BBA 1301

Introduction to Business

Study Module

স্কুল অব বিজনেস

SCHOOL OF BUSINESS

Bangladesh Open University

বাংলাদেশ উন্মুক্ত বিশ্ববিদ্যালয়

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LESSON – 1: CONCEPT OF BUSINESS

After completion of this lesson you will be able to –

- *Define business*
- *Understand the concepts of not-for-profit and for-profit business*
- *Recognize the reasons behind the starting of business*
- *Describe the objectives of business*
- *Identify the people who are involved with the business and how?*

DEFINITION OF BUSINESS / WHAT IS BUSINESS?

Literally, 'business' means busyness or the state of being busy – any activity a man is busy about. But in economic sense, the word ''Business" means work, efforts and acts of people which are connected with the production of wealth.

Functionally, by business, we mean those human activities which involve production or purchase of goods with the object of selling them at a profit.

According to Urwick and Hunt, "Business is any enterprise which makes, distributes or provides any article or service which other members of the community need and are able and willing to pay for." In essence, therefore, business concerns with producing and selling for profit.

A business is any activity that provides goods or services to consumers for the purpose of making a profit. Examples of goods provided by a business are tangible items such as cars, televisions, or toys. A service is a consumable, one-time benefit. Services include things such as haircuts, hotel stays, or roller-coaster rides. Business can generate profits from the sale of goods and/or services, and profits are the financial reward that comes from taking the risk of running or owning a business.

CONCEPTS OF NOT-FOR-PROFIT AND FOR-PROFIT BUSINESS

A nonprofit or not-for-profit business is one that provides goods or services to consumers, but its primary goal is not to return profit to the owners of the business. Instead, it uses those profits to provide a public service, social development, or to assist others. The Red Cross, ASA, CARE Bangladesh, Caritas Bangladesh are all examples of nonprofit businesses. They use any revenue generated from operations to support the continued mission of the organization.

A for-profit business generates revenue from several activities of the business. Every day, owner operates his business and calculates his profit by subtracting his expenses from his revenue. He makes profit and deposits it in the bank account, and even can withdraw the money from the bank account and buy the things whatever he wants. As a for-profit business owner, he owns all the profits.

Activity: *Make a list of business organizations operating in your locality. Also identify whether the business organizations are dealing with products and services.*

REASONS BEHIND THE STUDYING OF BUSINESS

The reasons why we study business are as follows:

1. **Increasing dependence on others:** Over the years, people have become more and more dependent on others. Business is the exchange of goods, services or money for mutual benefits or profits. If a person specialized in a particular job, such as making shoes or growing corns, the surplus produces could be traded for other desirable goods. Almost

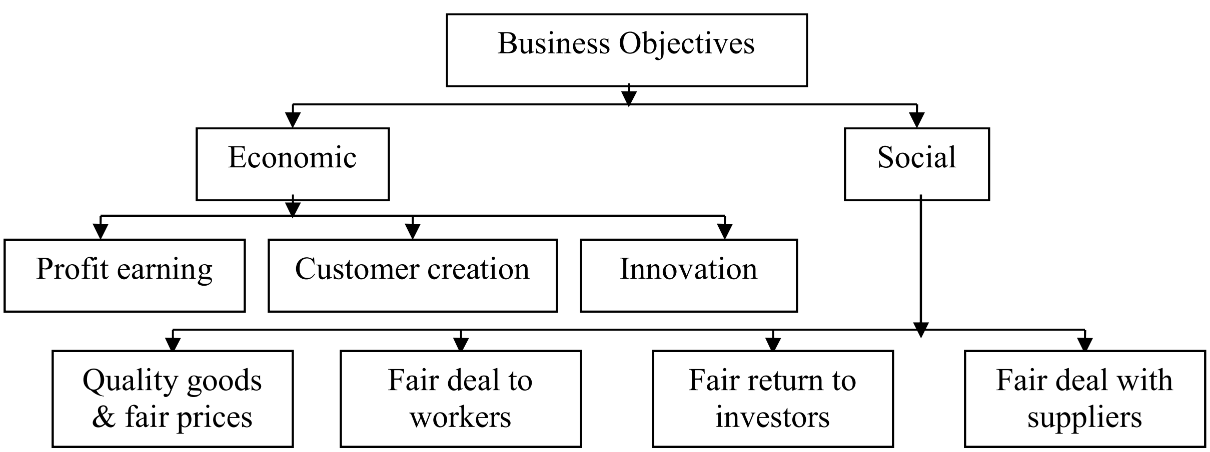
everyone depends on others. Few people today produce everything they need or use; a complex division of labor has encouraged us to not be self-sufficient.

2. **International Opportunities:** The new era of business performance in an international marketplace will require business leaders who know how to start, operate and sustain business. Business negotiation, joint ventures between companies in different countries, travel across borders, investment across geographical boundaries, and working for foreign-owned enterprises are becoming commonplace. To function in such a world, each of us must understand the principles of business.
3. **Standard of living:** Another reason to study business is to protect our way of life. Standard of living is a measure how well a person or family is doing in terms of satisfying needs and wants with goods and services. We believe that a minimal amount of government interference and free market business system have been the major reasons for perpetuating our way of living. As a result of this system, the productive activities of people have been as free as possible.
4. **Coping with change:** Business is dynamic – always changing. Coping with both predictable and unpredictable events can be easier, more efficient, and less traumatic (painful) if we understand business.
5. **Preventing misconceptions:** Understanding business also prevents our accepting misconceptions, misinformation and inaccurate data as truths. Many people still believe that Japan has the number one economy, and most people work for large business in U. S. each of these assumptions is inaccurate.

Activity: *Talk with 5 business owners in your locality and find the reasons behind their starting of business. Do you think the reasons of studying business can help you to start a business? How?*

OBJECTIVES / PURPOSES OF BUSINESS

Every human activity has some objective or objectives, and business, as one of the human activities, must have some objectives. We can explain the objectives of business in two broad categories:



A) **Economic Objectives:** The economic objectives include the following:

1. **Profit earning:** A business concern must earn profit if it is to continue to exist. It is necessary to make earnings if additional capital is to be attracted and reserves are to be built up for meeting risk inherent in business activity.

2. **Customer creation:** It is also necessary that a company produces goods or renders services that customers want. A set of customer will be created if it provides goods or services according to their desire.
3. **Innovation:** In the days of expanding technology, increasing competition, new methods of buying and selling and of dealing with people business success depends on improve methods production, selling and ability to manage men by getting along with them. So the business organization must be innovative to take care of them.

B) **Social Objectives:** The social objectives include the following:

1. **Quality goods and fair prices:** Customers has right to have quality goods at reasonable prices. The company's primary objective to supply quality goods for their consumers at fair prices.
2. **Fair deal with workers:** The employees working in the organization must be paid equitable and fair wages / salary.
3. **Fair return to investors:** Another objective of business is to provide a fair return to the investor and to have sufficient amount to cover future risk and to ensure future expansion.
4. **Fair deal with suppliers:** The business should maintain a fair dealing with suppliers of materials. Because they provide raw materials and other necessary things to run the production process effectively.

Activity: Identify two business organizations, one is for-profit and another is not-for-profit, and mention the objectives they are performing.

PEOPLE FROM CORE OF BUSINESS

The human element is the core of business. Business needs people as owners, managers, employees and consumers. People need business for the production of goods and services and the creation of jobs.

