

BUSINESS AND COMMERCIAL KNOWLEDGE – AN INTRODUCTION

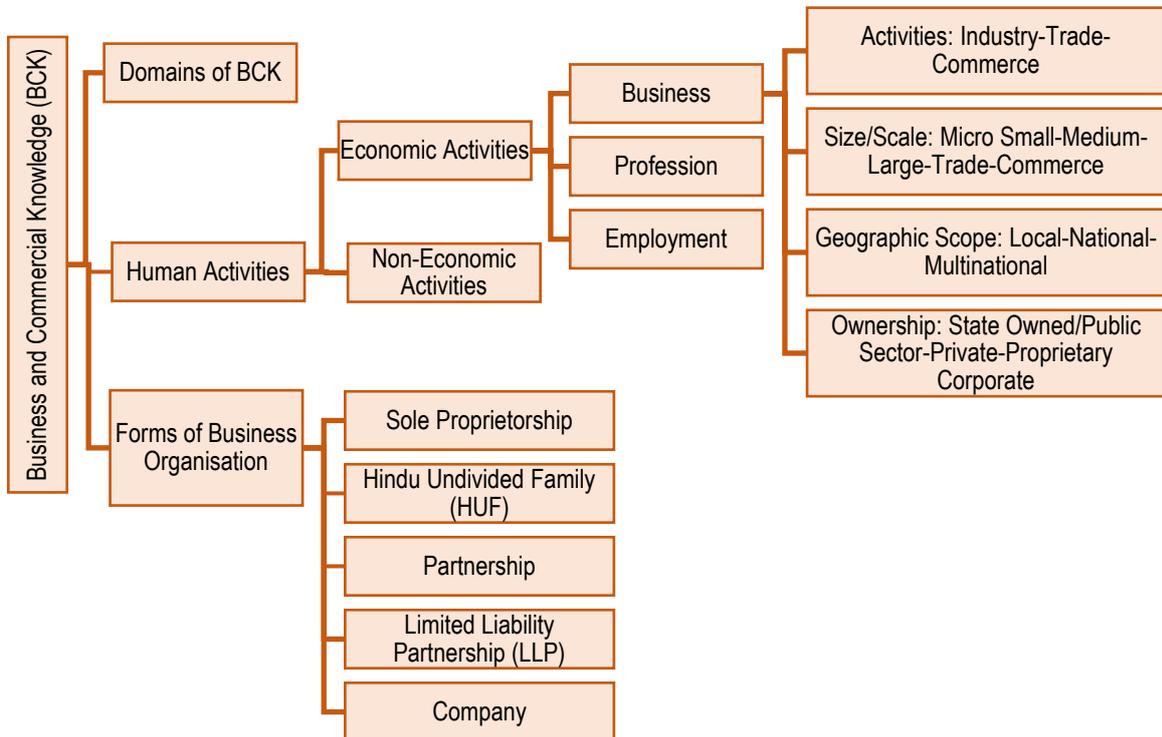


LEARNING OUTCOMES

After studying this chapter, you will be able to:

- ◆ Describe the domains of business and commercial knowledge (BCK).
- ◆ Explain the importance of BCK for a Chartered Accountant.
- ◆ Enhance BCK Quotient (BQ).
- ◆ Distinguish the business from the myriad of human activities, more so from employment and profession perspectives.
- ◆ Distinguish between proprietary and corporate forms of business organisations.

CHAPTER OVERVIEW



1.1 INTRODUCTION

Humans engage themselves alternatively between work and life. We work to earn an income. We spend (and also save) the income for the sustenance of self and family. In this process, we regularly engage in numerous transactions, and exchange our income for buying various goods and services. Being social and socially aware, we also live a family life and engage in various social activities. In this chapter, we shall understand human activities whilst focusing on what business means, as a crucial part of our daily life, and the multiple domains of business and commercial knowledge.

In today's world, both earning of income as well as its spending has increasingly become dependent on business and commerce. To begin with, let us understand business and commerce as comprising of an array of activities for production, distribution and exchange (buying and selling) of goods and services. Now, whether we work as employees or free lancers or as entrepreneurs, our world of work is made of business organisations. And even if we do not work for a business organisation, much of our spending takes place buying various goods and services that have been produced or provided by business organisations. In all probability, most of the goods that we buy, we do not buy these straight from the producer, but indirectly from second, third or even later intermediary or reseller. Take a Minute #1.

Take a Minute#1

Following picture presents two views of the same room. List the items identifiable from the picture. Think if the said item would have been purchased directly from the producer or some reseller. You may use the observation card given below this picture to organise your thought process with pen and paper.



Format–Observation Card

Points of Observation	Description
Group of Item / Industry	
Whether procured/purchased directly from the producer	
The most likely source of procurement	
Chain upto the original producer	
Remarks, if any	

Now, it would be easier to understand the scope of Business and Commercial Knowledge (BCK), that this course is all about. Table 1.

Table 1: BCK Domains- An Overview

Domains	Illustrative list
Activities	Manufacturing, Trading (Domestic, Foreign), Commerce (Aids to Trade or Auxiliaries to Trade) Services
Scale	Micro Enterprises, Small Enterprises, Medium Enterprises, Large Enterprises
Geographic Scope	Local, National, Multinational
Ownership	State owned/ Public Sector, Private Sector (Sole Proprietorship, Partnership, Company/ Corporate Sector)
Markets	[Natural] Resources, Equipment's, Commodities, Capital, Labour, Product Markets
Stakeholders	Entrepreneurs, Promoters, Customers, Investors, Business Owners, Directors, Shareholders, Managers, Employees, Suppliers, Laws & Regulators/Policy makers, Supporting / Facilitating Organisations, Society at large
Functions	Production/ Operations, Marketing, Accounting Finance & Taxation, Human Resource
Focus	Company/ Enterprise wide, A particular business line, A particular function

Concerns	Survival, Profitability, Growth, Sustainability, Social Responsibilities, Governance, Values & Ethics
Mode	Traditional/ Physical/ Brick & Mortar/In-store, Digital/ Online
Underlying disciplines	Economics, Laws, Philosophy, Psychology, Sociology



1.2 DOMAINS OF BUSINESS AND COMMERCIAL KNOWLEDGE (BCK)

Oxford online dictionary defines the term 'domain' as 'a specified sphere of knowledge. Domain in simpler terms means, a subject. Following that, the sphere of knowledge/ the subject about business and commerce is vast, eclectic and ever evolving and expanding.

BCK is Vast: The universe of business is vast. Take **for example** the range of business activities. It includes manufacturing, trading and all sorts of services. Think about any of these activities. Countless instances would come to mind. Take domestic trade, and within it, the retail trade. Now, door-to-door direct sellers, street vendors, weekly haats or bazars, neighbourhood shops, marketplaces, malls, company chain stores and online retail (e-tail) etc. all comprise retail trade. Thus, to know about retail trade one needs to be aware of its various forms. Further one needs to know the functions that the retailers perform. **For example**, the neighbourhood retailers provide a variety of goods of daily needs, various brands of the same item, in smaller quantities and a host of other services such as home delivery, weekly/ monthly credit, etc. Malls provide a very different kind of shopping experience. And the online retailing provides 24X7 convenience. Note we have just enumerated some of the benefits from the point of view of the customers. What about their services to the wholesalers and as an intermediary in the chain of distribution from the producer to the consumer? All in all, the business domain is vast. It has numerous activities, all interrelated and spread in wide areas.

BCK is Eclectic (Multidisciplinary): BCK is eclectic i.e., it derives from various disciplines e.g. marketing, accounting & finance, operations, human behaviour (psychology, sociology), laws, economics, ethics etc. Business is not just about selling a product or service; it includes various fields of study within itself. Understanding human behaviour, finance, economics, world economy, legal terms, laws of various countries, etc. Each discipline has a vocabulary of its own and thus contributes towards BCK vocabulary. Further the BCK adapts the vocabulary of these diverse fields like military and even unrelated fields as biology!

Building the BCK Vocabulary#1

BCK Vocabulary	Original Discipline	Description
Strategy	Military	Just as the armies at war develop strategies to outsmart each other, likewise businesses draw their strategies to beat their competitors.
Logistics	Military	In military, logistics means movement of troops, military supplies and equipment. In business it implies the detailed coordination of a complex operation involving many people, facilities, or supplies. Typically, inbound logistics imply the movement of inputs and the outbound logistics means the movement of outputs.

