines Maintenance**: By removing obstructions from areas that are necessary for maintaining the machinery, a good plant layout has the ability to minimize downtime and costs associated with repairs.

FACTORS AFFECTING PLANT LAYOUT

- **Nature of the product:** The size, shape, characteristics and many other properties of the product influence the choice of the layout e.g. products having sensitive chemical properties needs more provision for safety equipment. Some products need air-conditioned plants. Efficient material handling system can be used for light products.
- **Size of Output:** If standardized items are to be produced in bulk then product or line layout is more suitable. If some specific products are to be manufactured once in life time, then functional layout will be more appropriate.
- **Nature or Manufacturing System:** For intermittent type of industries functional layout is better and in the case of continuous manufacturing system one can very well use product or line layout.
- **Location of the Plant:** Layout is greatly influenced by the size, shape, climatic conditions and by-laws of the area where plant site is selected. There will be different transport arrangement if site is located near the railway line, otherwise the approach will be different. If floor space is square and too many machines and operations are involved in the production process then layout can be planned in different shapes.

- **Machines or Equipment:** Heavy machines making too much movement during operations need stationary type of layout. Layout also depends on the size of the machines.
- **Climatic conditions:** Requirements of light, temperature etc. also play an important role in designing a layout.
- **Balancing Production Lines:** It is also very important aspect. The sequence of machines and equipment arranged to produce the desired product is known as Production lines. It should also be maintained so that productivity of plants & equipment may be ensured.
- **Plant environment:** In planning factory layout, heat, light, noise, ventilation and other aspects of plant climate should be given due consideration. For example, paint shops and plating sections should be located on an outside wall so that dangerous fumes may be removed through proper ventilation. Type of machines, materials and equipment used also exercise consider-able influence on plant location.
- **Spatial requirements:** The spatial needs for machines, material handling equipment and available floor space are important influences on plant location. Spatial requirements also depend upon the position and needs of workers. Employee facilities and safety should be duly considered.
- **Repairs and maintenance:** Machines and equipment should not be fixed so close to each other that it may create problems in repairs, maintenance and replacement. Access to machine parts for repairs and maintenance should be provided.
- **Balance:** Proper balance between processes helps to avoid bottlenecks. The arrangement of machine capacity should be such as to ensure a uniform flow of work. At the same time the layout should be designed in such a manner that there is minimum possible movement of materials and men.
- **Management policy:** Management policies regarding size, quality, employee facilities and delivery schedules should be considered while deciding plant layout. For example, size (demand forecast) will determine the size of work stations. Need for flexibility should also be considered. The layout designer must have a complete understanding of management policies that have a bearing on plant layout.

OPTIMUM SIZE

Meaning of the Optimum size:

"The concept of optimum size signifies the conditions under which a firm can conduct its affairs with minimum costs and maximum results. The term optimum literally means the conditions that produces the best result."

The Optimum Size of a business unit refers to such a unit that has all the factors of production in an ideal proportion such that, the factors of production are united in such a manner that maximum production is achieved at minimum cost. In other words, the profit earning capacity of a business unit is directly affected by its size. Therefore, the size of a unit should not be too big or too small. It should be of such a size, at which maximum production can be achieved, at minimum cost.

According to Prof. Hewett, An Optimum sized industrial unit is that organization of business, which can produce its product at the minimum average cost in the market.

Theory of optimum size of a firm:

The socially optimal firm size is the size for a company in a given industry at a given time which results in the lowest production costs per unit of output. The concept of optimum firm has been developed by E.A.G. Robinson. In his words by the optimum firm we must mean that firm which in existing conditions of technique and organizing ability has the lowest average cost of production per unit, when all those costs which must be concerned in the long run are included. The idea of producing at lowest average cost as envisaged in this concept has been emphasized by R. T. Bye when he says that the optimum business firm "is that organisation of business enterprise, which in given circumstances of technology and the market for its product can produce its goods at the lowest average unit costs in the long run."

FACTORS DETERMINING THE OPTIMUM SIZE

1. Optimum technical unit:

Technical factors are concerned with methods of production. They may include specialization, division of labor, mechanization and the like. Production methods become economical when these steps are taken. Technical forces decide the minimum and the maximum limits to size.

2. Optimum Financial unit:

Generally, the size of a unit depends upon the volume or size of capital and, in turn, the volume of capital depends on its size. Larger the size of a unit, larger the volume of capital required and easier to obtain capital because large volume of production and operational efficiency insure adequate return on capital. The optimum financial unit is governed by the volume of funds.