1. **Owners:** People, who own a business, as well as those who invest money in one, do so because they expect to earn a profit. When making decision, the professional managers in business organizations need to consider the owners (or shareholders) and what they expect from the business.
2. **Managers:** The person responsible for operating the business may be the owner or a professional manager employed by the owner. Both types of managers seek to achieve profit, growth, survival and social responsibility. The owner manager sets his or her objectives, whereas a professional manager attempts to achieve objective set by others. The professional manager is accountable to the owner of the business, who judge the manager's performance by well their objectives have been accomplished over a period of time.
3. **Employees:** Employees supply the skills and abilities needed to provide a product or service and to earn a profit. Most employees expect to receive an equitable wage or salary and to be given gradual increases in the amount they are paid for the use of their skills and abilities.
4. **Consumers:** A consumer is a person or business who purchases a goods or service for personal or organizational use. They want to pay a fair price for the goods and services they purchase. They also want the goods and services they purchase to be reliable. A business enterprise attempts to satisfy consumer needs and desires while earning a profits.

LESSON – 2: THE FOUNDATION OF BUSINESS

After completion of this lesson you will be able to –

- *Describe the foundation of business*
- *Recognize the economic system of business*
- *Analyze the factors affecting on business ownership*
- *Define stakeholders and the types of stakeholders.*

THE FOUNDATION OF BUSINESS

The foundation of business consists of mainly three elements:

1. **Resources:** A nation's resources consist of three broad areas: natural, capital and labor. ***Natural resources*** are provided by nature in limited amounts; they include crude oil, natural gas, minerals and water. Natural resources must be processed to become a product or to be used to produce other goods or services. For example, tree must be processed into lumber before they can be used to build homes, furniture and so on. ***Capital resources*** are goods produced for the purpose of making other types of goods and services. Some capital resources, called current assets, have a short life and are used up in the production process. On the other, which can be used repeatedly in the production process, are called fixed capital/assets. ***Labor resources*** represent the human talent of a nation. To have value in the labor force, individual must be trained to perform either skilled or semiskilled work. Without human resources, no productive use of either natural or capital resources is possible.
2. **Goods and services:** A nation's resources are used to produce goods and services that will meet people's needs and wants. A person's wants can be unlimited, as soon as one want is satisfied, another is created. Even wealthy people tend to have unlimited wants. Goods and services produced are designed to meet needs and satisfy wants of consumers. Business start and operate hoping to produce some items or service that the public will like well enough or need badly enough to buy.
3. **Allocation:** Allocation is the process of choosing how resources will be used to meet a society's needs and wants; include the distribution of products to consumers. In respect to ***resource allocation***, all countries face the age-old economic problem of limited resources and unlimited wants. As we live in a world in which the quantity of resources is limited, we must make choices about how these scarce resources are to be used. The issue of allocation is not limited to scarce resources. It also involves the ***distribution of goods and services*** to the customer. In this context, allocation involves an exchange between a business and a consumer. In an ideal pattern of distribution in a free economy, the business earns a profit and the customer is satisfied with the goods and services: the exchange provides mutual benefits.

THE ECONOMIC SYSTEMS

An economic system is an accepted way of organizing production, establishing the rights and freedom of ownership using productive resources and governing business transaction in a society. There are three basic types of system:

1. **Planned economy:** The planned economy is an economy in which the governments owned productive resources, financial enterprises, retail stores and banks. In a planned economy, the government is the owner because it speaks for the people. Personal property, such as autos, clothing and furniture is owned by private citizens; however, almost all housing and the means of production are owned by government. In this economy, politically appointed

committees planned production, set prices and managed the economy. Each factory received detailed instructions on how many goods to produce.

2. **Capitalism economy:** Capitalism is characterized by private ownership of capital and by competition among businesses seeking a profit. Consumers play much more of a role under capitalism than they do in the planned economy. They have freedom of choice in purchasing goods and services. They are free to consume what they want and need. Their choices greatly influence decision about production and use of resources.
3. **Mixed economy:** In a mixed economy, both the government and private business enterprises produce and distribute goods and services. The government usually plays a role in supplying defense, roads, education, pension and some other medical care. In the mixed economy market are generally free and competitive. This economy also allows the freedom to start business. Freedom of enterprise means that businesses and individuals with the capital may enter essentially any legal business venture they wish.

Activity: Which economic system belongs to Bangladesh? Do you think all the characteristics of the said economic system prevailing in the business organization? How?

FACTORS / CHALLENGES INFLUENCING BUSINESS OWNERSHIP

The business and economic world faces many challenges. These are:

1. **Aging population:** The changes in the age group affect the business as different ages of people have different needs and wants. An older population is not bad for business but changes must be made in what products and services are produced.
2. **The changing family:** Changes in the family patterns like – rising divorce rates, working mothers, fewer children and a changing world have altered the way many families live. For example, failed marriages mean more children growing up in single parent homes. There is also a mass migration of women into the labor market and half of all mothers with children, under the age of one year, work outside the home. All these factors affect the business.
3. **Jobs:** The service economy will create more jobs than any other part of the economy. Services are intangible products that are not physically processed and that involve a performance or an effort. New job opportunity will probably continue in new business, in smaller business, and in the service industries.
4. **Minorities:** As the percentage of minorities and immigrants increases, they will pay a more significant role in the economy and workplace. Minorities seek entrepreneurial opportunities
5. **Global boom:** As we are becoming a global market place, we are moving towards a single worldwide information network. Business will soon have the capacity to communicate anything to anyone, anywhere in the world, by any form – voice, data, text or image – at the speed of sound. Another aspect of the global boom is exploding economies. Tokyo, Sydney, and Hong Kong are becoming centers of business. Today Asia has half of the world's population.
6. **The environment:** As the public become more concern about the environment, business leaders take note. If a company's environmental reputation affects people buying decision, then business concern may be tied to survival of the enterprise. Businesses will have to do the right thing routinely by choice, not because some group or law forces them to do so.

Activity: Can you identify some other challenges faced by the business organization in Bangladesh?

WHO IS A STAKEHOLDER?

A stakeholder is an individual or group that has a legitimate interest in a company, organization, or business. The Stanford Research Institute defines stakeholders as "those groups without whose support the organization would cease to exist." Stakeholders can affect or be affected by the actions (or inactions) of a business, and they can exist both within and outside of a business.

TYPES OF STAKEHOLDERS

There are two types of stakeholders in general such as: internal stakeholders and external stakeholders.

A) Internal Stakeholders

Internal stakeholders are groups or people who work directly within the business, such as managers, employees, and owners. **Managers and employees** want to earn high wages and keep their jobs, so they have a vested interest in the financial health and success of the business. **Owners** want to maximize the profit the business makes as compensation for the risks they take in owning or running a business.

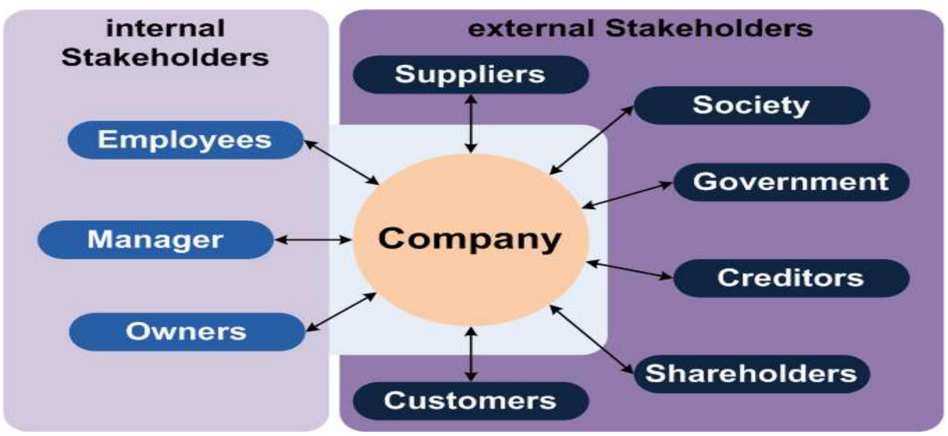


Figure: The picture shows the typical stakeholders of a company.

