3. NATURE OF BUSINESS

A business is an economic institution. It is concerned with production and distribution of goods and rendering of services in order to earn profits and acquire wealth. A large number of different types of enterprises, viz., sole traders, partnership firms, companies and cooperative societies, are there in business. They are operating from small scale as in case of a provisions store that we see in our neighbourhood to large industrial houses as in the case of Ambanis, Tatas, Birlas, Mittals etc.

Definition of Business

Various experts have defined the term 'Business' in different ways. Some the popular definitions of business are given below.

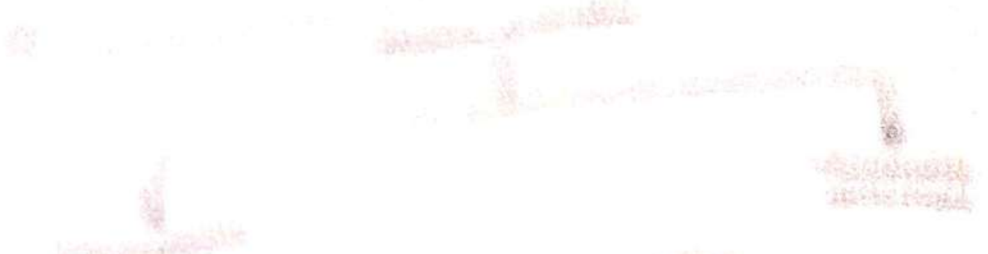

Figure 1.1 Human activities

[illegible]

[illegible]

[illegible] undertaken for the following reasons:

(a) Personal satisfaction (eg., meditation)

(b) Physical well being (eg., exercise, sports etc.)

(c) Religious obligations (eg., worshipping, contribution to temples)

(d) Love and affection (eg., cooking food for the family, tending to a sick family member, teaching children, taking care of family members needs etc.,)

(e) Social obligations (rendering relief during natural calamities, contribution to charities etc.,)

Economic Activities

Activities undertaken with a monetary motive are termed as economic activitie

Men do not live by sentiments alone. For their survival they need fo clothing, shelter, education and medical care. With the advancement of soci many more things have come to be regarded as necessities, for making convenient and pleasant. To have all these facilities, people need money. He uman beings undertake certain economic activities for earning mon velihood. Working as: a professor in a college, a doctor in a hospital, a wo factory, a farmer in a field and as an employee in an office, a merchant ods, or an industrialist manufacturing goods, all these are instances of ec tivities. These economic activities are concerned with production, e d distribution of goods and services with a monetary motive.

mples of Economic Activities

(a) Manufacture of goods by a manufacturer. Eg., Hero Hon bikes), Boeing (Aircraft), Tata Motors (Cars), Titan (Watc Cements (Cement).

(b) Retailer selling goods to customers. Eg. RPG group (Spencers), Subhiksha, Pantaloon etc., are some of the organized retailers in India selling goods to customers.

(c) Insurance of risks by an insurance company. Eg., LIC, Prudential ICICI, Birla Sunlife, Bajaj Allianz, HDFC Standard Life, AVIVA etc., in Life Insurance.

GIC, ICICI Lombard etc. in General Insurance.

(d) Banking operations (accepting deposits and lending money) carried out by Banks such as SBI, Indian Bank, ICICI Bank, HDFC Bank etc.,

(e) Transportation of goods by a transporter like Transport Corporation of India, Patel Roadways etc.

(f) Healthcare services provided by hospitals like Appollo Hospitals, Vijaya Hospitals, Sundaram Medical Foundation, Arvind Eye Hospitals etc.,

Classification of Economic Activities

We can further classify these economic activities into three groups :

(a) *Business :* Business includes all activities concerned with the sale o exchange of goods and services with the objective of earning profits

(b) *Profession :* An activity which involves the rendering of personalise services of a specialised nature based on professional knowledg education and training is called a profession. Services rendered doctors, lawyers, chartered accountants, engineers, etc., come unc this category.

(c) *Employment :* Any activity assigned to a person by the employer un an agreement or rules of services comes under the category employment. A person who undertakes such activity is called emplo For performing such activity, the employee receives remuneration the employer in the form of wages or salary, allowance, bonus etc

Let us now concentrate our attention on 'Business'.

3. NATURE OF BUSINESS

A business is an economic institution. It is concerned with productio distribution of goods and rendering of services in order to earn profi acquire wealth. A large number of different types of enterprises, viz., sole t partnership firms, companies and cooperative societies, are there in bu They are operating from small scale as in case of a provisions store that w our neighbourhood to large industrial houses as in the case of Ambanis Birlas, Mittals etc.

Definition of Business

Various experts have defined the term 'Business' in different ways. the popular definitions of business are given below.

H Haney : "Business may be defined as a hum producing or acquiring wealth through buying and selling of goods

Peterson and Plowman : "A single isolated transaction of sale and pu will not constitute business. Repeated transactions of sale and purcha mean business".

Spriegal : "Business is more than buying and selling, it is more production. It is more than rendering a service to the buyer. Business is made of joys and disappointments, monotonics and thrills, ups and downs, hard and rewards".

McNoughton : "The term business means the exchange of goods, money services for mutual benefit".

The term business covers all activities which are connected with the produc or trade of goods and services in a profitable manner. It includes activities invol in manufacturing, trade, transportation, insurance, warehousing, banking an finance.

Characteristics of Business

All business concerns irrespective of their size, nature and scale or ownership of business, will have the following essential characteristics.

1. *Dealings in goods and services* : Business deals with goods and services. The goods may be consumer goods such as clothes, soaps, milk, shoes, furniture, etc., They may be industrial goods such as machinery, equipment, etc., which are used for further production. Business also deals with services such as transport, warehousing, banking, insurance etc.
2. *Production and/ or exchange* : We can call an economic activity as 'Business' only when there is production, exchange, transfer, sale of goods or services for value. If goods are produced for self-consumption o presentation as gift, such activities shall not be treated as business. In business activity there should be two parties, i.e., a buyer and a seller. The should be exchange, sale, transfer of goods or services between these t parties for money. For instance, cooking food for personal consump does not constitute business. But cooking food and selling it to others a price (Ex: Hotel, canteen, mess etc.) becomes business.
3. *Continuity and regularity in dealings* : A single transaction shall n treated as business. An activity is treated as business only whe undertaken continually. For eg., if Mr.X sells his house to Mr.Y it will considered as business, if it is a one time activity. Builders such as C Constructions, Arihant Properties or Jain Housing buying or selling flats etc., is a business because they are regularly involved in cons and selling flats or houses.

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4. *Profit motive* : Earning profit is the primary motive of business. This is not to undermine the importance of the element of service in business activity. In fact, a business will flourish only when it is able to serve its customers to their satisfaction. Profits are essential to enable the business to survive, expand, and to get recognition. The Tata group, Birla group, Godrej group, Reliance group etc., are examples of Indian companies which have grown tremendously through expansion, diversification primarily because they run profitable enterprises.