Bulls	Biology (Animal Psychology)	Because bulls throw up their enemies in combat, like wise bulls imply the stock market players who raise the stock prices through building a buy pressure. Being bullish implies optimistic expectations that the economy/market/business is likely to do well
Bears	Biology (Animal Psychology)	Bears have the tendency to embrace and push downwards their enemies in a combat. Thus, bears are the stock market players that have pessimistic expectations.

BCK is Ever Evolving and Expanding: BCK domains are ever evolving and expanding. For example, information and communications technology has introduced several terms in the lexicon of BCK e.g. 24X7, B2B, B2C, BPO, etc. An important aspect of this evolution is the decline and demise of old businesses and old ways of doing business and the emergence of new businesses and newer ways of doing the businesses. These changes may be aided or impeded by changes in the technology, society, economy, etc. collectively referred to as business environment. New products and services, and even ways of doing business are changing every single day. Latest innovations like E-commerce, Social Media, Artificial Intelligence, etc. have changed the way of how business is done around the globe. In a fast evolving and expanding sphere of knowledge, the rate of knowledge obsolescence (outdatedness) is high. Thus, we need to stay updated and develop the capability to learn, unlearn and relearn at a fast pace.

1.3 IMPORTANCE OF BCK FOR CHARTERED ACCOUNTANTS

The Chartered Accountants are the custodians of a nation's resources. They are responsible for putting in place a credible system of truthful and fair accounting and reporting of the society's resources, their deployment and utilisation. **Business and commercial sector comprises a large share of their work arena.** In this context, BCK is likely to make them more aware and responsive. **Each business has its own peculiarities and associated variations in notions of product, inventory, revenue, profit, etc.** For example, a fast moving consumer goods (FMCG) business pertains to manufacture, distribution and sale of a large variety of staples (groceries, bakery, confectioneries, etc.), personal care and home care products such as soaps and detergents, toiletries and cosmetics etc. The Chartered Accountant can easily develop notions of cost, inventory, revenue, profits etc. However, in hotels & restaurants these notions change. Moreover, in addition to certain common laws that all businesses are subject to, each business is subjected to a host of laws specific to it. Understanding business and its complexities is of utmost importance to work as a valuable contributor to the economy in any form of service a Chartered Accountant wishes to work. **The Chartered Accountants shall be able to conduct the audit diligently, take decisions, strategies, make plans and budgets, and work closely with various business teams. Only when they understand the nuances of the business, they can add value to their work.**

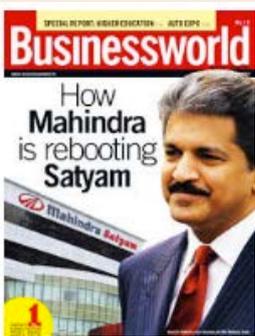
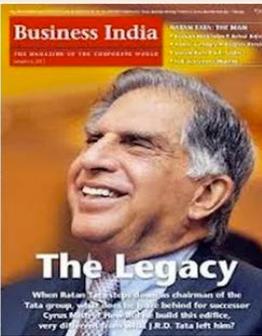
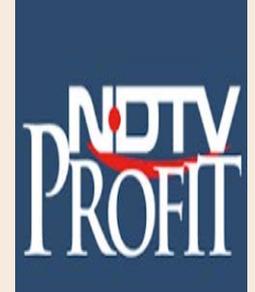
Getting conversant with and updating BCK

We have noted that BCK domains are vast, eclectic and ever expanding. We are also convinced that BCK is important for a successful education & career as a Chartered Accountant. Now, how do we get to terms with BCK especially if we do not have a prior background e.g. 10+2 or degree in commerce? The task indeed seems Herculean! And to top it, there is a constant dilemma whether to focus on specialisation / core discipline i.e.

accounting and taxation or diffuse our energy to such a wide topic as “business?” Take a trip to the tips for enhancing one’s BCK Quotient (BQ) #1.

Enhancing BQ #1

Self Assurance	Business is all around. We encounter it, engage with it in numerous transactions on a daily basis.		
Non-commerce background is not a handicap	If you had science, use the bridge of technology to crossover to business. If you had humanities then there are several bridges connecting with business: economics for sure; history of daily lives and livelihoods; geography- the resources, the occupations; psychology & sociology- understanding of human behaviour and so on. Leverage the eclectic nature of BCK.		
Observation and Experience are the best guides	It is all about becoming slightly more conscious of our sensory activities. May be an article in a newspaper, a TV Commercial or a Business News, a visit to a Market or a Mall, Browsing of the Net or a smartphone App.		
Each one of us have six honest servants	<p>Yes! Rudyard Kipling reminds us:</p> <p style="text-align: center;">I keep six honest serving men (They taught me all I knew); Their names are What and Why and When And How and Where and Who.</p> <p>Excerpted from ‘Elephant’s Child’</p> <p>We may therefore wear our looking glasses and set out on an exploratory journey.</p>		
Practice and Improvement via Reflective Thinking leads to perfection	We may maintain a daily journal of BCK wherein we record our observations and organize our readings, viewings, listening etc.		
<p>An Illustrative List of Sources of Enhancing BCK</p> <p>Note: It’s not an inclusive list but a convenient sampling</p>			
News Papers			
			

Business Magazines			
Business World 	Business India 	Business Today 	India Forbes 
Business Channels			
			

Having elaborated the BCK domains, their importance for a Chartered Accountant and the means of enhancing BCK, let us turn our attention to rest of the objectives stated at the beginning of this chapter.

1.4 HUMAN ACTIVITIES- ECONOMIC AND NON-ECONOMIC

Our waking lives are all about activities. Many activities we engage in are purposeful. Usually, we dichotomise these activities as work and play. These days it is more common for adults to talk about work and life (the latter implying family time, time for one's hobbies, causes etc.) and strive towards balancing the two, work-life balance. We all work to earn a living. All that we do to earn a living comprises **Economic Activities**. Rest all activities are referred to as non-economic activities. Interestingly, while the **economic activities** are distinguishable merely by the presence of the **livelihood motive**, a **variety of motives** are attributed to **non-economic activities**, viz., concern for fellow beings, affection & love for family, passion about some hobby or cause such as animal rights, forest/ nature conservation, underprivileged youth, etc. Usually, **economic activities** are said to be driven by **rationality** – what do I get in return or what is in it for me - or **self-interest**. Non-economic activities are driven by **emotional or sentimental reasons** or **altruism** i.e. selfless concern for the welfare of others. Thus, human engagements in all social, religious, cultural, personal, recreational, charity and patriotic activities are bundled together as non-economic activities. See, Roving Eye#1.

Roving Eye #1: Economic and Non-Economic Activities



Roving Eye #1 above provides a pictorial glimpse into some economic and non-economic activities. It shall be clear now that economic activities are monetarily driven, while non-economic activities are more inclined towards altruism.

But it is interesting to note that **even non-economic activities have an economic dimension, as** time, money and material resources are needed to make these happen - both in terms of large initial expenditure as well as their day-to-day operations and management. However, neither the investors nor those who volunteer to work in these activities seek any material gain or regular income from these activities. In fact, **the motive or the intent behind any activities is such a singularly strong determinant of the economic and non-economic dichotomy** that, say, if I engage in home making (cooking, housekeeping, etc.) for my family it would be deemed as a non-economic activity. If I do so for others for an income, the same activity would be deemed as an economic activity. However, the world needs to understand that if we wish the best minds, hearts and souls to work for the solution of the problems facing the humanity, we must find ways of offering them the best rewards and compensations.

1.4.1 Distinguishing Characteristics of Economic Activities

Economic activities have several distinguishing characteristics other than the motive of earning a livelihood. Let us be more aware of these. In the process, we shall also be able to situate and understand business, as an economic activity.