Source: Linda Williams and Lumen Learning. License: CC BY-SA: Attribution-ShareAlike

B) External Stakeholders

External stakeholders are groups outside a business or people who don't work inside the business but are affected in some way by the decisions and actions of the business. Examples of external stakeholders are customers, suppliers, creditors, the local community, society, and the government.

Customers want the business to produce quality products at reasonable prices. **Shareholders** have an interest in business operations since they are counting on the business to remain profitable and provide a return on their investment in the business. **Creditors** that supply financial capital, raw materials, and services to the business want to be paid on time and in full. **Local governments** need businesses to thrive in order to pay taxes that support government services such as education, police, and fire protection. **The local community** has a stake in the business because it provides jobs, which generate economic activity within the community. **Society** as a whole (as well as the local community) is concerned about the impact that business operations have on the environment in terms of noise, air, and water pollution. Society also has an interest in the business with regard to the safety of the goods and services produced by the business. **Suppliers** need the business to continue to buy their products in order to maintain their own profitability and long-term financial health.

Activity: Who are the internal and external stakeholders of (i) a hospital, (ii) an airlines, and (iii) a grocery shop? Why you considered them as stakeholders?

Discussion Questions:

1. What do you understand by business?
2. How will you differentiate non-profit business from for-profit business? Discuss with example.
3. Describe the reasons behind the start of business.
4. Describe the objectives of business.
5. Identify the people who are involved in the business and how? Illustrate.
6. Discuss about the foundation of business.
7. Describe the various economic systems where the business organization operates.
8. Analyze the factors that have effect on the selection of business ownership.
9. What is meant by stakeholders? Discuss the different types of stakeholders.

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Business Environment

2

Unit Highlights

- Lesson – 1: Business Environment
- Lesson – 2: Influence & Adaptation with Business Environments

Technologies Used for Content Delivery

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- WebTV
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- BTV Program
- Bangladesh Betar Program

LESSON – 1: BUSINESS ENVIRONMENT

After completion of this lesson you will be able to –

- *Define business environment and types of business environments*
- *Understand the internal business environment*
- *Recognize the external business environment*

DEFINITION OF BUSINESS ENVIRONMENT

Businesses do not operate in a vacuum rather in a dynamic environment that has a direct influence on how they operate and whether they will achieve their objectives. A business environment refers to a set of forces within and beyond an organization that affects the way it functions. It's the collection of stakeholders, entities and other significant internal and external factors that impact the performance, productivity, growth and even survival of a business.

A business environment is a combination of internal and external factors and forces that significantly influence the operations of a business. The business environment comprises an internal and external environment that directly or indirectly affects business operations.

TYPES OF BUSINESS ENVIRONMENTS

Business owners and managers have a great deal of control over the internal environment of business, which covers day-to-day decisions. They choose the supplies they purchase, which employees they hire, the products they sell, and where they sell those products. They use their skills and resources to create goods and services that will satisfy existing and prospective customers.

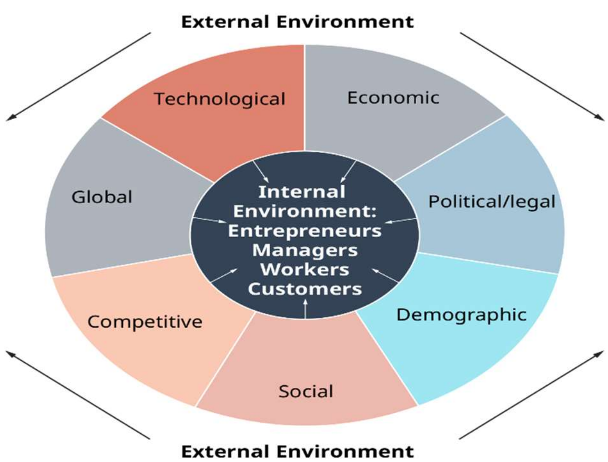

Figure: A dynamic business environment

Source: OpenStax, under CC-BY 4.0 license

However, the external environmental conditions that affect a business are generally beyond the control of management and change constantly. To compete successfully, business owners and managers must continuously study the environment and adapt their businesses accordingly.

Activity: Consider three types of organizations such as sole proprietorship, partnership, and company operating in your society. For each type of organization, make a list of the forces of internal and external environment separately involved with the business firm.

THE INTERNAL BUSINESS ENVIRONMENTS

An organization's internal environment consists of condition and forces within the organization. All aspects of the environment, of course, are not equally important for all organization. The internal business environment mainly consisted of the forces like: entrepreneurs, managers, workers, and customers. A brief discussion on these forces / factors are as follow:

1. **Entrepreneurs/Owners:** Entrepreneurs are the people who combine the inputs of natural resources, labor, and capital to produce goods or services with the intention of making a profit or accomplishing a not-for-profit goal. These people make the decisions that set the course for their businesses; they create products and production processes or develop services. Because they are not guaranteed a profit in return for their time and effort, they must be risk-takers. Of course, if their companies succeed, the rewards may be great. The owners of a business are, of course, the people who have a legal property right to that business. Owners can be a single individual who establishes and runs a small business, partners who jointly own the business, and individual investors who buy stock in a corporation or other organizations.
2. **Managers:** Managers of an organization considered as important force of its internal environment. Managers work for the organization to achieve the goals and consistently make decisions to run the business effectively. Companies, of course, are required to have them a board of directors. However, other large organizations such as hospitals and charities have a board of trustees that serves essentially the same purpose. A corporate board of directors is elected by the stockholders and is charged with overseeing the general management of the firm to ensure that it is being run in a way that best serves the stockholders' interests.
3. **Workers/Employees:** An organization's employees are also a major element of its internal environment. When managers and employees are embrace same values and have the same goals, everyone wins, when managers and employees work towards different ends, however, or when conflict and hostility pervade (destroy) the organization, everyone suffers.
4. **Customers:** Customers pay money to acquire an organization's products or services. Common sources of information about customers include market research, surveys, consumer panels and report from sales representatives. Dealing with customers has become increasingly complex in recent years. New products and services, new methods for marketing, and more discriminating customers have all added uncertainty to how business related to their customers.

THE EXTERNAL BUSINESS ENVIRONMENTS

The external environment is everything outside an organization that might affect it. Of course, the boundary that separates the organization from its external environment is not always precise and clear. In one sense, for example, stockholders are part of organization, but in another sense they are part of its organization. The major elements/forces of external environment are as follow:

1. **Economic:** The economic dimension of an organization's general environment is the overall health of the economic system in which the organization operates. Important economic factors for business are inflation, interest rates and unemployment, all of which affect demand for different products. During times of inflation, for example, a company pays more for resources and must raise its prices to cover the higher costs. Consumers are less willing to borrow money and company also pay more when interest rates are high. When unemployment is high the consumers buying may decline as fewer people are working.