3. Optimum managerial unit:

Management expenses may vary with size. If the size is small it may be relatively costly to manage its affairs whereas with the growth of size there is an economy in such expenses. The growth of size may bring in complexities of organization and management. But in a larger unit the advantages of specialization and division of labor may be obtained and managerial efficiency improved.

4. Optimum survival unit:

The production of a commodity depends upon its demand in the market. Since demand may fluctuate from time to time, there is risk and uncertainty before the firm. Therefore, conditions of demand may influence the size of a unit because the risk or uncertainty is influenced by such conditions.

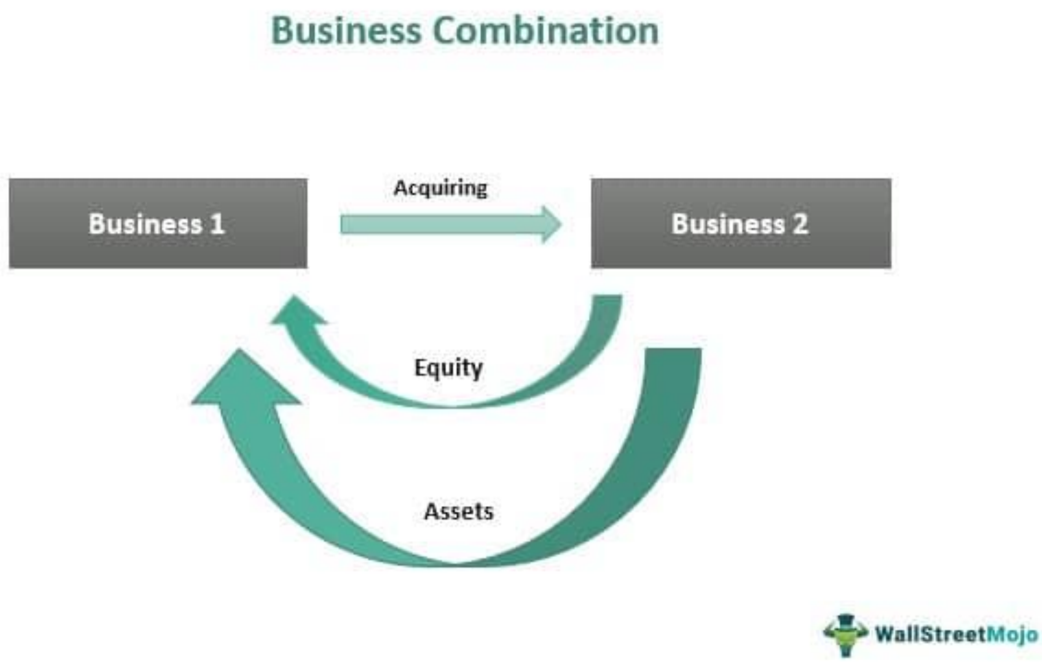
The changes in demand may be permanent cyclical and seasonal. Changes in demand due to the development of a substitute or a change in the taste and habits of the consumers may be taken as a permanent change.

The firm should reorganize its activities to adjust to the changed conditions. Cyclical variations are those which are concerned with depressions and booms. The firm has to meet both these situations and make adjustments. Seasonal variations are governed by change situations the firm has to adjust its size to keep it optimum in a particular situation, in seasons and the subsequent change in the demand for a commodity. In all these, however, changes in the size of a unit are difficult to make.

5. Optimum marketing unit:

Marketing optimum has to seek a balance between large scale marketing operations with a view to having some economies in selling and buying and better quality of commodities and services by limiting the size to a manageable limit. Demand estimates are to be prepared to decide the size of marketing operations.

UNIT-IV
BUSINESS COMBINATION



MEANING OF BUSINESS COMBINATION

1. Business Combination is a type of transaction in which businesses aim to grow in size using one organization acquiring the other organization and, therefore, taking control of the business activities and the employees of the other organization. In simple terms, it is a consolidation of two or more businesses to achieve a common goal by eliminating competition.
2. Business combinations are combinations formed by two or more business units, with a view to achieving certain common objective (specially elimination of competition); such combinations ranging from loosest combination through associations to fastest combinations through complete consolidations.
3. Business combination implies the coming together of firms, under common control. The objective was to pool their production, marketing, finance and profits. Combinations are formed both nationally as well as on global levels for any of the following reasons:
    - Fixation of prices.