5. *Element of risk* : In every business, there is a possibility of incurring loss, which is termed as risk. There are two kinds of risks :
   1. *Known Risks* : Losses due to fire, floods, theft, etc., are some examples.
   2. *Unknown Risks* : Examples are changing technology, change in government polices, fashions, etc.

   Any business is characterized by an element of risk and uncertainty because of changes in buyers preferences (scooters to motorbikes, hand winding to quartz watches, textiles to ready mades), change in government policy, change in technology and introduction of new products (type writers to computers, land line telephones to mobile phones, VCR, VCP's to VCD's and DVD's) or increased competition (eg Indian Car Industry - Prior to 1991 there were only 3 companies manufacturing and selling cars in India - Hindustan Motors manufacturing Ambassador cars, Premier Automobiles manufacturing Premier Padmini and Maruti manufacturing Maruti cars. Now there are many companies in addition to the above three, such as Ford, Hyundai, General Motors, Honda, Daimler Chrysler, Tata Motors, Toyota etc. selling cars. Ambassador and Premier Padmini which were once famou cars, now do not have many buyers)

6. *Creation of utilities* : Business makes goods more useful to satisfy huma wants. It adds to production, the utilities of person, time, place, form knowledge etc. Man is able to satisfy his demands effectively an economically with the help of business transactions.

7. *Socio-Economic activity* : Business is primarily an economic function. involves production and distribution of goods and services for t satisfaction of human wants. However, business is a part of society and reflects the aspirations, values and beliefs of people. Therefore, busine may be described as a socio-economic function.

8. *Business is a social institution* : Business is a social institution just government, agriculture, joint family, religion, etc. Business is deeply involv in the effective and productive utilization of the scarce resources of society. Hence, it is expected to provide with necessary leadership direction in solving the numerous problems of the society. It must h workers and consumers alike to improve their standard of living and so welfare.

6. *Business must grow and expand* : Business and stagnation d together. No business can afford to be static. Businesses must expand to survive. Those businesses that do not grow and exp themselves out of the market. For eg., Metal Box, Standard Motors, etc., which were once famous companies today are no longer in the because of their inefficient management, failure to satisfy cu requirements which resulted in their inability to expand or diversify. other hand companies such as Reliance, Infosys, Bharti Enterprises, (Cavinkare etc. which were started with a small capital base toda important players in their respective industries because of their fo growth and expansion. TELCO is a good example of diversificati commenced its business as a supplier of locomotives to the Railway now is a major automobile manufacturer (Trucks , buses, cars) and has rechristened as TATA MOTORS.

4. OBJECTIVES OF BUSINESS

Objectives of business means, the purposes for which business is establis and carried on. Proper selection of objectives is essential for the success business. Objectives serve as the guidelines for the future direction management of business.

According to Urwick, "Profit can no more be the objective of a business eating is the objective of living".

From the above definition we can understand that profits are not the sol of business. Though profit-making is an essential objective of busines enterprise cannot blindly pursue profits without regard to other objectiv profit maximization is regarded as the sole objective of business, it is lik result in unfair practices such as hoarding, black marketing, etc. The profit-m and social service objectives are not contradictory to each other. They go in hand. As stated by Henry Ford, "business is not mere money chasing also should aim at servicing the community".

Objectives of business may be classified into four broad categories. are given below :

Objectives of Business

Economic Objectives	Social Objectives	Human Objectives	National
1. Adequate profits	Right goods	Fair wages	Increasing exports and earning valuable foreign exchange
2. Creating customers	Reasonable price	Good working conditions	Increasing production and import substitution
3. Innovation	Provision of employment	Employee welfare	Supporting government in times of national emergencies
4.	Payment of taxes	Development of employees	
5.	Contribution to social welfare	Job satisfaction	
6.	Better environment		

Economic Objectives

This is the primary objective of a business organization. Business is an economic activity and therefore its purpose is to show economic results. According to Peter Drucker, "the management is an economic organ and every decision of management has its first dimension as economic dimension". The economic objectives of business are as follows:

(a) *Earning of adequate profits :* Every businessman seeks to earn profits by satisfying the wants of people. It is the hope of earning profits which induces people to enter into business. No business can survive without earning adequate profits. Thus, profit is the fundamental economic objective of business. Profits are considered to be the index of business success. It is the accepted yardstick for the evaluation of the efficiency of business. Profits are important because (i) it provides future capital (b) it is the ultimate test of business performance and (c) it is the indicator of business efficiency.

For e.g. TCS (Tata Consultancy Services) is considered to be the number one company in the IT industry in terms of profits. Reliance Industries which started with textiles has been able to expand to petrochemicals, telecom, oil exploration, life sciences, financial services etc., because of its ability to earn high profits and utilize the profits for expansion and diversification.

(b) *Creating cust*
satisfy the needs
profits only when the
goods and services. In the
valid definition of business p
customer is the foundation of b
Therefore businesses should satisfy an
products and services and attract new customers.

(c) *Innovations* : Innovation refers to the commercializati
invention. It involves bringing in changes with the obj
improvement in goods and services. Business is an organ of d
and change. In these days of competition a business can survive
successful only when it is innovative in terms of designs, b
processes, techniques, marketing etc. As Tom Peters
"Organisations and their managers need to get innovative or get
A business can be innovative in any of the following ways:

(1) *Introduction of New Products:* Introduction of pagers, cellular p
CD's. DVD's, Palmtops,

(2) *Introduction of New Services:* Phone Banking, Internet banking,
etc., in banking.

(3) *Introduction of New Processes:* DTP (Desk Top Publishing), C
manufacturing, e-procurement (purchases made through interne
e.g. ITC is procuring farmer's produce directly through its in
platform - echoupal.

(4) Introduction of new methods of distribution. For instance, e-com
(Amazon.com, eBay, Dell Computers), distribution of products
Self Help Groups in rural areas (HLL's Project Shakthi).

(5) New methods of packaging eg.. Tetrapacks (Frooti).

(6) Introducing new raw materials eg., usage of CNG (Compresse
Gas) as fuel in place of diesel and petrol. Gujarat Ambuja
usage of the cheaper rice husk as a substitute for the costl
cement production.

Social Objectives

Business, being a part of the society has obligations towards th
The major social objectives are :

(a) *Provision of quality goods and services:* Customer sati
the backbone of modern business. Hence, a business shou
goods and services of best quality. The meaning of quality
conformance to standards but also ensuring that customers a
For example in the case of food items, quality means whole
well as satisfying customers tastes, in the case of automo
refers to not only transportation but also adoption of lates
styling, safety, fuel economy, features etc.,

(b) *Reasonable prices* : A business cannot survive in the long run if it charges excessive prices in order to maximize its own profits. Prices charged should be according to the value offered by the product or service to the consumers. In today's intense competition, customers demand the world's best quality at the cheapest price. Products which are affordable, enjoy huge markets. For e.g. the introduction of 50 paise shampoo sachets by Cavinkare (Chik shampoo) widened the market for shampoos and the product today enjoys a wide customer base.