2. **Political/Legal:** The political-legal dimension refers to government regulation of business and the relationship between business and government. First, the legal system partially defines what an organization can and can't do. Second, probusiness and antibusiness sentiment in government influences business activity. Third, political stability has ramifications (implication) for planning.
3. **Demographic:** Demographic factors are an uncontrollable factor in the business environment and extremely important to managers. Demography is the study of people's vital statistics, such as their age, gender, race and ethnicity, and location. Demographics help companies define the markets for their products and also determine the size and composition of the workforce. You'll encounter demographics as you continue your study of business. Demographics are at the heart of many business decisions. Businesses today must deal with the unique shopping preferences of different generations, which each require marketing approaches and goods and services targeted to their needs.
4. **Social:** The sociocultural dimension of the general environment includes customers, mores (tradition), values and demographic characteristics of the society in which the organization functions. Sociocultural processes are important because they determine the products, services and standards of conduct that the society is likely to value. In some countries, for example, customers are willing to pay premium prices for designer clothes but the same cloths have virtually no market in other countries.
5. **Competitive:** An organization's competitors are other organizations that compete with it for resources. Organizations may also compete for different kind of resources. For example, two totally unrelated organizations may compete to acquire a loan from a bank that has only limited fund to lend. Businesses also compete for quality labor, technological breakthroughs and patents, and scarce raw materials.
6. **Global Economic System:** Businesses and other organizations operate according to the economic systems of their home countries. Today the world's major economic systems fall into two broad categories: free market, or capitalism; and planned economies, which include communism and socialism. However, in reality many countries use a mixed market system that incorporates elements from more than one economic system. Managers must understand and adapt to the economic system or systems in which they operate. Companies that do business internationally may discover that they must make changes in production and selling methods to accommodate the economic system of other countries.
7. **Technological:** The technological dimension refers to the method available for converting resources into products or services. Technology is the application of science and engineering (manufacturing) skills and knowledge to solve production and organizational problems. New equipment and software that improve productivity and reduce costs can be among a company's most valuable assets. New innovation in robotics and other manufacturing techniques also have implication for managers.

Activity: Consider a manufacturer of bakery items such as biscuits, breads, pastry in your locality. Do you think the said organization is influenced by internal or external or both the environmental forces? How?

LESSON– 2: INFLUENCE & ADAPTATION WITH BUSINESS ENVIRONMENTS

After completion of this lesson you will be able to –

- *Discuss the importance of business environment*
- *Analyze how the business environment affect organization*
- *Analyze how organization adapt with the business environment*
- *Describe the factors of production.*

THE IMPORTANCE OF BUSINESS ENVIRONMENTS

There is a symbiotic relationship between a business and its environment. A business environment analysis will help you understand what's happening both inside and outside an organization. It'll further help you prepare for any risks or opportunities you may come across in the future. Here are several reasons why you must pay attention to business environments.

1. **Effective Management:** Communication and collaboration are the cornerstones of business success. Understanding your business environment helps you gauge needs and expectations, making it easier to make decisions. It further leads to the effective management of employees as everyone's on the same page and shares similar thoughts for promoting business success.
2. **Innovation:** When you pay attention to internal and external factors, you're better aware of the changing market demands. It pushes you to think outside the box and engage in innovative thinking. If you want to have a competitive edge (superiority) in the market, you must encourage creativity among employees.
3. **Optimum Use of Resources:** An effective environmental assessment helps you utilize available resources. You understand what's advantageous for your business and what's not making a difference. For example, if a department isn't bringing in the necessary profits, you can decide to shut it down and dedicate your business efforts to other areas.
4. **Aids in Decision-Making:** Assessing business environments is essential for effective decision-making. The ability to pick the best alternative among various choices is crucial for successful strategy implementation. It further contributes to an organization's success and growth.
5. **Risk Measurement:** The biggest advantage of studying business environments is the ability to foresee risks and take measurements to control or mitigate them. It helps you collect data and take active measures against surprises that may negatively impact your business.

Activity: Can you find any other areas where the knowledge of business environment sees important? Suppose, you are operating your own business firm in your community. In this circumstance, analyze the areas where you use business environment knowledge in operating your business effectively.

HOW ENVIRONMENT AFFECTS ORGANIZATION

Three basis perspectives can be used to describe how environments affect organization. They are:

1. **Environmental change and complexity:** The degree of change is the extent to which the environment is relatively stable or relatively dynamic. The degree of homogeneity is the extent to which the environment is relatively simple or relatively complex. These two dimensions interact to determine the level of uncertainty faced by the organization. The least environmental uncertainty is faced by organizations with stable and simple environments. Organization with dynamic but simple environments or stable but complex

environments generally results a moderate degree of uncertainty. Finally, very dynamic and complex environmental conditions yield a high degree of uncertainty.

2. **Competitive forces:** The strategic management experts suggest five competitive forces to view the environment of their organization.
   - **Threat of new entrance:** The threat of entrance is the extent to which new competitors can easily enter a market or market segment.
   - **Competitive rivalry:** Competitive rivalry is the nature of the competitive relationship between dominant firms in the industry.
   - **Threat of substitute products:** The threat of substitute products is the extent to which alternative products or services may supplant or diminish the need for existing products or services.
   - **Power of buyers:** The power of buyer is the extent to which buyers of the products or services in an industry have the ability to influence the suppliers.
   - **Power of suppliers:** The power of suppliers is the extent to which suppliers have the ability to influence potential buyers. The local electric company is the only source of electricity in our community. Subject to local or state regulation or both, it can therefore charge what it wants for its product, provide service at its convenience, and so forth.
3. **Environmental turbulence:** Organization faces the possibility of the environmental change or turbulence, occasionally with no warning at all. Although organization could have developed contingency plans for some of these crises, many of them are events that would have been hard to anticipate. The most common form of organizational turbulence is a crisis of some sort. The effect of crisis can be devastating (destructive) to an organization, especially if managers are unprepared to deal with them.

Activity: Talk to a businessman in your community and find how the elements of business environment he faces as an owner of the business firm.

HOW ORGANIZATION ADAPT TO THE ENVIRONMENT

The six basic mechanisms through which organizations adapt to their environment are given below:

1. **Information management:** One way organizations adapt to their environment is through information management. Information management is especially important when forming an initial understanding of the environment and when monitoring the environment for sign of change. One of the techniques of IM is boundary spanner. A ***boundary spanner*** is an employee, such as a sales representative or a purchasing agent, who spend much of his time in contact with others outside the organization. The effective managers engage in ***environmental scanning***, another IM technique, and the process of actively monitoring the environment through activities such as observation or reading.
2. **Strategic response:** Another way an organization adapts to its environment is through a strategic response. Options include maintaining the status quo, altering a bit, or adopting an entirely new strategy. If the market that a company currently serves its growing rapidly, the firm might decide to invest even more heavily in products or services for that market. Likewise, if a market is shrinking or does not provide responsible possibilities of growth, the company may decide to cut back.
3. **Merger, takeover, acquisition, and alliances:** A merger occurs when two or more firms combine to form a new firm. A takeover occurs when one firm buy another. After an acquisition, the acquired firm often continues to operate as a subsidiary of the acquiring company. In an alliance the firm undertakes a new venture with another firm.

4. **Organization design and flexibility:** An organization may also adapt to environmental conditions by incorporating flexibility in its structural design. For example, a firm that operates in an environment with relatively low levels of uncertainty might choose to use a design with many basic rules, regulations, and standard operating procedures. Alternatively, a firm that faces a great deal of uncertainty might choose a design with relatively few standard operating procedures, instead allowing managers considerable discretion and flexibility over management decisions.
5. **Direct influence of the environment:** Organizations are not necessarily helpless in the face of their environment. Indeed, many organizations are able to directly influence their environment in many different ways. For example, firms can influence their suppliers by signing long-term contract with fixed prices as a hedge against influence. Organizations also influence their customers by convincing them that they need something new. Automobile manufacturers use this strategy in their advertising to convince people that they need a new car every two or three years.