- **Economic activities are income generating:** One may earn a livelihood in several ways. Manufacturing, reselling, employment, providing any professional service, etc. Income earned by rendering personal time, physical and psychic energy, in other words through one's sweat, and intellect is called earned income. And the income earned by letting out one's property is called property income. In economics, individuals comprise as possessors of one or more of "factors of production," labour, land, capital and entrepreneurship. The corresponding income characterisations in exchange of or compensation for their factor services are wages (& salaries), rent, interest and profit. **It is not necessary that all these incomes may be earned in the form of money only. These may be earned in kind too.** For example, a landowner may compensate the tiller of the land in the form of food grains. The nomadic pastors who brought their herds to graze the stubs left after the harvest were often paid in the form of food grains. How much can we earn from each factor? **The factors earn according to their contribution to the production.** In other words, **income is generated in the process of production.**
- **Economic activities are productive:** We can transform various raw materials into useful products and sell them for an income. Further, we can even teach skills we are good at, to other people in exchange of money. Production essentially is the process of creation of need satisfying goods and services. As a corollary, **earning a livelihood implies participation in the process of production.** Production here refers to both goods and services. When the early man set out to **hunting** the animals and **gathering** the fruit and firewood, he engaged in productive activities. **Farming** is productive too. Practice of the **crafts** – pottery, textiles- is an instance of productive activities. Generation of electricity, **manufacture** of automobiles and **writing of software programs** are all instances of productive activities. **Teaching, medicine, law, accountancy** are all productive activities. **Production may be done either for subsistence i.e. self-consumption or for market. Production represents the supply side of economics,** more so if it is for selling. Here its scope is broadened not only to include the place where it takes place but also the entire range of activities and occupations devoted to delivering the products/services produced to the markets - transport, warehousing, intermediaries (e.g. wholesalers/dealers, retailers etc.) and so on.
- **Even consumption is an economic activity: Consumption represents the demand side of economics,** i.e. the goods & services on which the people will spend their income. Production is organised in response to the demand. Different products compete for buyer's attention and spending.

In fact, every unit of demand is like a vote in favour of a product and a signal to its producer. An economic activity might produce a product or service, but it is not complete until it can earn an income. Thus, feeling or exchanging it for money/or in kind i.e. consumption of the produce is equally important. Therefore, Economic Activity includes consumption as well.

- **Savings, Investment and Wealth:** We just understood that production of goods and services, as an economic activity, generates income. This income is actually the amount that people spend to buy those goods and services. The unspent income of people comprises their savings. The financial sector - banks, non-banking financial companies, mutual funds, dealers in stock markets, real estate, gold, etc. are the channels through which the savings are converted into investments and the wealth. The corporate sector and the government borrow these savings via shares, debentures, bonds, etc. and invest these into creating and operating civil, military and business infrastructure and other productive pursuits for the country. Thus, all in all economics activities add to savings, investments and wealth in the economy.

1.4.2 Business as an Economic Activity

We have seen that market-oriented production (other than the production for self-consumption) represents **supply side of economics**. It is common to refer to shift from subsistence driven production towards market driven production as **commercialisation of production or production on a commercial scale**. We have also seen that for the production to occur at a commercial scale a wide array of interconnected activities needs to be put in place. Linking production (supply side) with consumption (demand side) can then be achieved. With this background, we can now attempt a three-tier definition of business.

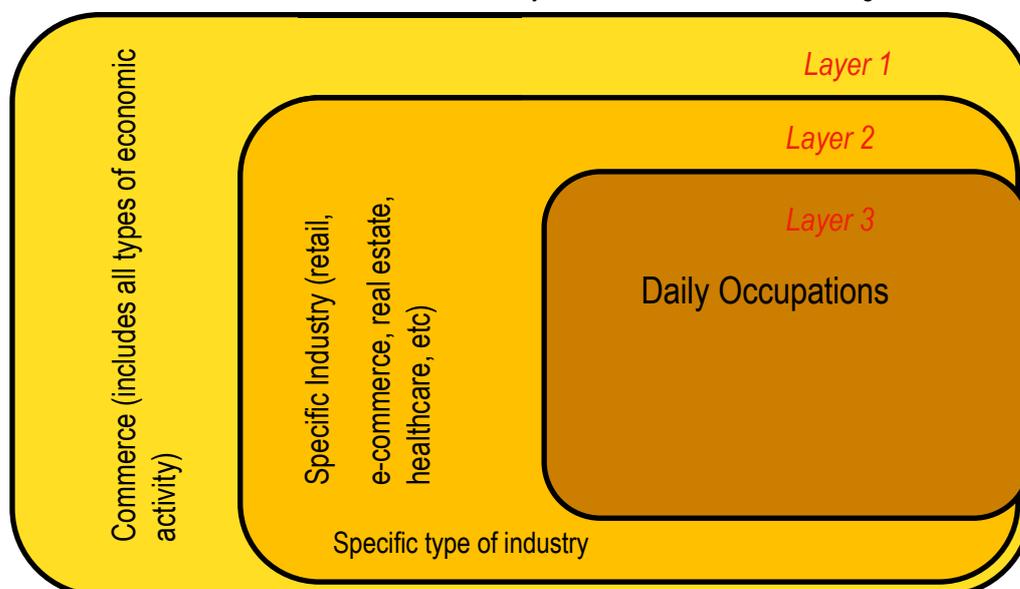
From the broader perspective, business may be defined as an economic activity comprising the entire spectrum of activities pertaining to production, distribution and trading (exchange) of goods and services. As such it refers to the aggregate of all the businesses and functions related to businesses of all sizes - industry (construction and manufacturing), trading or service enterprises; state-owned / Public Sector or private enterprises; proprietary or corporate sector enterprises; micro, small, medium, or large enterprises; domestic or multinational enterprises (we will take up a brief discussion of these terms later in the chapter). It is usual to classify business into industry, trade and commerce; wherein commerce includes all the industry/ trade related services or auxiliaries / aids to trade such as banking, general insurance, transport, warehousing, etc.

Here a question arises: **Is agriculture an industry and hence a business?** Its answer is "it depends." In India, much of the agriculture is subsistence agriculture. Moreover, agriculture income, under the Income Tax Act, is characterised separately (from income from Business & Profession) and is exempt from tax. Thus, for our purpose **agriculture does not comprise industry and hence business**. However, the industries where agriculture produce is processed (like pulses, spices, wheat to flour, processed oils, etc) and whose key material ingredient is agricultural produce do comprise an industry. For example, the extraction of edible oil from rice bran, mustard, coconut, soybean etc., represents agro-based industries.

From the medium perspective, business refers to a particular type of activity or industry such as Retail Business, Real Estate Business, and IT Business, Iron & Steel Industry, Transport Business, etc. Thus, a firm may introduce itself as follows: "we are a food processing" unit.

From a narrow perspective business may be defined as one's usual occupation of creating, owning and actively operating an economic organisation i.e., a firm. The phrase 'usual occupation' is important for infrequent,

isolated transactions even if these might result in profit or loss, cannot be called business. Thus, one time profit earning transactions cannot be termed as business, they have to be executed on a regular basis.



Three layers of understanding business

Let us see if we indeed can comprehend the three levels of analysis of the definition of business (Reality Check # 1).

Reality Check #1

Here are a few headlines from News channels/ Newspapers. Let us see if these pertain to the definition of business in its broadest, intermediate or micro level

<p>India's Infotech meltdown: Is IT sector facing its worst crisis?</p>  <p>Source: http://indiatoday.intoday.in/video/indias-infotech-meltdown-it-jobs-it-sector/1/952759.html</p>	<p>Business confidence at all time high: CII report By ET Bureau Apr 10, 2017, 01.38 AM IST</p>  <p>Source: http://economictimes.indiatimes.com/articleshow/58091694.cms?utm_source=contentofinterest&utm_medium=text&utm_campaign=cppst</p>
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Tata Motors Q4 profit down, Business Standard, Wed 24 May 2017



Source: http://www.business-standard.com/article/companies/tata-motors-q4-net-profit-falls-17-117052301152_1.html

SME IPOs raise Rs. 514 crore this year, The Hindu, Apr 24, 2017



Source: <http://www.thehindubusinessline.com/markets/sme-ipos-raise-rs-514-cr-this-year/article9659818.ece>

1.4.3 Distinguishing Characteristics of Business vis-à-vis Other Economic Occupations

Whilst business as an economic occupation is vastly diverse, yet only a small portion of population, more so urban educated population engages in it. For example, of all of you pursuing Chartered Accountancy, only a small percentage is going to start a business. Since CA is a professional qualification, most likely you are going to practice as an **independent professional** or would take up a **paid employment** somewhere. We have thus introduced two other distinct occupations, viz., employment and profession. Let us understand these two forms of occupations, and then we shall discuss the characteristics that distinguish business from these two.