(c) *Provision of employment* : A business is expected to provide the means of livelihood to the members of the society. Business provides self-employment to the owners and offers jobs to a large number of people. For e.g. setting up of car plants (Ford and Hyundai), glass manufacturing plants (St.Gobain), cell phone manufacturing plant(Nokia), etc., in Chennai has increased employment opportunities, similarly growth of IT firms (TCS, Infosys, Satyam, CTS, Polaris etc.) has increased employment opportunities for software professionals.

(d) *Payment of taxes* : A business should not shut its eyes to its obligations towards the Government. The government provides the infrastructure facilities such as water, roads, ports, power, telecom etc., Therefore, business owes it to the government to pay its tax dues honestly and in time. It must also dutifully abide by the laws of the land.

(e) *Contribution to social welfare* : A business concern is a part of the society. Therefore, the business should contribute in every way towards social welfare. It must not indulge in undesirable practices such as hoarding and blackmarketing. It must also contribute liberally to social, cultural and charitable organizations, engage itself in promoting health of the community, setting up educational facilities etc. For e.g. Tata's have built an entire township in Jamshedpur comprising of schools, hospitals, employee quarters and provided all the necessary facilities. Infosys donates computers to corporation schools in Karnataka, Polaris Software lends financial support to deprived students, Sakthi Masala and LaserSoft Infosystems provide employment to physically challenged persons, Microsoft has donated computers with Braille system to enable blind persons learn computers and benefit from it.

Better environment : Businesses should strive to ensure a cleaner, greener and healthy environment for the community. Business must not cause any kind of air, water or noise pollution. It must make proper arrangements for controlling any type of pollution. For e.g., tanneries are required to set up Effluent Treatment plants to treat the waste water, Orchid Chemicals is recycling water used in its pharmaceutical plant to void wastage of water resources. Today's customers have high levels awareness and any business which causes environmental gradation cannot hope to survive for long.

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(b) [illegible] working conditions: Apart from the statutory requir to the working conditions, a modern business organisation safe and healthier working environment for its employees space lighting ventilation, provision of safety gear such protective clothing, safety goggles etc., in case of ha occupations increase employee satisfaction and improves perf

(c) *Workers' welfare:* The business concerns should provide their adequate and satisfactory provision for medical aid, education other facilities. The provision of welfare facilities enhanc productivity and profits further. Tata's are pioneers in prom employee welfare in India. They introduced various labour w measures much before government legislation.

(d) *Development of employees:* Among all the assets, it is the huma that has appreciation value. Many businesses are sponsoring emp higher education to ensure that employees have updated know E.g. TechMahindra, Cognizant Technology solutions, Patni Con have tied with BITS, Pilani and are sponsoring their employ higher education through e-learning.

(e) *Job satisfaction:* Organisations should ensure that employ satisfied with their jobs. If employees are dissatisfied it would lower productivity. To ensure job satisfaction, businesses shou sure that the job is able to utilize the potential and interests the em

ational Objectives

Business also plays an important role in development of a nation. It oods and services required by consumers, provides employment oppor ontributes to the government exchequer by way of taxes to the governm ational objectives of a business include:

(a) Exporting goods to foreign countries thereby earning valuable exchange. For e.g. pharmaceutical companies like Ranbaxy, Dr. Labs, Cipla, etc., export a major portion of their product manufacturers such as Hyundai, Suzuki, Tata [illegible] exports cars to different countries. Indian IT companies like Infosys, Wipro, TCS, etc., export software services and solutions and more than 80 % of their revenue is earned through exports.

(b) Indigenously producing import substitution products thereby conserving valuable foreign exchange. For eg. Hepatitis B vaccine which was imported at a high cost earlier, is now produced by Indian pharmaceutical companies like Shanta Biotech and others. This has substantially reduced the cost of the medicine and many people are able to afford its usage.

(c) Providing support to the government in case of national emergencies. During the earthquake in Gujarat, many companies like L&T, Reliance etc., provided men and material to aid in the reconstruction activities. During the recent tsunami tragedy, many corporates provided financial support to the government for carrying relief activities by donating liberally.

5. CRITERIA FOR SUCCESS IN MODERN BUSINESS

Running a business today is a complicated affair. Customers demand the world's best quality at the cheapest prices. Their needs, preferences, tastes and fashions keep changing and businesses have to adapt their products and services accordingly. Competition is on a global scale and businesses have to be aware of competitor's actions and stay one step ahead of the competition. They have to be alert in framing strategies to overcome competition and adapt themselves to he changing environment.

Businesses have to be innovative and adapt themselves to the new echnological changes. Those businesses which have adapted to the changing ustomer needs, new technologies and intense competition have survived and rown. Businesses which have not been able to do so have failed. Once famous rands such as Dyanora, Solidaire, Weston, EC, Bush, TeleVijay etc., in the elevision industry are no longer in existence, because they were not able to odify their products and introduce new products according to the changing eds of the market. The same is the case with Ambassador and Premier Padmini the Indian Car industry, BPL in Consumer Electronics, Binny, OCM, S.Kumar's Textiles and the list goes on. Therefore succeeding in modern business is not easy task.

The following are some of the criteria for success in modern business:

(a) *Clear Formulation of Objectives:* Every business must first formulate its objectives. Clear identification of objectives would help the business to plan its activities in the right manner. The business should decide the products or services it plans to offer, the customer segments to be targeted etc., For example a car manufacturer should decide what type of car it plans to manufacture (small cars, mid segment cars or luxury

Chapter 4

Forms of Business Organisation – Sole Proprietorship and Partnership

Forms of Business Organisation – Selection of Form of Organisation – Sole Trader – Partnership.

I. FORMS OF BUSINESS ORGANISATION

Meaning of Business Enterprise

A business undertaking is an institutional arrangement to conduct one or other type of business activity. According to Wheeler "Business undertaking is an enterprise which buys and sells and is owned by one or a group of persons and is managed under a specific set of operating policies. It is the outcome of the efforts of one or more entrepreneurs who pool together their resources and coordinate their activities to carry on business activity".

Types of Business Enterprises

On the basis of ownership business enterprises are classified as : (1) Private sector enterprises, (2) Public sector enterprises, and (3) Joint sector enterprises.

Private Sector Enterprises

Business enterprises owned by private individuals, singly or jointly, are known as private enterprises. There is no Government participation in the ownership of such enterprises. All non-incorporate enterprises are included in it. Sole trading concern, Joint Hindu Family business, Partnership, Joint Stock company, Co-operative societies, Multinational companies are the main examples of private enterprises.

Public Sector Enterprises

Any enterprise which is established, managed and controlled by government is known as public enterprise. There are three types of public enterprises. These are (1) Departmental undertaking, (2) Public corporations, and (3) Government companies.