FACTORS OF PRODUCTION

To provide goods and services, regardless of whether they operate in the for-profit or not-for-profit sector, organizations require inputs in the form of resources called factors of production. Four traditional factors of production are common to all productive activity: natural resources, labor (human resources), capital, and entrepreneurship. Many experts now include knowledge as a fifth factor, acknowledging its key role in business success. By using the factors of production efficiently, a company can produce more goods and services with the same resources.

1. **Natural Resources:** Commodities that are useful inputs in their natural state are known as natural resources. They include farmland, forests, mineral and oil deposits, and water. Sometimes natural resources are simply called land.
2. **Labor:** Labor, or human resources, refers to the economic contributions of people working with their minds and muscles. This input includes the talents of everyone—from a restaurant cook to a nuclear physicist—who performs the many tasks of manufacturing and selling goods and services.
3. **Capital:** The tools, machinery, equipment, and buildings used to produce goods and services and get them to the consumer are known as capital. Sometimes the term capital is also used to mean the money that buys machinery, factories, and other production and distribution facilities.
4. **Entrepreneurs:** Entrepreneurs are the people who combine the inputs of natural resources, labor, and capital to produce goods or services with the intention of making a profit or accomplishing a not-for-profit goal. These people make the decisions that set the course for their businesses; they create products and production processes or develop services.
5. **Knowledge:** A number of outstanding managers and noted academics are beginning to emphasize a fifth factor of production—knowledge. Knowledge refers to the combined talents and skills of the workforce and has become a primary driver of economic growth. Today's competitive environment places a premium on knowledge and learning over physical resources.

<u>Discussion Questions:</u>

1. What do you understand by business environment? Describe the different types of business environment.
2. Describe the elements/actors/factors/forces of internal business environment.

3. Describe the elements of externa business environment.
4. Why is understanding of business environment important? Discuss.
5. How business environment affects the business organization?
6. How a business organization adapt itself with the business environment.
7. Describe the factors of production.

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Forms of Business

3

Unit Highlights

- Lesson – 1: Sole Proprietorship Business
- Lesson – 2: One Person company in Bangladesh
- Lesson – 3: Partnership Business
- Lesson – 4: Company form of Business
- Lesson – 5: Formation of Private Limited Company
- Lesson – 6: Integration, Merger & Acquisition

Technologies Used for Content Delivery

- BOUTUBE
- BOU LMS
- WebTV
- Web Radio
- Mobile Technology with MicroSD Card
- LP+ Office 365
- BTV Program
- Bangladesh Betar Program

LESSON – 1: SOLE PROPRIETORSHIP BUSINESS

After completion of this lesson you will be able to –

- *Define sole proprietorship business*
- *Understand the advantages of sole proprietorship business*
- *Understand the disadvantages of sole proprietorship business*
- *Suitability of sole proprietorship form of business.*

DEFINITION OF SOLE PROPRIETORSHIP

A sole proprietorship is a business owned and managed by one individual. The oldest, most common form of business ownership in the world is sole proprietorship.

Typically, the sole proprietor owns a small service or retail operation, such as roadside produce stand, hardware store, bakery or restaurant. The capital needed to start and operate the business is normally provided by the owner through personal wealth or borrowed money.

The sole proprietor is usually an active manager, working in the shop every day. S/he controls the operations, supervises the employees and makes the decisions. The managerial ability of the owner usually accounts for the success or failure of the business.

ADVANTAGES OF SOLE PROPRIETORSHIP

The advantages of the sole proprietorship are as follows:

1. **Ease of starting:** Sole proprietorship is the easiest way to start a business. There is no need to go through the legal formalities. For starting a small enterprise, no formal registration is statutorily needed.
2. **Control:** The owner of the sole proprietorship made final decisions; s/he worked as many hours s/he wanted. Such freedom indicates the total control s/he had over daily operations and decision.
3. **Sole participation in profits and losses:** The owner of sole proprietorship has absolute right on the profits earned and losses incurred by operating the business.
4. **Use of owner's abilities:** The success of the sole proprietorship depends largely on the efficient use of owner's abilities. Owner had to use his own managerial abilities or pay someone else who had managerial expertise.
5. **Tax breaks:** A major advantages of sole proprietorship is that the business pays no income tax. Sole proprietor paid no taxes on business profit, but he paid taxes as an individual on all her income earned from the other activities.
6. **High secrecy:** Secrecy is another advantage offered by sole proprietorship. This is because the whole business is handled by the proprietor himself and, as such, the business secrets are known to him only.
7. **Easy dissolution:** In sole proprietorship business the entrepreneur is all in all. As there is no co-partner or owner, therefore, there is no scope for the difference of opinion in the case the proprietor wants to dissolve the business.

DISADVANTAGES OF SOLE PROPRIETORSHIP

The advantages of sole proprietorship are as follows:

1. **Unlimited liability:** Sole proprietorship is characterized by unlimited liability. It means that in case of loss, the private property of the proprietor will also be used to clear the business obligations.

2. **Difficulty in rising capital:** The proprietor mainly relies on his funds and savings and, to a limited extent, borrowing from relatives and friends. Thus, the scope of rising funds id highly limited in sole proprietorship.
3. **Lack of stability:** Death, illness, bankruptcy, or retirement of the owner terminates the proprietorship.
4. **Demands on time:** sole proprietorship demands owner to engage himself in the business most of the time, to develop a customer base, especially when the business is new.
5. **Difficult in hiring or keeping employees:** Sometime proprietor may employ someone to help to run the business. But vision of the business could not be achieved by most of the employees. So it is very difficult to hire the person and to keep them.

FROM WHERE A SOLE PROPRIETOR CAN START? / SUITABILITY FORM OF BUSINESS FOR SOLE PROPRIETORSHIP

The type of businesses where the sole proprietorship form is most suitable are discussed as follow:

1. Where the market for the product is small and local. For example, selling grocery items, books, stationery, vegetables, etc.
2. Where customers are given personal attention, according to their tastes and preferences, for example, making a special type of furniture, designing garments, etc.
3. Where the nature of business is simple, for example, grocery, garments business, telephone booth, etc.
4. Where a capital requirement is small, and the risks involved are not heavy—for example, vegetables and fruits business, tea stalls, etc.
5. Where manual skill is required, for example, making jewelry, haircutting or tailoring, cycle or motorcycle repair shop, etc.

Activity: what forms of sole proprietorship business you find suitable for you? Align your choice with the ability you have and also justify the reasons of your choice in those areas.

LESSON – 2: ONE PERSON COMPANY IN BANGLADESH

After completion of this lesson you will be able to –

- *Define One Person Company (OPC)*
- *Know the requirements of OPC*
- *Discuss the benefits of OPC*
- *Analyze the structure of OPC*
- *Analyze the documentations of OPC*
- *Discuss the registration process of OPC*

CONCEPT OF ONE PERSON COMPANY

A one person company (OPC) is a relatively recent business structure in Bangladesh. There is just one stockholder in the business. In the event of the major shareholder's demise, there must be a nominee. The business will be given to the candidate upon death.

One individual is the only shareholder of an OPC. In many countries OPC is a well-known organization. But in Bangladesh, the idea is brand-new. Instead of being treated as a single proprietorship, OPC will have all the advantages of a registered corporation.