- ◆ **Employment:** Employment is a **contract of service** between the employee and the employer. The contract elaborates **job description** and the **periodic compensation** known as wages & salaries (the term wages usually denote factory workers; salary denotes office staff, managers, etc.). One has to undergo a detailed process of Recruitment & Selection for one's engagement in employment. Usually **minimum qualifications** - educational/ technical/ professional and prior work experience are prescribed to take up an employment. Freshers may be initially recruited as interns and required to undergo training. And one is expected to perform as per the **terms of employment** and the **performance targets** assigned to them from time to time. There is a **minimum assured income**, **tenure certainty** and reasonable opportunities for **career progression via promotions**.
- ◆ **Profession:** Profession is **rendering of services** of a **specialised nature**, necessitating **prescribed qualifications**, for a **fee** under a **Certificate of Practice** from an established certification / accreditation / examination & assessment body that also imposes a **code of conduct**. Professions can be pursued as independent practice or under a contract of employment too. **Accountancy, Architecture, Designing, Engineering, Law, Medicine** and increasingly even Management are assuming the attributes of a profession.

The word profession or professional in common parlance is used to distinguish from one's amateurish/substandard performance or practice as a part-time/hobby. **Professionalism is often associated with perfectionism. Historically however, professions have emerged in pursuit of nobility; demonstrated highest level of**



integrity and ethics; and hence have been held in very high esteem and social status /respect. Chartered Accountants for example, represent a noble profession for ensuring truthfulness and fairness in the conduct of business and thus, have been instrumental in ensuring its trustworthiness of the entire economic system. The logo of the Institute of Chartered Accountants of India (ICAI) is suggestive of the vigilance expected from its members, the Chartered Accountants.

Having clarified the meaning and nature of employment and profession as economic occupations, we are now in a position to delve deeper into the nature of business. Before we do that, it would be useful to do a recapitulation of the main points of difference between business, profession and employment (Recap #1).

Recap #1: Distinction between Business, Profession and Employment

S. No.	Basis of distinction	Business	Profession	Employment
1	Meaning	Entire spectrum of market-oriented activities coming under industry, trade and commerce.	Independent rendering of services of specialised nature based on prescribed qualifications under the aegis of a professional body that also prescribes a code of conduct.	Rendering of services under a contract of employment for wages / salaries. Also, called wage-employment.
2	Mode of establishment	Entrepreneur's decision and other legal formalities, if necessary	Membership of a professional body and certificate of practice.	Letter of Appointment and service agreement.
3	Source of livelihood	Profit	Professional Fee.	Wages & Salaries.
4	Prescribed qualifications	None	Strictly prescribed	Minimum qualifications for each type of job
5	Ethical guidance	Founder's values	Professional codes	Employer's codes
6	Investment	Substantial requirement	Some requirements e.g. Office/ Chamber /Clinic	None
7	Personal autonomy / freedom	The most- you are your own boss	Quite a bit	Not much
8	Popular psychological motive	Economic achievement	Service to the clients/ society	Livelihood
9	Certainty of income	Least. However, either way.	Quite a bit	The most. Contractually determined periodic income
10	Stability of tenure / Durability of occupation	Uncertain	Quite certain	Quite certain
11	Transfer of interest/ succession	Possible	Not possible	Not possible

Following the above discussion, we may now understand the **Distinguishing Characteristics of Business**:

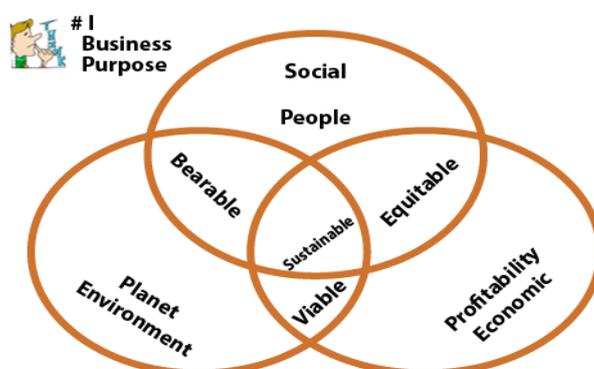
- **Job creator, not job seeker:** Business as an institution is a source of sustenance directly to the business owners and employees and indirectly to all those who derive opportunities from it. This is a unique characteristic of business that separates it from other occupations. Yes, professionals in practice may also generate some employment but certainly not in numbers that business is capable of generating.
- **Provides momentum to economic growth and development:** What is economic growth? It is persistent increase in a country's Gross Domestic Product (GDP). What is GDP? It is the value of all the final goods & services produced in a country during a particular period. Business output comprehensively contributes towards the GDP and thus, the economic growth. How is economic growth distinguishable from economic development? Whereas growth merely implies increase in GDP numbers, economic development implies diversification of an economy's capabilities and improvement in the quality of lives of its people. Business, through research & development, education, and training & development of employees and by sheer guts and courage of experimenting and innovation, brings about economic development. In fact, it is pertinent now to introduce the term **entrepreneur** here. **In common parlance, the terms 'businessperson' and 'entrepreneur' are synonymous.** Even we shall be using these two terms interchangeably. **However, entrepreneurs are better characterised more by their problem solving, new opportunity seeking behaviour that draws on their creativity and innovation.** Thus, business catapults economic growth as well as development.
- **Investment intensive:** Starting a business requires a sizeable investment of funds. Accommodation, plant & machinery, inventories, etc. In accounting, investment requirements are estimated as the sum of fixed assets and net current assets. Indeed, investments are necessary for technological upgradation, modernisation and expansion. However, size of investment usually varies with the scale of business. That is why in India Micro, Small, Medium and Large Enterprises are defined with respect to the size of investment - more specifically investment in Plant & Machinery for manufacturing enterprises and investment in Equipment for service enterprises. It is believed and is practically true that the lack of investible funds or capital is a strong barrier to start a business. Thus, any form of business requires investment and is therefore, investment intensive.
- **Gestation and uncertainties:** Investment takes time to fructify or investment takes time to bring in profits. And it is uncertain whether it will yield the returns as expected. For example, it will take time to construct and operate a hotel before it is opened for occupancy. And it is uncertain if all the rooms would be occupied all the time. In fact, it is also uncertain if the occupancy ratio (room nights occupied / room nights capacity) would be adequate. In economics and finance, one distinguishes between risk and uncertainty. Risk can be calculated in advance, uncertainty cannot. Moreover, risk is a characteristic of uncertainty itself. Business takes time to flourish and it is uncertain whether it would actually bring in profits. This characteristic specifically distinguishes it from all other forms of occupation.
- **Systematic, organised, efficiency-oriented activity:** Business is not a random, stray, unorganised and occasional activity. It is a consciously created system of production (of both goods and services). Thus, firm infrastructure needs to be in place, supply chain of materials needs to be developed, these materials need to be processed or transformed, products need to be marketed and sold, payments need to be collected, etc. All these tasks have to be divided into specialised functions, means of

coordination need be devised so that the business is able to deliver the promised products and services on day-to-day basis efficiently - on time, of consistent quality and exceeding performance expectations.

It is a well drafted and executed system wherein various functions work interdependently as well as independently to achieve a common motive, majorly profits. Business is systematic in the literal sense of the term system - an integrated, unified whole comprising of interrelated, interdependent and interacting parts just as an automobile system. Viewed thus, for the business to perform well, it needs be ensured that all the parts perform their respective functions well and in sync with each other - be it production, sales, marketing and the like. Imagine, if the production function is not in sync with marketing and hence unable to fulfil the orders generated by it? Moreover, whilst each function performs its task it is important that one does not lose sight of the overall objective of the firm. Unlike an automobile, however, business is an open system as it interacts with the environment. For example, business has to interact with the customers to get the vital feedback, product modification and win their continuing patronage.

- **Objective oriented/ purposeful:** Profit is said to be the defining motive behind business. In economics, **objective** of the firm is set as maximisation of profits. Profits are the income of business, just as wages & salaries are of labour; rent is the income from the land; and interest, the income from investment. It is the residue occurring to the business owners after all other factors of production have been paid off. What are profits for? These are for organizing production, undertaking risks and bearing uncertainty. Let's reflect deeper on the **purpose** of business. We have seen above that business as an institution and more so through its entrepreneurial endeavours brings about a qualitative change called development. We have seen that entrepreneurial businesspersons are efficiency seekers, problem solvers and innovators. These intangible aspects of business's performance impart deeper meaning to business and its purpose.

Idealistically, business must lead the world toward more egalitarian, participative and collective prosperity that is sustainable for generations. **This ideal corresponds to the ideal of sustainable development**, that at business level may be interpreted as simultaneous pursuit of **profitability, people well-being and planet sustainability** (See Think #1).



Think, why is sustainable development necessary and how businesses, instead of focusing solely on profits must also attend to people's problems and planet conservation? Think, why is it not sufficient that business and a country balance economic (profitability) and social (people) concerns or economic and ecological concerns or

social and ecological concerns. Whilst you think through, let us highlight the plurality of the objectives of business in Concept Elaboration #1.