Joint Sector Enterprises

Joint sector enterprises consist of those undertakings wherein ownership, management and control are shared jointly by the Government, private entrepreneurs and the public. Maruti Udyog Ltd., Cochin Refineries and Gujarat Fertilisers are few examples of joint sector enterprises in India. Co-operative form of enterprises also come under this sector.

[illegible]

[illegible]

[illegible]

[illegible]

The sole trader [illegible] business by himself and for himself. He is the proprietor, manager and controller of business. He raises the necessary capital, organizes the business, enjoys the profits and bears the losses.

According to [illegible] "Sole trader owns all and risks all".

According to Peterson and Plowman, "A sole proprietorship has no legal existence apart from the proprietor himself. He is all in all in the firm".

In the words of L. H Haney, "The individual entrepreneur form of business organization is an organization at the head of which stands an individual or sometimes a family group of individuals, as the one who is responsible, who directs its operation and who alone runs the risk of failure".

According to Edward T. Elbourne, "Sole proprietorship is a business initiated and operated by one individual who carries all financial and administrative responsibilities, employing such assistants as may be necessary".

James Stephenson opines, "A sole trader is a person who carries on business exclusively by and for himself. The leading feature of this kind of concern, is that the individual assumes full responsibility for all the risk connected with the conduct of the business. He is not only the owner of the capital of the undertaking but, is usually the organizer and manager and takes all the profits or responsibility for losses".

Features :

The important features of sole proprietorship are :

1. The business is owned by only one person.
2. The business is controlled by a single individual
3. The risk is borne by a single person
4. The liability of the owner of the business is unlimited
5. The business firm has no separate legal-entity.
6. To set up sole proprietorship, no legal formalities are necessary.
7. Decisions are made by a single person.

Advantages :

The advantages of sole trader business are the following

1. *Easy to form* : It is very easy and simple to form and trader's business. There are no legal formalities.
2. *Simple to manage* : It is a small organisation. It can be man the owner himself.
3. *Profit incentive* : Sole trader enjoys all the profits for him motive is an incentive to work hard.
4. *Quick decisions* : Since he is the sole organiser, he can take He can act promptly according to the changes in the mark
5. *Contact with customers* : He is the owner and manager of the will be in a position to study the tastes and needs of custom since he establishes good contacts with them.
6. *Business secrets* : He can maintain the business secrets Maintenance of secrecy is an important matter in any type organisation.
7. *Smooth running* : As he is the sole proprietor there will not be of opinions or disputes. It helps smooth running of the conc
8. *Efficiency and economy* : The organisation is a small one. He close supervision. He can reduce the costs of the managem sorts of waste. Business can be run efficiently.
9. *Flexibility* : Changes in the business can be adopted at any time. is facilitated by small investment. It can be shifted from plac very easily.
10. *Family training* : He takes the help from the members of his maintaining business. His children get training in the business
11. *Self employment* : Small scale units can be easily started. Nat banks are also helping in this direction.
12. *Social advantages* : It provides opportunities to a number of in Many can become entrepreneurs with limited resources.
13. *Tax advantages* : Income tax is imposed on the personal inco sole trader, but not on the profits of the concern. Hence it is adva

Limitations :

Sole trader business suffers from certain serious limitations (disad also :

1. ***Limited capital :*** Use of limited capital means limited profits on is any necessity to expand business there may not be sufficient
2. ***Limited skill :*** As there is only one man the managerial ability
3. ***Limited borrowing capacity :*** The borrowing capacity of a so **limited to the extent of his financial position.**

4. *Unlimited liability* : The creditors can recover their loan amount not only from the properties of the business but also from his personal properties. So his liability is unlimited.
5. *Hasty decisions* : The sole trader takes all decisions for himself. So there may be hasty and thoughtless decisions.
6. *Short life* : If the sole trader does not have children, or if his children are not interested in continuing the business, the business would come to an end. There is no guarantee of continuous existence in this type of business.
7. *No division of labour* : As it is small unit, it is not possible to introduce division of labour in the management.
8. *Dependence on employees* : If there is expansion of business, it is inevitable for the proprietor to depend on the paid managers.
9. *Limited area of operation* : The business is small. So the activities cannot go beyond a certain area.
10. *Lack of large scale economies* : Sole trader's business is small scale only. He cannot do his business on large scale due to lack of financial resources. So he cannot enjoy large scale economies of production, buying or selling.

Suitability of sole trading concern :

A sole trading concern may carry its business successfully under the following circumstances.

1. Where business is carried on small scale;
2. Where capital requirement is less;
3. Where prompt and quick decisions are required;
4. Where risk is less;
5. Where personal element plays an important role;
6. Where market is local;
7. Where secrecy in business is a must;
8. Where freedom of the businessman is involved;
9. Where business is seasonal;
10. Where there is no need for specialisation.

In spite of all the limitations, a sole trading concern is a popular form of organisation in all parts of the world. Thus, we can say that it has its own place in the field of business even today. Its future is bright.

4. PARTNERSHIP

Sole proprietorship suffers from limited resources, hasty decisions and temporary existence etc. As remedy, partnership emerged as a form of business organisation.

Partnership

Partnership as such is an agreement between two or more perso
business with profit motive, carried on by all or any one of them ac
The persons who enter into partnership are individually called
collectively as 'Firm'. According to Section 4 of the P
1932, Partnership is the relation between persons who have agre
profits of a business carried on by all or any of them acting for all

According to Prof. Haney, "The relations which exist betw
competent to make contracts, who agree to carry on a lawful busines
with a view to private gain."

In the words of Spriegal, "Partnership has two or more mem
whom is responsible for the obligation of the partnership. Each of
may bind the others and the assets of the partners may be taken fo
partnership."

Features

The essential features and characteristics of a partnership are:

1. *Agreement* : The partnership arises out of an agreement betw
more persons.
2. *Profit sharing* : There should be an agreement among the
share the profits of the business.
3. *Lawful business* : The business to be carried on by a partner
always be lawful.
4. *Membership* : There must be at least two persons to form a pa
The maximum number is 20. But in case of banking business the
is 10 members.
5. *Unlimited liability* : The liability of every partner is unlimited,
several.
6. *Principal-agent relationship* : Every partner is an agent of the
can act on behalf of the firm. He is responsible for his own act
the acts on behalf of the other partners.
7. *Collective management* : The firm and the partners are on
contract is made in the name of the firm all the partners are resp
it individually and collectively.
8. *Non-transferability of shares* : A partner cannot transfer
interest to others without the consent of the other partners.

Advantages of Partnership

The following are the advantages of partnership business :

1. *Easy to form* : A partnership firm can be formed without any le
and expenses. Even if the firm is to be registered, the exp
much compared to company form of organisation.