REQUIREMENTS OF ONE PERSON COMPANY IN BANGLADESH

The minimum paid-up capital for a one-person corporation in Bangladesh is 25 lakh taka, as suggested by section 392C. 5 crore taka is the upper limit.
The yearly turnover must range from 1 to 50 crore taka.

However, the only shareholder is required to change the business into a private limited company if the sum grows.

Memorandum and Articles of Association as required by Section 392A.

BENEFITS OF ONE PERSON COMPANY

1) **Easy incorporation:** A one-person company allows someone to launch a business with a minimal amount of compliance. Only one member and one nominee are needed for OPC to be incorporated.
2) **Complete control:** Due to the fact that it is a one-person business, just that one person has full control. As there won't be any divergent viewpoints, decision-making becomes quick and simple, making it simple to administer and manage the company.
3) **Small-scale industries:** The advantages offered to small-scale businesses, such as simple finance, little compliance, loans with cheaper interest rates, etc., are also available to one person companies.
4) **Ease in funding:** Financial institutions, capital enterprises, and other investors are all possible funding sources for the OPC. The OPC can transform into a private firm in order to increase its funding from outside sources.
5) **Greater credibility:** OPC has more credibility since its accounts are audited yearly due to the fact that it is owned by a single individual.
6) **Growth:** The One Person Company is entirely based on a Centralised Management System that drives the Company towards attaining considerable growth and a larger contribution to the economy of our nation.
7) **Stability:** Because just one person is in charge of the entire company, there is no chance of a conflict of interest among the shareholders. This gives businesses more stability.

STRUCTURE OF ONE PERSON COMPANY IN BANGLADESH

A single individual may create an OPC and sign the memorandum in accordance with section 392B. In both the OPC Memorandum and the Articles of Association, there must be one or more candidates. OPC registration is limited to one individual only.

Director

OPC in Bangladesh has a single stakeholder, as the name implies. This one stakeholder will serve as the company's manager, secretary, and director. It might be managed by hiring additional staff.

Board meetings

Section 392F stipulates that the board must meet at least once every six months.

Balance Sheet

An OPC is required to disclose its financial statement to the public and submit it to the Registrar at the end of each fiscal year. The revenue and cost or profit and loss must appear on the balance sheet. The director must affix their signature to this balance sheet.

DOCUMENTATION OF OPC BANGLADESH

The documents that are required to for the registration of One Person Company are as follow:

1) For Registration

The prerequisites for one person registration process in Bangladesh are as follows:

- National ID Card
- Passport size photo
- TIN certification
- Contact details
- Email address
- Signature

2) For Nominee

The paperwork needed by the nominee is the same paperwork needed by the individual who registered the one person company. To be entitled to the business upon the death of the original owner, the candidate must be at least 18 years old.

ONE PERSON COMPANY REGISTRATION PROCESS IN BANGLADESH

Step 1: Name clearance

To start a business, you should first get name clearance for the desired company name. You must create a username by going here. After this you will then be able to submit a name clearance application. You will be sent a bank payment slip and you must pay BDT 600 to the chosen bank using this form. Once you have paid, you must sign into your account on the RJSC website. From the date of clearing, a name that has been granted will be held for one month. Just before the name is set to expire, you can seek an extension.

Step 2: Open bank account

Only if the prospective firm has **foreign shareholders** is this step appropriate.

You must create a bank account with any Bangladeshi scheduled bank in the suggested company name. You must deposit funds into the account once the account has been opened in an amount equivalent to the shares that the foreign shareholder must possess outside of Bangladesh. The Encashment Certificate that RJSC needs in order to incorporate will be issued by the Bank.

Step 3: Company registration
Fill out the RJSC website with all the necessary data. Additionally, you must upload a Subscriber Page and Form IX. When everything is done, you will be given a bank payment slip to pay the registration costs and stamp tax.
After completing the bank transaction, you are finished with the company registration.

Post-Registration Formalities
After registration, to receive the incorporation certificate, you must now follow up with the RJSC. The information and papers will be examined by RJSC personnel. If they are content, they will provide these digitally signed documents:

- Certificate of incorporation: A Certificate of Incorporation for the business will be issued by RJSC. The certificate will include the name of the firm, the date of establishment, and the company registration number.
- MOA and AOA
- Form XII: The list of directors' contact information may be found on Form XII.

Some more materials are almost required in order to register (create a corporation) in Bangladesh, such as:

- Certificates of ownership for each shareholder
- Register for directors, stockholders, and other positions
- Common corporate seal for the business

LESSON – 3: PARTNERSHIP BUSINESS

After completion of this lesson you will be able to –

- *Define partnership business*
- *Understand the types of partnership business*
- *Discuss the advantages of partnership business*
- *Discuss the disadvantages of partnership business*
- *Prepare a partnership contract*
- *Understand the consequences of non-registration of partnership business*
- *Methods of dissolution of partnership business.*

DEFINITION OF PARTNERSHIP

Partnership can be defined as an association of two or more persons who have agreed to share the profit of the business which they run together.

According to J. L. Hanson, "A partnership is a form of business organization in which two or more persons up to a maximum twenty join together to undertake some form of business activity."

The Uniform Partnership Act of the USA defines partnership as "association of two or more persons to carry on as co-owners of a business for profits."

TYPES OF PARTNERSHIP

There are three major types of partnership, such as:

1. **General partnership:** The general partnership is a partnership in which at least one partner has unlimited liability; a general partner has authority to act and make binding decisions as an owner. The general partner may be liable for all the debt of the business. Partners generally share profit and losses according to a plan specified by agreement between/among them.
2. **Limited partnership:** Limited partnership is a partnership with at least one general partner, and one or more limited partners who are liable for losses only up to the amount of their investment. The general partners arrange and manage the business, while the limited partners are investors only. Investors receive special tax advantages and protection from liability. Limited partners legally have no say in managing the business. A limited partner has limited liability, being liable or loss only up to the amount of capital invested.
3. **Joint venture:** When a number of individuals or businesses join together to accomplish a specific purpose or objective or to complete a single transaction is called joint venture. For example, a number of individuals may wish to purchase a building in Dhaka and resell it for a profit. This would be called a joint venture. The liabilities of the parties in a joint venture are similar to the liabilities of the partnership.

ADVANTAGES OF PARTNERSHIP

The advantages of partnership are as follows:

1. **Easy formation:** Partnership is a contractual agreement between the partners to run an enterprise. Hence, it is relatively ease to form. Legal formalities associated with formation are minimal.
2. **More capital:** In a partnership, the amount of capital may increase significantly. It also increases the borrowing capacity of the firm.

3. **Combined managerial skills:** In a partnership, people with different skills and talents may join together. This gives the firm an advantage of collective expertise for taking better decisions. Thus, the old maxim (proverb) of *'two head is better than one'* aptly applies to partnership.
4. **Diffusion of risk:** The losses of the firm are shared by all the partners as per their agreed profit-sharing ratios. Thus, the share of loss in case of each partner will be less than that increase of proprietorship.
5. **Flexibility:** The partners can easily appreciate and quickly react to the changing conditions. No giant business organization can stifle so quick and creative responses to new opportunities.
6. **Tax advantage:** Taxation rates applicable to partnership are lower than any other form of business ownership.
7. **Legal status:** The precedents for partnership have been established through court cases. The questions of rights, responsibilities, liabilities and partner duties have been covered. Thus, the legal status of partnership is clearly understood; lawyers can provide sound legal advice about partnership issues.