Concept Elaboration #1: Objectives of Business

Considerations			
<p>#1. Interdependence. Business draws its factors of production from the society and is dependent on it for the sale of its goods & services.</p> <p>#2. Multiple stakeholders. A firm is not only the owners. It is as much other investors /lenders, employees, customers, suppliers, competitors, the community and the larger society and the ecology of which business is a part</p> <p>#3. Amount of profit. Profit is just about that much and that less an objective of business as is eating for living. Do we eat to live or live to eat? Likewise, profit is a minimum concept, in fact a cost, cost of being in and cost of staying in business.</p> <p>#4. Primacy of Customer. If at all there is a single purpose of business, it is the creation and maintenance of customers through product quality, service, and delivering value for money.</p> <p>#5. Performance is the precursor to profits. To be able to earn profit, the firm has to excel in all its functionalities, viz., procurement, production, sales & marketing, accounting & finance. Thus, even if profit is the objective, it has to be broken down to the relevant objectives for each of these areas</p>			
Economic Objectives	Organic Objectives	Social Responsibilities	Legal, Ethical and Environmental Objectives
<p>Sales, profits, return on investment, efficiency (resource conservation, achieving more from less) economic value added (profits in excess of cost of capital invested in business), market share</p>	<p>Survival, health (age of assets, fitness of human resources, reserves-capital, general and contingency) growth, diversification of capabilities</p>	<p>Community service, education, health, sanitation, heritage conservation, community support during calamities & disasters, etc.</p> <p>Specific responsibilities toward employees, investors, customers, suppliers, competitors, etc.</p>	<p>Respect for law in letter and spirit, fair practices, transparency, truthfulness, honesty & integrity. Green technologies, products-usage & disposal, lower emissions, effective waste handling and disposal, preservation of air, water and soil quality</p>
Responsible businesses: wishful thinking or meaningful enterprise?			
<p>Asbah- India's first social enterprise focused on women</p> 	<p>ITC- The Greenest Hotel Chain in the World</p> 	<p>Lemon Tree Hotels- providing gainful employment to persons with disabilities</p> 	<p>Hindustan Unilever Ltd.'s Project Shakti for Empowerment of Rural Women</p> 

The plurality of the objectives of business suggests that businesses must be assessed not only in terms of their economic returns but also their social and ecological returns.

In fact, the trend surely is towards development of more holistic and more balanced measures of business performance. We as society should be aware of and motivate the business which justify their purposes and conduct their businesses fairly, while caring for the community, society and the environment in which they operate. Even though the onus has been hammered on the businesses to be aware and socially responsible, we all at our individual levels have to be aware and responsible towards ecological and social harmony.

1.5 FORMS OF BUSINESS ORGANISATION

While elaborating business as an economic activity we have seen that forms of business may be discussed on a variety of criteria. **For example**, on the basis of the nature of activity undertaken a business may be engaged in industry, trade or other services; and on the basis of size and scale of the activity undertaken, business may be classified as micro, small, medium and large. Generally, however, whenever we refer to forms of business organisation, the attention is drawn to the types of private business ownership.

Before we take up a brief discussion of the various forms of business ownership it is important to take note of the following points about business ownership.

- ◆ **Business ownership is a bundle of rights:** Ownership is a bundle of rights. These rights accrue because a person has invested money in it. First such right is the titular exclusiveness. If you own a book, no one else can claim its ownership (others may own their respective copies). You may use it that is derive benefit from. You may also lend it or sell it or donate it on your will. Likewise, business ownership occurs by investment of capital. Profits earned belong to the owners. However, if there are losses, these are also to be incurred by the owners. Business owners also have a right to run the business that is manage and operate it on a day-to-day basis. However, in certain forms of business ownership can be separated from management. An important right associated with business ownership is the right to dispose off and transfer the ownership of business. It also includes transfer of ownership by succession after the owner's death. Such a succession occurs smoothly when the person acts prudently and divides the ownership in business among the successors by a registered will.
- ◆ **Business may be owned singly or jointly:** A business may be owned singly i.e. as a sole-proprietorship concern. Else it be organised as a partnership or even a larger collective such as a cooperative. When owned singly, if all the profits belong to the single owner, so do the losses. Shared ownership by pooling of capital will facilitate undertaking large projects. However, there is a prudential reason for shared ownership too and that is sharing of risks.

Joint family business – a concept legally covered under Hindu Undivided Family Act in India - views business as a family property and vests its ownership among the members of the family. Here the sharing of ownership is guided not as much by the possibility of raising large sums of capital or diffusion of business risks as it is guided by the consideration of equitable distribution of ownership rights among the family members.

In fact, business/ organisational theorists and thinkers keep contemplating on forms of ownership whereby the impact of business adversities on owners - whether single or joint- can be minimised. Since businesspersons own the business –with all its assets and liabilities, all its usufructs whether

favourable (profits) or unfavourable (losses) accrue to them. And in the event business liabilities are more than business assets, their personal wealth would be utilised for meeting the business liabilities. There is no distinction between the businessperson and business. One such innovation to minimise this drawback of no proper ownership separation is the idea of limited liability. The idea of limited liability limits the liability of the businessperson just to the extent of their investment in business. This idea was initially implemented in company form of business and later in partnership form as well (**Limited Liability Partnership - LLP**).

- ◆ **Business may be organised as a proprietary or a corporate concern:** In proprietary concerns, business owners actively participate in the day-to-day working of the enterprise. Known as owner-managers, businesspersons / entrepreneurs are thus not passive providers of investment capital alone. Business, thus, automatically becomes subservient to the self-interests of its owners. Obviously, such a situation would be more feasible when there are 4-5 co-owners and the nature and size of business is such that it can draw on their competencies and capabilities. Let us think of businesses where number of persons holding a share in the capital of the enterprise is large (in hundreds, thousands and hundreds of thousands) who are also geographically dispersed. In such cases a separation of ownership from management would be inevitable. The managers act as the agents of and in the interest of the share owners (the principals). Further, organisation of business as a corporate entity endows it with certain other peculiar characteristics too that we will take up as we describe company form of business. We have already seen that such a form is characterised by limited liability of the share owners. A serious limitation of proprietary businesses is that the life of the business is entwined with the health and life of the owners. Corporate form does away with this limitation as well, because a company exists as a separate person distinct from its owners in the contemplation of law. As a separate legal person, it has a life of its own, independent of the lives of its share owners. To sum up, when the business is small and closely knit, the owners and business are one and the same, thus forming proprietary forms of business. But, as the business grows and wants more people to become part of ownership to share greater capital, risks as well as rewards, the business opts for corporate form.

Having familiarised ourselves as to the facts that (a) business ownership is a bundle of rights; (b) a business may be owned singly or jointly; (c) and, that a business may be organised as a proprietary or a corporate concern, let us examine the various forms of private and corporate business more closely.

1.5.1 Sole Proprietorship

When an individual makes a choice to start a business of one's own, to be one's own boss, a sole-proprietorship emerges. As such it can be regarded as **the easiest and the earliest form of business** as a human occupation. One may open a daily needs store in a corner room of one's house. Or may just set-up a shop on the pavement in weekly bazars. Or may open a machine shop in the backyard or in a thinly habituated lane of a not so distinct locality. This form of business organisation is much appreciated in entrepreneurship literature. The sole entrepreneur is regarded as an **economic hero**, an autonomous individual who organises production, uses creativity and ingenuity in innovation, bears risks and uncertainty. Drawing analogy from music, the sole entrepreneur is not merely the composer and director of the enterprise orchestra but also a **one-person band**. Of course, when the business grows such an autonomous behaviour becomes a limiting factor, as the entrepreneur/ sole-proprietor is required to share decision-making and let go control over the business.

The business undertaken could be on such a **small-scale** that it may be hardly distinguished from self-employment. It may not be even registered as a micro or a small-scale business enterprise or industry. It is an interesting fact that a very high proportion of micro and small businesses in India are unregistered. Usually these enterprises, more so local retailers and street vendors are so well integrated with the communities that they **enjoy people's trust** and **provide personalised services**. Together, these comprise the **unorganised or informal sector** of the economy. It is significant to note that even though individually these might appear of not much impact, yet collectively such enterprises make a tremendous contribution to the national economy. You would have observed that **numerically these enterprises are the largest**. Their collective **contribution to GDP, Employment and even exports** is very impactful. This impact is even more considerable when we take into account their **indirect contribution** as suppliers to larger and even multinational enterprises. Their importance is summed up in the cliché 'small is beautiful.'