- Regulation of output.
- Eliminating competition.
- Creating entry barriers to prevent entry of new competitors.
- To establish monopolies.
- Undertake joint research and development.
- Utilization of resources.

4. **According to L.H. Haney defines a business combination as follows:** "To combine is simply to become one of the parts of a whole; and a combination is merely a union of persons, to make a whole or group for the prosecution of some common purposes."

DEFINITION OF BUSINESS COMBINATION

1. **According to L.H. Haney defines a combination as follows:** "To combine is simply to become one of the parts of a whole; and a combination is merely a union of persons, to make a whole or group for the prosecution of some common purposes."

CHARCTERSTICS OF BUSINESS COMBINATION

- **Integration of Companies:** Business combinations involve the integration of separate companies to operate as a unified entity.
- **Strategic Intent:** They are driven by strategic objectives such as market expansion, synergies, and diversification.
- **Change in Ownership:** The combining companies undergo a change in ownership, with one company acquiring the other or both entities merging.
- **Legal Framework:** Business combinations must adhere to legal and regulatory requirements of the countries where the involve companies operate.
- **Synergistic Benefits:** The combined entity seeks to achie synergies, where the whole is greater than the sum of its parts.
- **Financial Implications:** Business combinations have significant financial implications, including the exchange of stock, assets, or cash.
- **Corporate Governance:** They require a well-defined corporate governance structure to manage decision-making and operations of the newly formed entity.
- **Risks and Challenges:** Business combinations may face challenges related to cultural integration, operational harmonization, and stakeholder management.

- **Shareholder Approval:** In most cases, shareholders of the involved companies must approve the business combination.
- **Post-Combination Integration:** The success of the business combination depends on effective post-combination integration and synergy realization.

Conclusion: Business combinations are strategic moves that integrate separate companies to achieve various objectives. They involve changes in ownership and have financial implications. Successful business combinations depend on realizing synergies, overcoming integration challenges, and aligning with strategic intent. Careful planning, governance, and stakeholder buy-in are essential fo success, leading to increased market presence, growth opportunities and competitiveness. Thorough due diligence and thoughtfu execution are necessary to unlock the combined entity’s full potentia and deliver value to shareholders and stakeholders.

OBJECTIVES OF BUSINESS COMBINATION

- **Eliminates Competition:** Business combination helps in eliminating the tough competition among firms in market. In presence of a competition, many businesses are not able to earn suitable profits. They come together and set up their combination to work together for achieving common goals.
- **Proper Management:** It leads to proper management of all business units that merged together into one unit. Small business cannot afford the services of quality managers which affects their performance. Combination of these units together enables them in hiring management experts.
- **Attains Monopoly:** Acquiring market dominance is another major objective of business combination. Several businesses by forming a combination attain a monopoly position and enjoy a larger share in market.
- **Economy Scale:** Business combination assist in availing the benefits of economies of scale. Small business units by merging together purchases large amount of raw materials at cheap rate and carrying out their production activities at a large scale. This brings down their cost of operations and increases their profit level.

- **Solves Capital Problem:** It helps in overcoming the capital problems. Small business units lack funds for growing their activities. By associating with other units they easily gets funds for large scale production, buying advanced machinery and carrying out research activities.
- **Economic Stability:** Combination of business impart them greater health to face crisis. By joining as one unit they can easily overcome times of political and economic instability.
- **Improve Product Quality:** It leads to enhance the quality of products and level of production by firms. Combination enables them in sharing ideas, knowledge and technology with each other which results in better production. By combining the efforts they come up with new and advanced products in market.
- Achieving sustained growth and profits.
- Reduction in competition.
- Preventing the entry of new firms by creating entry barriers.
- Achieving monopoly status.
- Undertaking large scale production and benefiting from economies of scale.
- Investing in common facilities and infrastructure.
- Avoiding cut-throat competition and the evils associated with it.
- Achieving greater financial strength and stability.
- Investing in research and development to innovate new products.
- Pooling of material and manpower to ensure efficiency in operations.
- Sharing knowledge of best practices for mutual benefit.
- Maintaining stability in prices.
- To withstand the effects of business cycles.