DISADVANTAGES OF PARTNERSHIP

The disadvantages of partnership are as follows:

1. **Unlimited liabilities:** In a partnership firm the liability of partners is unlimited. Just as a proprietorship, the partners' personal assets may be at risk if the business cannot pay its debts.
2. **Potential disagreements:** Power and authority of the partners are divided, and they may not always agree with each other. As a result, poor decision may be made. Also, decision making become time consuming because agreement must be reached before action can be taken.
3. **Investment withdrawal difficulty:** A person who invests money in a partnership may have a hard time withdrawing the investment. It is much easier to invest in a partnership than to withdraw.
4. **Lack of continuity:** Death or withdrawal of one partner causes the partnership to end. So there remains uncertainty in continuity of partnership.
5. **Public distrust:** A partnership firm lacks the confidence of public because it is not subject to detailed rules and regulations. Lack of publicity of its affairs undermines public confidence in the firm.

ELEMENTS OF PARTNERSHIP CONTRACT

Sound business practice dictates that a partnership agreement be written and signed, although that is not a legal requirement. Such a contractual agreement is called *articles of partnership*. A partnership contract or agreement includes the following main features:

a) Name of the business partnership
b) Types of business
c) Location of the business
d) Expected life of the partnership
e) Name of the partners and the amount of each one's investment
f) Procedure of distributing profits and covering losses
g) Amounts that partners will withdraw for services

h) Procedure for withdrawal of funds
i) Duties, power and obligation of each partners
j) Arrangement in case of a partner becomes insolvent
k) Procedure for dissolving the partnership
l) Any other clauses which may be found necessary in particular type of business

CONSEQUENCES OF NON-REGISTRATION OF PARTNERSHIP

An unregistered firm suffers from the following serious disabilities:

1. A partner of an unregistered firm cannot file a suit against the firm or any other partner for enforcing his right arising out of the contract.
2. An unregistered firm cannot file suit against any third party for the recovery of the claims.
3. Such a firm also cannot file a suit against any partner.

METHODS OR CAUSES FOR DISSOLUTION OF PARTNERSHIP FIRM

The any reason in the following may be the cause for dissolution of the partnership firm:

1. **Dissolution by agreement:** A firm may be dissolved with the consent of all the partners or in accordance with a control between the partners. [Sec. 40]
2. **Compulsory dissolution:** Under the following two circumstances a firm can dissolute compulsorily:
   a) by the adjudication of all the partners or of all the partners but one as insolvent, or [Sec. 41(a)]
   b) by the happening of any event which make it unlawful for the business of the firm to be carried on or for the partners to carry it on it partnership. [Sec. 41(b)]
   Provided that, where more than one separate adventure or undertaking is carried on by the firm, the illegality of one or more shall not of itself cause the dissolution of the firm in respect of its lawful adventures or undertakings.
3. **Happening of certain contingencies:** Subject to contract between the partners a firm is dissolved (Section 42)-
   a) if constituted for a fixed term, by the expiry of that term;
   b) if constituted to carry out one or more adventures or undertakings, by the completion thereof;
   c) by the death of a partner;
   d) by the adjudication of a partner as an insolvent.
4. **Dissolution by notice:** Where the partnership is at will, the firm may be dissolved by any partner giving notice in writing to all the other partners of his intention to dissolve the firm. [Sec. 43(1)]
5. **Dissolution by court:** Court may dissolved the firm for any reason mentioned below:
   a) **Unsound mind of the partner:** That a partner has become of unsound mind, in which case the suit may be brought as well by the next friend of the partner who has become of unsound mind as by any other partner. [Sec. 44(a)]
   b) **Permanent incapability:** That a partner, other than the partner suing, has become in any way permanently in capable of performing his duties as partner. [Sec. 44(b)]
   c) **Misconduct of the partner:** That a partner, other than the partner suing, is guilty of conduct which is likely to affect prejudicially the carrying on of the business, regard being had to the nature of the business. [Sec. 44(c)]
   d) **Willful breach of agreement:** That a partner, other than the partner suing, willfully or persistently commits breach of agreement relating to the management of the

affairs of the firm or the conduct of its business, or otherwise so conducts himself in matters relating to the business that it is not reasonably practicable for the other partners to carry on the business in partnership with him. [Sec. 44(d)]

e) **Transfer the whole interest of the partner:** That a partner, other than the partner suing, has in any way transferred the whole of his interest in the firm to a third party, or has allowed his share to be charged under the provision of the rule, or has allowed to be sold in the recovery of arrears of land-revenue due by the partner. [Sec. 44(e)]

f) **Continuous loss:** That the business of the firm cannot be carried on save at a loss. [Sec. 44(f)]

g) **Other reasonable cause:** On any other ground which renders it just and equitable that the firm should be dissolved. [Sec. 44(g)]

LESSON – 4: COMPANY FORM OF BUSINESS

After completion of this lesson you will be able to –

- *Define company form of business*
- *Understand the types of companies*
- *Analyze the features of company*
- *Discuss the merits and demerits of company.*

DEFINITION OF COMPANY

A company is defined as a voluntary association of persons having separate legal existence, perpetual succession and a common seal. As per the definition, there must be a group of persons who voluntarily agree to form a company. Once formed the company becomes a separate legal entity with a distinct name of its own. Its existence is not affected by change of members. It must have a seal to be imprinted on documents whenever required. The capital of a company consists of transferable shares, and members have limited liability.

TYPES OF COMPANIES

There are mainly two types of companies such as: private limited company and public limited company.

1. **Private limited company**: A private limited company in Bangladesh is a separate legal entity and shareholders are not liable for the company's debts beyond the amount of share capital they have contributed. According to the Companies Act 1994, any person (foreign or local) above the age of 18 can register a company in Bangladesh. A private limited company is an organisation owned by shareholders who have each invested a sum into the business. A shareholder enjoys a limited liability in the company and receives yearly dividends from any profits made.
2. **Public limited company:** As per companies act 1994, A Public Company, is a Company which can be formed by at least seven persons as members and the membership is open to the public. A public limited company is a business that is managed by directors and owned by shareholders. A public limited company can offer shares to the public.

FEATURES OF A COMPANY

The following are the chief characteristics of the company form of organization:

(i) **Registered body:** A company comes into existence only after its registration. For that purpose, necessary legal formalities have to be completed as prescribed under the Companies Act.

(ii) **Distinct legal entity:** A company is regarded as a legal entity separate from its members. Thus a company can carry on business in its own name, enter into contracts, sue, and be sued.

(iii) **Artificial person:** A company is the creation of law and has a distinct entity. It is therefore, regarded as an artificial person. The business is run in the name of the company. But because it is an artificial person, its functions are performed by the elected representatives of members, known as directors.

(iv) **Perpetual succession:** A company has continuous existence independent of its members. Death, insolvency, or change of members has no effect on the life of a company. The common saying in this regard is that members may come, members may go, but the company goes on forever. The life of the company can come to an end only through the prescribed legal procedure.

(v) **Common seal:** Since a company is an artificial person, it has no physical existence. The activities of the company are carried through a group of natural persons elected by its members (called directors). Every company must therefore, have a common seal with its name engraved on it. Anyone acting on behalf of the company must use the common seal to bind the company.

(vi) **Limited liability:** The liability of the members of a company is limited. It is limited to the extent of capital agreed to be contributed. Beyond that amount, the members cannot be personally held liable for payment of the company's debts.

(vii) **Transferability of shares:** The capital of a company is divided into parts called shares. Normally the shares of a company are freely transferable by its members. However, transferability is restricted in the case of private company.