On the flip side, **products** from such enterprises are often **derogatorily called "local"** (to distinguish from *branded*). In common perception, **working conditions** in these enterprises are **poor**. These enterprises are believed to follow **hire and fire** policy, there is **lack of employee welfare** measures and they **lack** systems to effectively deal with **social and environmental concerns**. **Fate of the enterprise is linked with the personal well-being of the owner**. This adversely affects consistency of operations of such enterprises as the suppliers to large and multinational enterprises. It also adversely affects those desirous of long-term contracts with these enterprises. For these above reasons, large and multinational enterprises prefer to transact business with corporate entities.

The foregoing paragraphs briefly evaluated the role of small sole proprietary firms in the economy. From the BCK perspective, and this is going to be our focus henceforth, it would be more useful to examine this and other forms of business organisation from the point of view of those who create it.

In sole (sole = single individual) proprietorship, the individual essentially relies on **personal savings and assets** (e.g. room of the house; home furniture; personal bicycle/ vehicle) to pool in the initial capital of the business (**Note:** investment of cash or in kind by the owner is called capital). However, in a modern economy where the financial system is fairly developed, it is often possible to obtain **micro-finance** (loans in small denominations, say in amounts within thousands) and **bank finance**. While in a more developed financial system where the importance of entrepreneurship and business is recognised, there may be **business facilitators** who may assist the individual in obtaining finance and other help. We shall be reading about them later in next chapters. Good news is that, in India there is a lot of emphasis on business start-ups and entrepreneurship. As a result, sole-proprietary firms are able to quickly attain a commercial scale distinguishable from mere self-employment. **All the profits** of the enterprise accrue to the sole proprietor **and** so do the **risks** of business.

Features#1: Sole Proprietorship

Features	Whether merit or limitation and how
Autonomy of being one's own boss	Merit. Because of freedom from the restrictions of paid employment. Ample scope for experimentation and expression of one's creativity and innovativeness.
Sole provider of capital	Limitation. This limits the size of business. Yes, banks and lenders may provide additional resources. However, borrowing capacity too is determined by capital adequacy. This feature also limits the capacity to grow.

Visibility of the owner and personalised services	Merit. For example, the personal rapport with the customers engenders trust and loyalty.
Sole bearer of risks	Limitation. This arises from being the sole provider of capital. If all the profits belong to her, so do the losses.
Unlimited liability	Limitation. It is a common limitation of proprietary forms of business organisations. In the event of insolvency i.e. Liabilities > Assets, the owners' personal assets are invoked to make up the deficit.
Fate as a going concern (going concern= enduring life of business in the foreseeable future)	Limitation. Sole proprietary entities going concern status depends on the owner's personal health and life span. And, after his death upon the willingness and the ability of the heirs/ successors in the family.
Succession of ownership	By will [aka. Testament] or application of the law of inheritance. A will or testament is a legal document by which a person, the testator, expresses their wishes as to how their property is to be distributed at death, and names one or more persons, the executor, to manage the estate until its final distribution. If the will is non-existent [i.e. for intestate succession] the applicable law of inheritance will come into force. For example, for the Hindus, Buddhists, Jains and Sikhs, The Hindu Succession Act, 1956 is applicable.

1.5.2 Hindu Undivided Family (HUF) Business

HUF is an entity formed automatically by members of the common ancestry including their wives and daughters. An HUF cannot be formed by a group of people who do not constitute a family. As such, a joint Hindu family in India is, in fact and by default, an HUF. **An HUF enjoys a separate entity status under the Income Tax Act.** The Income Tax Act considers HUF as a separate entity, if, the joint family wishes to register itself as such for reporting income under the following heads: Profits and gains from business or profession; Income from house property; Capital gains; Income from other sources. Since under the Income Tax Act HUF is a separate entity from the joint family that comprises it, **a HUF cannot earn income from salary.** We are concerned here with business owned by a HUF or simply stating Joint Hindu Family Business (JHF) or Hindu Undivided Family (HUF) Business. Before we describe its features, it would be appropriate to clarify a few points on its meaning. The meaning becomes clearer with reference to the prevalence of Joint Family System in India. The very essence of an HUF begins with Family. A family is formed by marriage. Let's call it the first generation. Marriage in most societies is a means to creating progenies /children. Thus, there is second generation comprising the siblings. These siblings grow up, get married and further have children. Now there is a third generation, a consortium of cousins. In the paternal lineage, thus there is grandfather, father and grandchildren. These **three successive generations of an undivided family are known as HUF.** Secondly, though the word Hindu is conspicuous, the definition of HUF includes Buddhist, Jain and Sikh families as well. Thirdly, **for the purposes of understanding HUF's features as a business entity, another important relevant law is the Hindu Succession Act, 1956.**

Features #2: HUF Business

Features	Whether merit or limitation and how
Formed by birth in a Hindu (Buddhist, Jain and Sikh) family	Merit. Family members may naturally join each other in business. In contrast, in a Muslim family if the siblings wish to associate in a business, they will have to do it contractually e.g. Partnership Agreement
Family pool of resources	Merit. It is possible to start / expand a large business. Moreover, the common pool of capital may be utilised to diversify business in sync with the aspirations of the members of the successive generations of the family.
Social capital through family involvement	Merit. There is an instant trust among the family members as compared with the situation of partnership with strangers. Family members toil hard to build the family business. Moreover, they may specialise in different business functions for greater complementarity of the mutual skills.
The family members are the automatic co-owners (called co-parceners) by birth	Limitation. Ownership in family business is an ascribed rather than earned status. It can actually be quite frustrating for the outsiders e.g., hired managers who help build the business
Decision making is quick	Merit. In the absence of other active major members of the family, the head of the family known as Karta takes all the decisions. Subsequently decisions are taken by and in the family. Prevalence of mutual trust, informality of communication makes decision-making quick.
Unlimited liability of the Karta	Limitation. It is a common limitation of proprietary forms of business organisations. In the event of insolvency i.e., Liabilities > Assets, the owner's (here the Karta) personal assets are invoked to make up the deficit. However, the liability of the other family members is limited to the extent of their share in the co-parcener.
Fate as a going concern (going concern= enduring life of business in the foreseeable future)	Limitation. Few family businesses last beyond third generation. Often family feuds result in business splits. In India the splits in the business houses of Birla, Modi, Goenkas and more recently the split in the second generation of Ambanis are instances to this effect.
Succession of ownership	By will [aka. Testament] or application of the law of inheritance. A will or testament is a legal document by which a person, the testator, expresses their wishes as to how their property is to be distributed at death, and names one or more persons, the executor, to manage the estate until its final distribution. If the will is non-existent [i.e. for intestate succession] the applicable law of inheritance will come into force. For example, for the Hindus, Buddhists, Jains and Sikhs, The Hindu Succession Act, 1956 is applicable.

1.5.3 Partnership

Partnership implies **contractual co-ownership** of a business. It is a relationship between two or more persons who **agree** to share the profits as well as losses of a business. The business may be carried on by all or by some of the partners (called active partners) for and on behalf of all. The contract - an agreement enforceable at law - called 'deed' is the essence of a partnership, called the Partnership Deed. It may be verbal or written. It

specifies the bases of association of the persons in a partnership business e.g. capital contribution, profit sharing, etc. (See Features #3). The deed may be registered in India, under the Indian Partnership Act, 1932. The liability of partners in a partnership is unlimited. They can be called upon to pay the partnership's liabilities from their personal wealth.