2. *Access to more capital :* A firm consists of more than one person. Therefore it can secure more capital from combined resources.
3. *Skill and talent :* Talented persons may be taken as partners. More skill and talent will be available.
4. *Division of labour :* Division of labour can be introduced which increases the efficiency in the management. One partner may take care of purchases, another sales, a third accounts and so on.
5. *Contact with customers :* All the partners in a firm may take part in the management of the business. So, they get in touch with the customers during the course of the business. It enables them to study the tastes and needs of the customers.
6. *Borrowing capacity :* The creditors will lend Loans not only on the basis of the firms's assets but also based on the personal properties of the partners. So the borrowing capacity of a firm is more.
7. *Incentive to work hard :* Every partner is liable for the debts of the firm. Also every partner has a share in the profits. This makes them to work hard for the success of the business.
8. *Expansion of business :* Due to the availability of sufficient finance and skill the business can be expanded very easily.
9. *Wise decisions :* In partnership, decisions are taken with the consultation of all the partners. So naturally the decisions are wiser and more beneficial.
10. *Co-operation between partners :* The partnership enables partners to provide mutual help to each other. Partners behave as members in a joint family.
11. *Flexibility :* Changes in the business can be adopted easily. There are no legal restrictions.
12. *Economy in operation :* If there is co-operation among the partners the firm can be run efficiently: A good number of economies in management can be derived.
13. *Division of risks :* All losses and risks of the business are shared by all the partners. So risky ventures can also be taken up.
14. *Maintenance of secrets :* Business secrets can be maintained easily if the number of partners in a firm are limited.
15. *Incidence of tax :* Compared with company form of organisation the tax payable on the incomes of the partners will be less.

Disadvantages of Partnership

The following are the disadvantages of a partnership firm :

1. *Division of responsibility :* In a partnership the management is divided. As such responsibilities are also divided. Every partner might try to shift the burden on to the shoulders of others; finally none takes the responsibility properly.

2. *Delay in decision* : Sometimes the partners may not agree with one another in taking decisions. As a result partners will not be able to take quick decisions.
3. *Lack of continuity* : A partnership gets dissolved on the death, insanity or retirement of any partner. So, there is no guarantee [illegible] continuity of the firm.
4. *No transferability of share* : In a firm the partner cannot transfer his share of interest to others without the consent of the other partners.
5. *Lack of secrecy* : It may not be possible to maintain secrecy in business because of the number of partners.
6. *Unlimited liability* : The creditors of a firm can recover their loans from the personal properties of the partners when the firm's assets are not enough. Therefore the personal properties of the partners are [illegible]
7. *Joint and several liability* : Every partner is jointly and severally liable for the debts of the firm. In case of insolvency of partners, the other partners have to pay the debts of the insolvent partners also.
8. *Internal conflicts* : Differences and disputes among the partners are common. These conflicts harm the firm as a whole.
9. *Misuse of assets* : The partners may use the assets of the firm for personal purposes. Misuse of assets is harmful to [illegible]
10. *Lack of public confidence* : A partnership firm is purely a private organisation. It is not controlled or regulated by the Government. As such public may not have confidence in the firm.

IDEAL PARTNERSHIP

Partnership business enjoys many advantages when compared to the sole tradership form of business organization. In real life, all partnership firms do not enjoy the same degree of success.

Some partnership businesses enjoy a long life because of the mutual faith and interest taken by the partners in the business. Some partnerships fail and break up within a short span of time because of mutual distrust, lack of interest, ego clashes and fraudulent acts by some of the partners.

Robert U. Durand has rightly pointed out that, "Entering into partnership is a business marriage..... anyone who understands why picking a life mate is a serious matter can appreciate the importance of selecting a business partner. You are [illegible] with your partner in business life until death, retirement, withdrawal, or other dissolution of the firm. Like dissatisfied life-mates, dissatisfied partners find business divorce is often expensive and uncertain."

Requisites of an ideal partnership:

An ideal partnership is one where partners before they enter into partnership agreement, carefully consider:

(a) The business prospects

(b) Nature of other partners

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Requisites of an ideal partnership:

An ideal partnership is one where partners before they enter into
agreement, carefully consider:

(a) The business prospects.

(b) Nature of other partners.

(c) Extent of capital required

(d) Skills and abilities required for the business

(e) Skills and abilities available etc.

While entering into partnership they should ensure:

(a) That there is a written agreement.

(b) Registration of partnership

(c) That there is common objective.

(d) Clear understanding regarding the role of each partner

While undertaking business they should ensure that:

(a) All acts are undertaken for the benefits of the partnership.

(b) All major decisions are taken after mutual consultation with other partners.

(c) The business is conducted in a fair manner within the legal framework.

(d) Partners trust each other.

(e) Each partner fulfills his responsibilities in a careful and diligent manner.

(f) Any mis-understanding is resolved through mutual discussion at the initial stage itself.

(g) The accounts are true and fair.

(h) Each partner is given the rightful share of the profits due to him.

(i) Profits are re-invested in the business to the required extent. This would result in lower external borrowing, save interest costs and enable the firm to expand operations.

(j) Partnership business is continued for a fairly long period of time so that it can build a good reputation and enjoy goodwill and customer loyalty.

(k) Each partner contributes to the best of his abilities, skills and knowledge for the growth of the business.

(l) There is mutual agreement, faith and a spirit of co-operation among partners.

(m) There is a sense of openness and transparency, so that each partner clearly knows details of capital invested, revenue received, expenses incurred, profits earned etc.

If the above requirements are satisfied, the partnership business would be able to continue for a long period of time, enriching the partners as well as satisfying the needs of the society.

Partnership Deed

Partnership arises out of an agreement. The agreement may be oral or in writing. But to avoid disputes in future among the partners it is always better to have an agreement in writing. The important document in which the agreement is written is called a "Partnership Deed" or "Articles of Partnership".

Contents of the Partnership Deed :

The deed generally contains the following pa

1. Name of the firm
2. Nature of business
3. The town and place where business will be carried on
4. Details of the amount of capital contributed by each partner
5. Details relating to the sharing of profits and losses
6. Loans and advances by partners and the interest payable on th
7. The amounts that can be withdrawn by partners and rate of int
8. The duties, powers and obligations of the partners
9. Maintenance of accounts and arrangements for audit
10. Salary, if any, payable to any partner for managing the firm
11. Rate of interest if any, allowed on capital.
12. The method of valuation of goodwill on admission, death or retire a partner.
13. The method by which a partner may retire and the arrangement payment of the dues of a retired or deceased partner.
14. Method of revaluation of assets and liabilities on admission, retire death of a partner.
15. Arrangements in case a partner becomes insolvent.
16. Arbitration in the case of disputes among partners.
17. Settlement in the case of dissolution of partnership.
18. Any other clause or clauses which may be desired in any particular of business.

Thus, it contains the terms and conditions of the partnership. This docu must be signed by all the partners. It is helpful in preventing and reso disputes among the partners. Partnership deed is not a public documen partnership deed can be altered at any time with the consent of all the part

Kinds of Partners

Two or more persons may come together and may form a partnership. T are known as partners. Some of them may take part in the management others may contribute capital.

The following are the various kinds of partners :

1. *Active partners :* The partners who take part in the management firm actively are called active partners or working partners.
2. *Dormant or Sleeping partners :* The partners, who just provide and do not take part in the business activities of the firm are called D or Sleeping partners.