RATIONALISATION

Rationalisation is an important feature of large scale production. It implies the elimination of all kinds of wastes and diseconomies in the methods of production. It aims at the achievement of maximum economies in production. Professor Florence defined rationalisation in business as elimination of waste and inefficiency in the industry by the combined efforts of the industry.

According to the resolution passed by the conference, the main aims of rationalization are:

- Securing the maximum efficiency of labour with minimum effort;
- Eliminating waste of power and raw materials;
- Facilitating reduction in the variety of patterns (where such variety offers no obvious advantages) search into the methods of manufacture and use of standardised parts;
- Simplifying distribution of products by eliminating unnecessary transport, burdensome financial charges and useless interposition of middlemen;
- Securing to the community greater stability and a higher standard of living;
- Ensuring to the consumer lower prices of goods;

- Ensuring a higher and steadier remuneration to be equitably and fairly distributed among the various classes of producers,

According to the Bombay Textile Labour Inquiry Committee 1941, rationalisation has three aims:

- "Increase in production per man and machine and its relation to wages
- Improvement in the efficiency of workers and in the working conditions
- Financial and Industrial re-organization.

CHARCTERSTICS OF RATIONALISATION

1. Combination:

Rationalisation brings about the integration or merger of different types of inefficient and weak units for enjoying the economies of large scale production and distribution. This also ensures the planned utilisation of available resources and removal of idle capacity.

2. Standardisation.

This is another important feature of rationalisation which aims at removal of unnecessary varieties of different types of products. It is concerned with the production of lesser varieties of standardised products. It further reduces the wasteful expenditure on competitive advertisement and cross freights.

3. Specialisation.

Standardisation leads to specialisation. The work is divided in accordance with the nature of different types of activities. In other words, specialisation leads to division of labour. Specialisation leads to most effective and proper utilisation of available resources like materials, manpower, machinery etc.

4. Simplification.

On account of standardisation and specialisation production processes are considerably simplified. This leads to higher production with lesser costs and ensures increased sales of each variety of products.

5. Mechanisation.

Mechanisation is one of the important features of rationalisation which aims at replacing human labour with machines. Mechanisation further leads to automation which increases the speed and efficiency of production.

6. Modernisation.

The replacement of old and absolute machines and equipment with modern techniques of production is another distinctive feature of rationalisation. The modern techniques and innovations of production are integral components of the schemes of rationalisation.

7. Application of Scientific Management on Industry Wide Scale:

Rationalisation is concerned with replacing the old and traditional methods of production with the modern and scientific techniques applicable to different firms operating in particular industry. The methods of scientific investigation and management will ensure greater efficiency, lesser production costs and saving of time.

8. Social Objectives:

Rationalisation is not only concerned with the increase in the productivity but also with the overall prosperity of all the sections of the society. It has both social and human values. To the producers it reduces the cost of production and increases profits.

For workers, it ensures increased earnings, limited working hours and other improved working conditions. Consumers get better quality products at cheaper prices.

<u>OBJECTIVES OF RATIONALISATION</u>

- To eliminate waste and inefficiency of every kind;
- To bring about an adjustment in aggregate production and the aggregate demand by initiating agreements among various firms in the industry;
- To undertake the measures of absorption, amalgamation and reconstruction for the protection of weaker and inefficient units;

- To maintain stable and fair prices in the best interest of the manufacturers and the consumers;
- To ensure maximum allocation and utilisation of available resources;
- To check over-capitalisation and under-capitalisation of financial resources in order to ensure fair return and rational allocation of finances;
- To achieve, the goal of self financing or ploughing back of profits in order to minimise the burden of bank loans, debentures and other long terms loans;
- To introduce the techniques of cost and management accounting, budgetary control and internal audit etc., in order to ensure proper financial control and management.
- To introduce a system of scientific selection, training, promotion and wage payments for workers;
- To provide better working conditions like ventilation, lighting, proper working hours, absence of noise, drinking water, canteen, rest-rooms etc.;
- To institute various schemes like unemployment or sickness accident insurance, housing facilities etc;
- To protect the interests of the consumers by supplying they better quality products to reasonable prices and ensuring their regular and uninterrupted supply.
- Securing maximum labor efficiency with minimum efforts.
- Elimination of waste in the utilization of raw-materials.
- Elimination of unnecessary middlemen.
- Simplification in distribution of goods.
- Achievement of economic stability.
- Promotion of standard of living.
- Provision of commodities at cheaper rates.
- Distribution of profits between workers and employers by increasing the productivity of the industry.