Features#3: Partnership

Features	Whether merit or limitation and how
Agreement	Merit. The agreement makes possible co ownership of business by persons who do not share a common ancestry of a family.
Two or more persons	Merit. Partnership allows raising of funds beyond the resources of an individual / sole proprietor. In fact, even a company, being an artificial person can be admitted as a partner! Limitation. There is a cap on the maximum number of persons. Partnership is governed by Indian Partnership Act, 1932. However, the Partnership Act does not lay down any maximum number of partners. But according to section 464, Rule 10 of Companies Miscellaneous Rules, 2014, maximum number of partners is 100. Earlier, according to section 11 of the Companies Act, 1956 a partnership for a banking business must not have more than 10 partners and for other business it must not exceed 20.
Profit sharing	Merit. For there is risk sharing too. However, whilst profit sharing is an essential feature of partnership, loss sharing is not. Certain partners may be admitted only in the profits of the firm e.g. minor partners.
Business object quite wide	Merit. A partnership cannot be formed for non-business purpose. However, the word business here includes every trade, occupation and profession. For example, many accounting/ auditing and legal firms are organised as partnership firms.
Mutual agency	Merit. Mutual agency – that is one for each other and for all ensures that all the partners work in the common interest and in the interest of the firm. Limitation. A partner's misdeeds impact all the partners and the fate of the firm. For example, if a partner in an auditing firm becomes a party to a corporate scam, its impact may be disastrous for the firm.
Unlimited liability	Limitation. It is a common limitation of proprietary forms of business organisations. In the event of insolvency i.e. Liabilities > Assets, the partners' personal assets are invoked to make up the deficit. Owing to the mutual agency, the liability of all the partners is both joint and several.
Fate as a going concern (going concern= enduring life of business in the foreseeable future) is uncertain	Limitation. Since partnership arises out of contract, it also ceases in the same way. A partner may serve a notice of severance to the firm and the partnership comes to an end. The remaining partners may agree to carry on the business of the firm; however, the severance cost and the loss of momentum makes partnership a vulnerable form of business organisation.
Succession of ownership	Limitation. Ownership is not easily transferable. A new partner can be admitted only if other partner's consent.

1.5.4 Limited Liability Partnership (LLP)

Drawing on its name, LLP form of business organisation is the one where **the liability of the partners is limited**. However, there is much more to this form. It has **to be mandatorily incorporated /registered** under the Limited Liability Partnership Act, 2009. The Ministry of Corporate Affairs, the apex body of regulation of the company form of business organisation in India oversees the governance of the LLP too. For the purposes of compliance with the regulations thus imposed, the LLP Act provides for **designated partners**. **Thus, an LLP has well designated partners**. Upon incorporation, LLP becomes a **separate legal entity** and has an identity (name and identification number) as well as life of its own, much the same way as is **perpetual succession** for a company.

The features of:

- (a) mandatory incorporation and
- (b) separate legal entity of the LLP

makes it a **hybrid form** of business organisation i.e., containing the features of both the corporate form as well as proprietary form of business organisation. These two features do away with the twin limitations of the traditional partnership, viz., unlimited liability and the uncertainty as a going concern (see Features #3).

Features #4: LLP - An Overview

Features	Comparison with Traditional Partnership	Whether merit or limitation and how
Limited liability. No personal liability of partner, except in case of fraud.	Unlimited personal liability of each partner for dues of the partnership firm. Personal assets of each partner also liable.	Merit. This does away with a major limitation of traditional partnership
Incorporation is mandatory.	Partnership is registered under partnership Act. Registration is not mandatory.	Merit. The mandatory registration brings the firm under the regulatory purview of the Ministry of Corporate Affairs. This increases its credibility.
It is a legal entity separate from its partners.	Not a legal entity separates from its partners.	Merit. This does away with the uncertainty of the firm's existence as a going concern.
Minimum 2 and no limit on maximum number of partners.	Minimum 2 and maximum 100 partners	Merit. The upper limit in the traditional partnership restricted the scope of business and future expansion plans.
ROC is the administrating authority.	The registrar of firms (of respective states) is the administering authority	Merit. There is body to control that brings credibility in the eyes of stakeholders.

Statutory compliances	Not many	Limitation. Designated partners to ensure the compliances. However, in comparison with the companies, the compliances are fewer and simpler.
Every partner of LLP is only agent of firm	Every partner of firm is agent of firm and also of other partners.	Merit. Absence of mutual agency enhances freedom at one hand; and, on the other hand frees the other partners of the burden of responsibility of the acts of a partner.

1.5.5 Company

Company form of business organisation is the flag bearer of corporate businesses. Company indeed is a body corporate, having an existence independent of all its members. It exists in the contemplation of law, has a distinct name, address (Registered Office) & identification number. Some recently introduced concepts in company form of business are:

One Person Company (OPC) - **In fact, the OPC has been the most recently introduced form of business organisation in India vide The Companies Act, 2013.** It is still in an emerging status. Yet it is being hailed as a likely catalyst in unleashing the entrepreneurial spirit in India. Recall that we posited sole proprietorship as the classical hallmark of entrepreneurship; OPC is likely to be its corporate form.

In addition, the Companies Act 2013 also provides for the incorporation of a **small company** in acknowledgment of the role of small-scale enterprises in India.

Interestingly, the Act also provides for the incorporation of a **dormant company** that may be created for a future project or to hold an asset or intellectual property and has no significant accounting transaction.

We shall, for the purposes of this chapter however restrict to the discussion of two forms of companies/corporate forms of businesses;

- ◆ Private Companies
- ◆ Public Companies

We are already aware of the ideas of independent legal existence, limited liability and separation of ownership from management. We have also seen how a corporate status instils credibility and trust among the business associates. Let us emphasise how the idea of a joint stock company led to mobilisation of a large amount of capital directly from the savers (people who have saved money and want to invest, and they invest by buying shares/part of ownership of a company) by issuing of shares (a share is a share /portion of the capital of a company) in smaller denomination. In the process, capital market is developed and the ownership of productive assets of an economy is democratised. Albeit this remains an ideal to aspire, as in practice, the ownership of many public companies in India and other Asian countries is highly concentrated among a few hands/promoters, who own maximum number of shares of a particular company.

In order to make the system of diffused ownership of the joint stock companies and their management work, **an elaborate system of corporate functioning and the regulation of capital market** has to be in place. The Companies Act, 2013 focuses on the former; and the Securities & Exchange Board of India Act, 1992 focuses

on the latter. A company has to file a Memorandum of Association (**MoA**) and Article of Association (**AoA**) along with application for incorporation. The MoA, among other things, spells out the objectives of the company and its business. The AoA focuses on its internal regulation. The company solicits capital contribution, it calls for people to invest in its shares and buy part of ownership, by issue of a **prospectus**. There are elaborate provisions in the Companies Act and the **SEBI** Act to ensure that the prospectus contains such true and correct information as may enable the public to form an informed judgment on whether or not to invest in a company. A common man can avail the services of investment advisors in this regard.

Further, there is a requirement of the **statutory audit** of the accounts of a company and publication of its **quarterly results** to keep the investors well informed. The SEBI also oversees the subsequent trading of the company shares and the contract of **listing** by which the shares of a company are put up for trading on a stock exchange. The listing agreement, among other things, also enjoins upon the companies to carry on business in an ethical, transparent and accountable manner.

Publicly traded / listed companies, the ones whose shares are traded on the stock exchange, have to meet stringent criteria of both the Companies Act and the SEBI. This increases the cost of compliance. In contrast, private companies have lesser compliances to meet and have greater flexibility in their internal functioning. The law provides these **privileges** to the private companies because these are closely held, and the owners have greater opportunity to exercise control over the management of these companies (Features # 4). There is little surprise that **the Indian corporate sector is numerically dominated by private limited companies. In fact the world over there has been a distinct trend toward “privatisation” of such public limited companies in view of growing costs of compliance.**

Features #5: Private Limited Company vis-à-vis Public Company

Features of Private Company	Features of Public Company	Comparative Assessment
Minimum number of members: 02	07	Lower number of minimum members too eases of formation
Maximum number of members: 200	No limit	No upper limit on the members of public company puts on its disposal enormous funds.
There are restrictions on transfer of shares	The shares may be freely tradable on stock exchange via listing.	Listing of the shares of a public company adds to their liquidity so that the investors may encash the shares whenever needed.
Minimum number of directors: 02	03	Not of much consequence. Smaller board size adds to the internal efficiencies.

Private companies are exempted from constituting such committees of the Board of Directors as Audit Committee, CSR Committee, Stakeholder Committee and the Nomination and Remuneration Committee	These committees are to be mandatorily constituted.	More liberal a governance regimen of private companies exists because common man's money is not on stake in their share capital.
It can start business upon incorporation	A public limited company is required to obtain Certificate of Commencement of Business in addition to the Certificate of Incorporation.	Fewer formalities add to the attractiveness of private limited companies, more so corporatization of proprietary concerns e.g. partnership firms. Albeit now there is also an option for the partnership firms to convert to LLP.

Before we close this chapter, let us remind ourselves that the foregoing discussion of the forms of business organisation just deals with their broad, distinct features. The finer details have been left for subsequent papers that you will be studying en route to attaining your CA qualification.