3. *Limited or Special partners* : The partners whose liability is limited [illegible] firm are called limited or special partners.

4. *Partners by Estoppel* : Sometimes a person [illegible] representing the firm [illegible] the third party [illegible] the third parties [illegible] himself is a partner in the firm. He cannot deny later that he is not a partner [illegible] who gave loans to the firm. Such persons are called 'Partners by Estoppel'.

5. *Partners by Holding Out* : Sometimes, the firm may use the name of a person in its activities, creating a sense in the public that he is also a partner. If that person accepts the same, he becomes automatically responsible to the third parties. Such person is known as 'Partner by Holding Out'.

6. *Nominal partner* : A person who only lends his name to the firm and who is not really a partner is called a Nominal Partner. He does not share the profits or losses.

7. *Sub-partner* : When any of the partner agrees with a stranger to share the profits derived by him from the firm, the stranger is called a 'sub-partner'. Strictly speaking he is not a partner legally.

8. *Partner in profits* : A person who will have a share in the profits but not in the losses of a firm will be called partner in profits. But he is equally responsible for all the debts of the firm.

9. *Incoming Partner* : The partner, who is admitted afresh in the firm is known as new or incoming partner. Such a partner can be admitted with the consent of all partners. The incoming partner brings his share of capital and goodwill.

10. *Outgoing or Retiring partner* : The partner who retires from the firm with the consent of other partners is termed as retiring partner. The outgoing partner must serve notice to the general public that he retired from the firm. Otherwise he will be liable to third parties for the payment of their debts and dues even after his retirement.

11. *Secret partner* : The person, who is the partner of the firm in the real sense but keeps this fact a secret, is known as secret partner. Legally this type of partner also has unlimited liability.

12. *Minor partner* : A minor, who is below 18 years of age, may be admitted into a firm to the benefits of the partnership. But he cannot become a partner as he is incompetent to enter into a contract. His liability will be limited to the extent of his share. He cannot take part in the management. He has a share in the profits of the firm. After attainment of major age limit, within six months, he has to decide whether to continue in the firm or not. He should issue a notice to that extent. Otherwise he is deemed to be a regular partner.

(d) Surplus, if any sho
ratio.

Distinction between Sole Trader and Partnership

Point of Difference	Sole Trader	Partnership
1. Legal Formalities	No legal formalities to be observed at the starting the business.	Few legal form to be observed starting the busi
2. Legislation	It is not controlled by any legislation.	It is regulated Partnership Act,

[illegible]	[illegible] business.	[illegible]
4. Agreement	It does not require any agreement as there is only one member.	Agreement, oral or written, is necessary.
5. Secrecy	Business secrets can be maintained.	Business secrets cannot be maintained.
6. Capital	Supply of capital is limited.	More capital can be secured.
7. Decision making	There is no delay in taking decisions.	There is delay in taking decisions due to difference of opinion among partners.
8. Risk	Risk to be totally borne by one person.	Risk is to be shared among the partners.
9. Management	Inefficient management due to limited supply of skills.	Collective skill of partners leads to efficient management.
10. Continuation of business	Lack of children leads to discontinuation of of agreement.	Partnership can be continued by renewal.
11. Distribution of profit	Profit or loss belongs to the single owner.	Profit or Loss is divided among the partners.

Distinction between partnership and co-ownership

Point of distinction	*Partnership*	*Co-ownership*
Formation	It is formed through an Agreement. The agreement can be oral or written.	May arise either by agreement or by operation of law.
Maximum number of members	The maximum number of members permitted in a partnership business is 10 for banking business and 20 for other businesses.	There is no limit regarding the maximum number of members.
Objective	To undertake some lawful business and earn profits.	It can exist without any business purpose.
Agency relationship	There is agency relationship between partners. A partner can bind the other partners by his acts done in the regular course of business.	There is no agency relationship between co-owners. Each co-owner is responsible for his acts only.

Liability	All partners are jointly and severally liable for the debts of the business to an unlimited extent.	There is no unli liability.
Regulating Act	The partnership form of organization is regulated by the Indian Partnership Act, 1932.	There is no such regulating co-own
Transfer of Interest	A partner cannot transfer his interest without the consent of the other partners.	A co-owner may t his interest to a party and break ownership at his without the conse the other co-owne
Lien for expenses	A partner has lien on the property of the partnership business for expenses incurred by him.	A co-owner does no any lien on the prop of the partnership business for expen incurred by him.

The following diagram gives snap shot of the partnership f organisation :

Chapter 6

Forms of Business Organisati
Co-operative Enterpr

Meaning – Origin – Definitions – Features
Advantages – Disadvantages – Types.

Meaning : Co-operative enterprises are distinct from the other b business enterprises. While all the other forms of business enterpri profit as the motive, cooperative enterprises are service oriented. T basically formed to render services to their members and protect them fr exploited by producers, sellers and middlemen. Cooperatives are v associations of persons formed for protecting and promoting the int members. They are run in a democratic manner with service motive. Co societies have played an important role in India in protecting and prom welfare of agriculturists, small businesses, and weaker sections of th

Origin

The founder of co-operative movement was Robert Owen of Engl first Co-operative retail store was established in the year 1844 in England. At that time, the textile workers in England were paid very lo Prices of essential items were very high due to high profit margins e the traders. Unable to buy essential items out of their meager wages; workers joined together to organize their own grocery store in 1844. T themselves as the, 'Rochdale Society of Equitable Pioneers' and pion co-operative movement. Due to its inherent advantages and benefits o movement has spread all over the world. Today it has spread to a numb such as farming, fisheries, transport, general insurance, housing, labo

In India, the cooperative movement started with the enactment operative Credit Societies Act, 1904. The objectives according to the A promote thrift, self-help and co-operation among agriculturists, ar persons of limited means. The co-operative movement has played a role in ensuring the welfare of farmers, weavers, artisans, rural entrepr consumers.

[illegible]

[illegible] "Co-operation is a form of organisation [illegible] associate together as human beings on the basis of equality for the promotion of the economic interests of themselves."

Paul Lambert, "A co-operative society is an enterprise formed and directed by an association of users, applying within itself the rules of democracy and directly intended to serve both its own members and the community as a [illegible]

(a) *Separate legal entity:* A co-operative society has separate legal entity. It is distinct from the members who constitute it. It can enter into contracts in its own name. It can sue and be sued in its own name.

(b) *Voluntary association:* It is a voluntary association of persons. Members out of their own free will come together to promote their interests. Membership is not denied to any person who wants to become the member of the society. A member can leave the society any time he likes. Nobody can compel a member to continue in the society. At the time of leaving he can withdraw his capital from the society.

(c) *Democratic set-up:* Co-operatives are managed in a democratic manne Members elect a managing committee in the annual general meetin and formulate the policies to be followed. The managing committe manages the affairs of the co-operatives based on the policies la down.

(d) *Welfare motive:* The primary objective of a cooperative society not to earn profits but to serve the members and promote th interests. Co-operative societies can earn profits by providing servi to non-members at a higher price. A portion of the profits earned spent for the welfare of the community.

(e) *Self Help:* Co-operatives are basically formed to protect its mem against exploitation by private business. Self-help is the guiding behind the co-operative movement. The motto of co-operativ **'All for one and one for all'.**

(f) Common economic objective: Members of co-opera[illegible] have common economic objectives. The objectives may [illegible] quality goods at cheap prices, marketing their produce [illegible] health facilities.

(g) *Compulsory registration:* Every co-operative society has to be [illegible] under the Co-operative Societies Act, 1912 or the rele[illegible] Cooperatives Act, as the case may be.

(h) *Membership:* Membership of the cooperative society is open [illegible] Any person who desires to become the member of the [illegible] become a member.

(i) *Low membership fees:* The membership fee is kept low, to [illegible] affordable and is within everyone's reach. Even those with [illegible] financial resources should be able to become members and bene[illegible] them.

(j) *Democracy:* A co-operative society functions based on the prin[illegible] of democracy. The members are elected in a democratic wa[illegible] member can contest to get elected to the executive committee.

(k) *One member one vote:* Irrespective of the number of shares held [illegible] member is entitled to only one vote. This ensures that all membe[illegible] an equal say in the management affairs. Members cannot vote by [illegible]

(l) *Finances:* A co-operative society sells shares to its members. The m[illegible] raised through sale of shares is an important source of finance. It [illegible] also raise money by way of loans from the government and apex [illegible] operative institutions.

(m) *Non transferability of shares:* Shares held in a co-operative society [illegible] non-transferable. A person who quits from the membership of [illegible] cooperative society cannot transfer his shares to any other person.

(n) *Equitable distribution of surplus:* The surplus generated by [illegible] operative societies is distributed in the form of dividend and bo[illegible] The surplus has to be distributed among the members in an equita[illegible] manner. Legal regulations stipulate that a cooperative society sho[illegible] transfer at-least one-fourth of its profits to its general reserve. A part [illegible] the profits, not exceeding ten per cent can be used for promoting [illegible] welfare of the locality in which the cooperative society is located.

rinciples

The following are the principles of co-operatives:

(a) *One member - One vote:* Every member is entitled to one vote irrespective of the number of shares held. The objective is to prevent [illegible] small group gaining control by acquiring majority shares.

[illegible]

[illegible]

(a) [illegible] membership : The membership of a co-operative society is open to all. Any person with common interest can become a member. The membership fee is kept low so that everyone would be able to join and benefit from cooperative enterprises. At the same time, any member who wants to leave the society is free to do so. There are no entry or exit barriers.

(b) *Ease of formation* : Cooperatives can be formed much easily when compared to a company. Any 10 members who have attained majority can join together for forming a cooperative society by observing simple legal formalities.

(c) *Democracy* : A co-operative enterprise is run on the principle of 'one man-one vote'. It implies that all members have equal rights in managing the affairs of the enterprise. Members with money power cannot dominate the management by buying majority shares.

(d) *Equitable distribution of surplus* : The surplus generated by the co-operative enterprises is distributed in an equitable manner among members. Therefore all the members are benefited. Further the society is also benefited because a sum not exceeding 10 per cent of the surplus can be utilized for promoting the welfare of the locality in which the cooperative is located.

(e) *Limited liability* : The liability of the members is limited to the extent of their capital contribution. They cannot be personally held liable for the debts of the society.

(f) *Stable existence* : A cooperative enterprise enjoys separate legal entity which is distinct from its members. Therefore its continuance is in no way affected by the death, insanity or insolvency of its members. It enjoys perpetual existence.

(g) *Each for all and all for each:* Co-operatives are formed on the basis of self help and mutual help. Therefore members contribute their efforts to promote their common welfare.

(h) *Greater identity of interests* : It operates in a limited area and there is greater identity of interest among memb would be interacting with each other. They can co-operate the activities of the enterprise in a more effective manner

(i) *Government support* : The government with a view to growth of co-operatives extends all support to them. It provi at cheap interest rates, provides subsidies etc.

(j) *Elimination of middlemen* : Co-operatives can deal directly producers and with the ultimate consumers. Therefore they dependent on middlemen and can save the profits enjoyed middlemen.

(k) *Low taxes* : To promote the co-operative movement and also of the fact that it is a non-profit enterprise, government provides exemptions and tax concessions.

(l) *Rural credit* : Co-operative societies have contributed significa freeing villagers from money lenders. Earlier, money lenders charge high rates of interest and the earnings of the villagers were on payment on interest alone. Co-operatives provide loans at interest rates and have benefited the rural community. Aft establishment of co-operatives, the rural people were able to co of the grip of money lenders.

(m) *Role in agricultural progress* : Co-operative enterprises have the government's efforts to increase agricultural production. The improved the life of the people in rural areas. They serve as between the government and agriculturists. High yielding fertilizers, etc. are distributed by the government through operatives.

(n) *Own sources of finance:* A cooperative society has to transfer one-fourth of its profits to general reserve. Therefore it need not on outsider's funds to meet its future financial requirements utilize the funds available in the general reserve.

(o) *Encourages thrift* : Cooperative societies encourage the habit of and thrift among their members. They provide loans only for pro purposes and not for wasteful expenditure.

(p) *Fair price and good quality* : Co-operative enterprises buy an bulk quantities directly from the producers or to the consumers. are processed and graded before they are sold. Bulk purcha sales ensure fair prices and good quality.

[illegible] Co-operatives have played an important role in bringing [illegible] consciousness and curbing unnecessary expenditure. The profits earned by the co-operatives have been used for providing basic amenities in the society.

[illegible] funds : Co-operative societies have limited membership and are formed by the weaker sections. The membership fees collected is limited. Therefore the funds available with the co-operatives are limited. The principle of one-man one-vote and limited dividends also reduce the enthusiasm of members. They cannot expand their activities beyond a particular level because of the limited financial resources.

[illegible] reliance on government funds : Co-operative societies are not able to raise their own resources. Their sources of financing are limited and they depend on government funds. The funding and the amount of funds that would be released by the government are uncertain. Therefore co-operatives are not able to plan their activities in the right manner.

mposed by government : In the Western countries, co-operatives were voluntarily started by the weaker sections. The objective is to improve their economic status and protect themselves from exploitation by businessmen. But in India, the co-operative movement was initiated and established by the government. Wide participation of people is lacking. Therefore the benefit of the co-operatives has still not reached many poorer sections.