SUMMARY

Business and Commercial Knowledge (BCK) is a vast, eclectic and an ever evolving and ever-expanding universe of knowledge. Professionals like Chartered Accountants whose primary arena of work comprises businesses must enhance their awareness of and engagement with the philosophies, lexicon and grammar of BCK. It is foundational to grasping the core. Thus, it is unlikely that one can truly master accounting and taxation that in popular perception comprise the core of the chartered accountancy without adequate base in BCK.

In this chapter, we have situated business in the wider context of human engagements, more so in the context of a myriad of economic activities. We have seen that business, as an economic activity is distinguishable from employment and profession. It focuses on production not for self-consumption but for markets. It is characterised by investment intensity and employment generation potential. It spurs economic growth via entrepreneurial initiative and creativity. We have also described the meaning of business ownership and the various forms it may take - single or sole and joint; proprietary and corporate. We have seen how unincorporated enterprises, more so sole proprietorship comprises the informal sector, individually not as powerful but collectively an economic force to reckon with. The ownership of such enterprises is fraught with the fallouts of unlimited liability and their status as going concerns with fragility. We also saw how Hindu Undivided Family businesses comprise a distinct Indian form of business organisation. Finally, we focused on the growing corporatisation of the economic system. We studied as to how this form necessitated the development of a comprehensive system of incorporation, accounting, audit and accountability of the corporations toward the various stakeholders.

Annexure-I

Observation Card- Illustration 1

Item/s	Sofa, Tables, Chairs
Group of Item / Industry	Furniture
Whether procured directly from the producer	Yes
The most likely source of procurement	Furniture Showroom
Chain upto the original producer	Furniture Workshop
Remarks if any	It is common that workshop and showroom comprise an integrated set-up even as these might be located at different places. However, there has been a marked change in consumer preferences for branded furniture and such sources as Pepperfry, Urbanladder, etc.

Observation Card – Illustration 2

Item/s	Books
Group of Item / Industry	Publication Industry
Whether procured directly from the producer	No
The most likely source of procurement	Retail Book Store
Chain upto the original producer	Retailer-Wholeseller/ Distributor-Publisher
Remarks if any	Books are increasingly being purchased online. Moreover, e-books are also downloadable from publishing websites.

TEST YOUR KNOWLEDGE

Multiple Choice Questions

- Consider the following table showing columns for the nature of economic occupation and the corresponding characterisation of income and then, choose the right solution option from the alternatives given below the table.

Economic Occupation		Income Characterisation	
i.	Employment	a.	Profit
ii.	Profession	b.	Wages & Salaries
iii.	Business	c.	Interest
iv.	Land / Property Rental	d.	Rent
v.	Lending	e.	Fees

8. Which of the following statements describes the best Joint Hindu / Hindu Undivided Family (HUF) Business?
- (a) It is a form of business particular to and recognized as such in India
 - (b) Every family business is in fact a HUF Business
 - (c) In HUF businesses, there is a family involvement in business
 - (d) Either (a) or (c)
9. Sustainable development/ businesses imply:
- (a) Consistent economic performance
 - (b) Attention to social problems
 - (c) Harmony with nature
 - (d) All of the above
10. Which of the following statements characterises the best non-economic activities?
- (a) Non-economic activities do not require any investment of resources
 - (b) These activities do not entail any operational costs
 - (c) These activities are undertaken by ascetics
 - (d) The underlying purpose of these activities is not earning of a livelihood but social, psychological or spiritual satisfaction
11. The Indian Companies Act provides for the registration of:
- (a) Private Limited
 - (b) Public company
 - (c) One person company
 - (d) All of the above
12. Find out the incorrect statement:
- (a) Sole proprietor is a business unit having unlimited liability
 - (b) Limited liability partnership firm may be constituted
 - (c) HUF business may be formed by a group of people who do not belong to family
 - (d) Hindu includes Buddhist, Jain and Sikh families
13. Which of the following is incorrect?
- (a) Economic Activities are driven by profitability
 - (b) Economic Activities are guided by self interest
 - (c) Non-Economic Activities are driven by emotional or sentimental force
 - (d) Non-Economic Activities are not at all important in life
14. Which of the following is not considered an economic activity?
- (a) Saving & Investment
 - (b) Production & consumption

- (c) Service of Chartered Accountant
 - (d) Providing free medical aid by Doctor
15. Maximum number of members in a Private Limited Company is:
- (a) 50 (b) 200
 - (c) 20 (d) 500
16. Which of the following is incorrect?
- (a) Private company has minimum 2 and maximum 200 members
 - (b) Public company has minimum 7 and maximum no limit
 - (c) Private company shares are freely tradable on stock exchange
 - (d) Companies Act 2013 provides that there may be constitution of One Person Company
17. Which of the following is incorrect in reference to Partnership?
- (a) Contractual ownership of business
 - (b) Liability of partner is limited to the extent of one's share capital
 - (c) The contract is an agreement enforceable at law is called deed
 - (d) Deed may be registered in India under the Partnership Act 1932

Find the odd one out from the following from 18 to 21.

18. A partnership may be formed to carry on:
- (a) Any trade (b) Employment
 - (c) Profession (d) Social enterprise
19. There can be partnership between:
- (a) Natural persons (b) Artificial persons
 - (c) Partnership firms (d) Any combination of natural and artificial persons
20. HUF can comprise members of a:
- (a) Hindu & Sikh family (b) Jain family
 - (c) Buddhist family (d) Muslim family
21. The attribute of a profession does not include:
- (a) Rendering of specialized nature of services
 - (b) Certificate of service from government
 - (c) Self-imposed code of conduct
 - (d) All of the above
22. In which form of business do the owners have obligations to pay off liabilities from personal wealth as well if the businesses money and assets are not enough?
- (a) Private Company (b) Public Company
 - (c) HUF (d) LLP

23. What are the two animal references in Stock Market Jargon?
- (a) Cow and Sheep (b) Lion and Deer
(c) Bulls and Bears (d) Horses and Donkeys
24. We can classify all similar businesses relating to a particular activity as.
- (a) Business (b) Companies
(c) Organisations (d) Industry
25. Which apex body of regulation oversees the governance of LLP?
- (a) RBI
(b) Ministry of Commerce and Industry
(c) Ministry of Corporate Affairs
(d) Ministry of Micro, Small and Medium Enterprises
26. In recent news articles from around the world, there has been an increasing trend of “Privatisation” of Companies. Why is there such a trend?
- (a) To save taxes
(b) To save the costs of compliance requirements
(c) To make personal wealth
(d) To be more sustainable and socially aware
27. Which of the following is not true about a Limited Liability Partnership (LLP)?
- (a) Separate Legal Entity
(b) Incorporation not mandatory like normal partnership
(c) Designated Partners
(d) Hybrid Form of Business Organisation
28. Which of the following statements cannot be associated with Business?
- (a) Revenue and profits are core to every business
(b) Only an educated person can start a business
(c) Capital is needed to start a business
(d) It is better to be aware of Legal Compliances for all businesses
29. Dormant Companies can be incorporated for which of the following purposes?
- (a) For Future Projects
(b) Holding Intellectual Property
(c) Both a or b
(d) Only for creating a dummy company to book insignificant transactions
30. Head of a Hindu Undivided Family is called?
- (a) Father
(b) Karta

- (c) Coparcener
(d) Mitakshara
31. This is an In-basket enterprise. Put the serial numbers of the activities given below into the baskets labelled as economic and noneconomic activities.
- (a) Cooking of food by the homemaker
(b) Dabbawalla picks up the food from home and delivers it to the office
(c) Playing of piano as a hobby
(d) Pianist in a band
(e) Music Composer
(f) Elder sibling assisting the younger one in studies
(g) Giving private tuitions
(h) Shopping
(i) Cycle repair shop
(j) Ice-cream vendor
(k) Exercising in the park
(l) Fitness training
(m) Volunteering at an old age home
(n) Employment in a charitable organisation
(o) Laundry shop

Answer Keys

1	(c)	2	(c)	3	(a)	4	(d)	5	(c)
6	(b)	7	(b)	8	(d)	9	(d)	10	(d)
11	(d)	12	(c)	13	(d)	14	(d)	15	(b)
16	(c)	17	(b)	18	(b)	19	(c)	20	(d)
21	(b)	22	(c)	23	(c)	24	(d)	25	(c)
26	(b)	27	(b)	28	(b)	29	(c)	30	(b)

31.

Economic Activities b, d, e, g, h, i, j, l, n, o	Non-Economic Activities a, c, f, k, m
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