Benefit to rural rich : Co-operatives have benefited the rural rich and not the rural poor. The rich people elect themselves to the managing ommittee and manage the affairs of the co-operatives for their own enefit. The agricultural produce of the small farmers is just sufficient o fulfill the needs of their family. They do not have any surplus to arket. The rich farmers with vast tracts of land, produce in surplus uantities and the services of co-operatives such as processing, grading, orrect weighment and fair prices actually benefit them.

adequate rural credit : Co-operatives give loans only for productive rposes and not for personal or family expenses. Therefore the rural or continue to depend on the money lenders for meeting expenses of rriage, medical care, social commitments etc. Co-operatives have not en successful in freeing the rural poor from the clutches of the money ders.

ck of managerial skills : Co-operative societies are managed by the naging committee elected by its members. The members of the naging committee may not have the required qualification, skill or

experience. Since it has limited financial resources, its
compensate its employees is also limited. Therefore it cannot
the best talent. Lack of managerial skills results in inefficient
poor functioning and difficulty in achieving objectives.

(g) *Government regulation* : Co-operatives are subject to
government regulation which affects their autonomy and
Adhering to various regulations takes up much of the
time and effort.

(h) *Misuse of funds* : If the members of the managing committee
they can swindle the funds of the co-operative society.
operative societies have faced financial troubles and
because of corruption and misuse of funds.

(i) *Inefficiencies leading to losses* : Co-operatives operate with
financial resources. Therefore they cannot recruit the best talent
latest technology or adopt modern management practices. They
in the traditional mould which may not be suitable in the modern
environment and therefore suffer losses.

(j) *Lack of secrecy* : Maintenance of business secrets is the key
competitiveness of any business organization. But business
cannot be maintained in cooperatives because all members are
of the activities of the enterprise. Further, reports and accounts
be submitted to the Registrar of Co-operative Societies.
information relating to activities, revenues, members etc becomes
knowledge.

(k) *Conflicts among members* : Cooperative enterprises are based
principles of co-operation and therefore harmony among members
important. But in practice, there might be internal politics, difference
opinions, quarrels etc. among members which may lead to
Such disputes affect the functioning of the co-operative enterprise

(l) *Limited scope* : Co-operative enterprises cannot be introduced
industries. Their scope is limited to only certain areas of
Since the funds available are limited they cannot undertake large
operations and is not suitable in industries requiring large

(m) *Lack of accountability* : Since the management is taken care of by
managing committee, no individual can be made accountable for
performance. There is a tendency to shift responsibility among
members of the managing committee.

(n) *Lack of motivation* : Members lack motivation to put in their
hearted efforts for the success of the enterprise. It is because there
very little link between effort and reward. Co-operative

[illegible]

TYPES OF CO-OPERATIVES

[illegible] of the co-operatives in the country combine [illegible] business activity with providing services to members. Though they are not profit [illegible] can earn reasonable profits by providing services to non-members. [illegible] nature of activities performed, co-operatives can be categorised [illegible]

(a) Consumers' Co-operative Societies.
(b) Producers' Co-operative Societies.
(c) Marketing Co-operatives.
(d) Housing Co-operatives.
(e) Co-operative Credit Societies.
(f) Co-operative Farming Societies.

(a) *Consumers' Co-operative Societies* : They are the oldest form of co-operatives. They are formed for the benefit of consumers who wish to get household goods at reasonable prices. These societies make bulk purchases of goods from producers directly or from wholesalers a wholesale rates and sell the goods to members. Sometimes the good are also sold to non-members. The prices charged from non-membe would be higher when compared to the prices charged from membe

Since purchases are made directly from the producers or wholesaler bulk quantities, the cost of purchases is less and they are able to on this benefit to members in the form of lower prices. They en steady supply of goods to members. The difference betwee purchase price and sale price represents the surplus earned. The su is distributed among the members in the form of bonus.

The first consumer co-operative was set up in 1904 in Ma. Currently there are around 8,000 consumer co-operatives in the country. There are Primary societies at the local level, wholesale societies at the district level, State Consumer Co-operative Federation at the State level and National Co-operative Consumer Federation at the National level.

(b) *Producers Co-operatives* : They are formed by small produ to obtain inputs (raw materials, components, tools and equi and to sell their output (finished goods) without any involve middlemen. They are also called as industrial co-operatives. Goods produced to meet the requirements of members. Goods can also to outsiders at a profit. Certain portion of the profits earned is the welfare of the community and the balance is distributed members.

(c) *Marketing Co-operatives* : They are voluntary associations of pro formed with the objective of ensuring a steady market for the outp members. Marketing Co-operatives are especially suitable for mark of agricultural products.

They seek to protect producers from being exploited by the middle The output of the members is pooled together, the products are proce (e.g. crushing of oil seeds, ginning and pressing of cotton etc.) gr and sold at the best possible price. The members are assured of co weight and measurement and fair prices for their produce. The proceeds are distributed among the members according to contribution to the pool. They also provide credit, storage facil information about market price, demand and supply etc.

(d) *Housing Co-operatives* : Housing co-operatives are formed by who are interested in acquiring residential property. They unde activities relating to: purchase of land, obtaining governm approvals, development of the site, construction of houses or flat allotment of houses/flats to its members. Since housing co-opera construct many flats or buildings they are able to purchase bui materials at cheaper rates. The Stamp duty to be paid when prope purchased from a co-operative society is also less. Therefore mem are benefited by the lower cost of property.

(e) *Co-operative Credit Societies* : The objective of forming co-oper credit societies is to provide loans to members at reasonable rat interest and to develop the habit of thrift among members. They ac deposits from members and provide loans to members at reaso [illegible] procedures (organization). The formalities are much simpler when compared to [illegible] rate of interest [illegible] of a bank loan. The co-operative credit societies are of two types. They are

(i) Agricultural credit societies and

(ii) Non agricultural credit societies

Agricultural credit societies are formed in villages and provide loans to agriculturists and rural artisans. Non agricultural credit societies are formed in urban areas and provide loans to people living in urban or semi-urban areas.

Co-operative credit societies in India operate in a three tier structure. At the lowest tier are the Primary Agricultural Co-operative Credit Societies which are organized at the village level. At the second tier are the Central Co-operative Banks organized at the district level. At the uppermost tier are the Sate Co-operative banks organized at the State level. From July 1982, NABARD has been designated as the apex institution for policy making, planning and operations in the field of agriculture credit.

(f) *Co-operative Farming Societies :* They are formed by small farmers with the objective of maximizing agricultural output. It is especially suitable for developing countries like India where land is highly fragmented. High fragmentation of land leads to low output, and lack of resources to implement modern methods of cultivation. In the case of co-operative farming societies, land holdings of members are consolidated, modern methods of cultivation adopted and good quality of seeds and fertilizers are used. Since the purchase of seeds and fertilizers and hiring of equipment is done in a centralized manner, the costs are lower. The benefits of collective farming such as lower cost of inputs, implementation of modern methods of cultivation etc leads to higher productivity and profits which is shared by all the members.

he co-operative movement has played an important role in promoting mic welfare among the weaker sections and the rural community. Political rence and corruption among members of the managing committee in some ratives have led to their failure. Information regarding the benefits offere co-operatives has to be communicated on a wide scale among the rur d weaker sections of the society. They should be encouraged to volunta te themselves and start co-operative enterprises for furthering their welfa