ADVANTAGES / MERITS OF COMPANY

The most important advantages of a company organization may be stated as follows:

1. **Collection of huge financial resources:** The biggest advantage of a company organization is that it has the ability to collect large amounts of funds. This is because a company can raise capital by issuing shares to a large number of persons. Shares of small value can be subscribed even by people with small savings. In addition, company can also raise loans from the public as well as different lending institutions. Availability of necessary funds makes it possible for a company to undertake business activities on a large scale.
2. **Limited liability:** Another advantage of the company form of organization is the limited liability of members. With the liability of members limited to the value of their shares, company is able to attract many people to invest in its shares. It is thus in a position to undertake business ventures involving risks.
3. **Free transferability of shares:** A company permits its members to transfer their shares. Free transferability of shares provides liquidity of the member's investment. Thus, if a member needs cash he can sell his shares. Or, he can use the same amount to buy shares of another more profitable company. It enables profitable companies also to attract funds away from the less profitable ones.
4. **Durability and stability:** A company is the only form of organization which enjoys continuous existence and stability. The funds invested in a company by shareholders are not withdrawal until it is wound up. Also any change in the company's membership does not affect its life. As a result of this, a company can undertake projects of long duration and attract people to invest in the business of the company.
5. **Growth and expansion:** With the large resources at its command a company can organize business on a largescale. Once the business is started on a large scale it gives the company strength to grow and expand. This is because of high profits, which accrue from the economies of large-scale organization and production.
6. **Efficient management:** Since a company undertakes large-scale activities, it requires the services of expert professional managers. Competent managers can be easily hired by a company because it commands large financial resources. Thus, efficient management is ensured in a company organization.

7. **Public confidence:** A company enjoys great confidence and trust of the general people. Companies have to disclose the results of their activities and financial position in the annual reports. The reports are available to the public.
8. **Social benefits:** Apart from the benefits mentioned above, a company organization also offers the following social benefits:
   - **(a) Democratization of management:** In the company form of organization, management of business is entrusted to the elected representative of shareholders that is the directors. As a result of democratic management the business of company is run in the best interest of the majority shareholders.
   - **(b) Dispersal of ownership:** Since a large number of persons are associated with a company as members, its ownership is widely held. Thus the benefits of the company's operations are distributed among a large section of people.
   - **c) Assumption of social responsibilities:** Large companies often undertake and contribute to social welfare activities by making donations to schools and colleges, developing rural areas, running health-care institutions, and so on.

LIMITATIONS OF COMPANY ORGANISATION

A company organization suffers from the following limitations:

(i) **Lengthy and expensive legal procedure:** The registration of a company is a long-drawn process. A number of documents are to be prepared and filled. For preparing documents experts are to be hired who charge heavy fees. Besides, registration fees have also to be paid to the Registrar of Companies.

(ii) **Excessive government regulations:** A company is subject to government regulations at every stage of its working. A company has to file regular returns and statements of its activities with the Registrar. There is a penalty for non-compliance of the legal requirements. Filing returns and reports involving considerable time and money is the responsibility of a company. All this reduces flexibility in operations.

(iii) **Lack of incentive:** A company is not managed by shareholders but by directors and other paid officials. Officials do not have investment in the company and also do not bear the risks. As such, they may not be as much motivated to safeguard the interests of the company as the shareholders.

(iv) **Delay in decision-making and action:** In large companies, decision making and its implementation happen to be a time consuming process. This is obviously because individual managers are unable to take decisions on their own. They may have to consult others which may take a lot of time. Similarly, after decisions are taken, they have to be communicated to people working at various levels of the organization. It also delays the implementation of already delayed decisions.

(v) **Oligarchic management:** The company management may seem to be fully democratic, but in actual practice, it is the worst form of oligarchy i.e. control by a small group of persons. People who are once elected as directors of a company adopt various means to get themselves re-elected over and again. Such individuals often exploit the company for personal interests instead of working in the interest of shareholders.

(vi) **Speculation:** In speculation, profit is fought to be made by manipulating prices of shares without actually holding shares. A company organization provides scope for speculation in shares by the directors. Because director shave knowledge of all information about the functioning of company, they can use it to their personal advantage. For example, directors may sell or buy shares knowing that prices will decline or go up because of low or high profits. As a result of this, innocent shareholders may suffer loss.

(vii) **Growth of monopolistic tendencies:** A company because of its large size has the tendency to grow into a monopoly so as to eliminate competition, control the market and charge unreasonable prices to maximize profits.

(viii) **Influencing government decisions:** Big companies are generally in a position to influence government officials to make decision in their favor. This is because such companies have large financial resources and are in a position to bribe even high officials.

LESSON – 5: FORMATION OF PRIVATE LIMITED COMPANY

After completion of this lesson you will be able to –

- *Discuss the formation of private limited company*
- *Discuss the formation of public limited company.*

FORMATION OF PRIVATE LIMITED COMPANY

The sequential steps to the formation of a private limited company in Bangladesh are discussed below:

1. **Name clearance:** To form a private limited company, the first step is to choose a name for the company which should be unique. After choosing the name, one needs to apply for name clearance in order to get the name approval certificate from the Registrar of Joint Stock Companies and Firms (RJSC). It usually takes 1 to 2 days to get the certificate.
2. **Drafting Memorandum of Association (MOA):** A Memorandum of Association (MOA) of a limited company basically includes the objectives of a company. One can add as many objectives as one wants. However, it needs to be kept in mind that in order to start a business in banking, finances, school, or hospital, prior approval from the concerned authority is required. In addition to the objectives of a company, an MOA also includes the authorized capital of the company.
3. **Drafting Article of Association (AOA):** Article of Association (AOA) is the constitution of the company. An AOA contains all the rules of how a limited company will run and who will be the Managing director, Chairman, and Director of the company. In addition, an AOA also includes how the company bank account will be operated, how the decision will be made among the shareholders, and what will be the minimum quorum for making a decision.
4. **Opening of Bank Account (For foreign nationals or entities):** At this stage one can open a bank account, will defer between foreign national / entity and Bangladeshi nationals? In the case of foreign nationals/entities, after getting the name clearance certificate, the signatory of the bank account will go to the bank and deliver the following documents in order to open a provisional bank account in the name of the company. Following documents are needed to submit while opening the bank account:
    - Photocopy of name clearance certificate
    - Draft AOA and MOA
    - Photocopy of passport (application for foreign nationals)
    - C1 Form (estimation of the open-market value of the share)

After receiving the above-mentioned documents, the bank will open a provisional account in the name of the company.

5. **Depositing Share Money (For foreign nationals or entities):** After opening the provisional bank account, a share money deposit will be sent from the country of the foreign shareholder to the provisional account. The money is required to be sent from the person or entity account of the shareholder. After receiving the payment, the bank in Bangladesh will issue an encashment certificate.
6. **Registration to RJSC:** After receiving the encashment certificate, a few documents need to be submitted to the RJSC namely AOA, MOA, and encashment certificate along with all other necessary information. After receiving all the necessary documents and

information, RJSC will generate an invoice to be paid to the recognized bank. The necessary documents and information for the formation of company in Bangladesh are:

- Particulars of Directors i.e. name, parent’s name, passport number, email ID, mobile number
- Name of Managing Director
- Name of Chairman
- NID (if Bangladeshi national)
- TIN (if Bangladeshi national)
- Limit of paid-up capital
- Limit of authorized capital
- Photo of all shareholders (1 copy)
- Address of company
- Signatories of the bank account

7. **Issue of incorporation certificate:** After receiving all the above-mentioned documents, RJSC will verify all the information given in the AOA and MOA and will also verify the encashment certificate with the bank. After being satisfied with all the information, the RJSC will issue an incorporation certificate in the name of the company.

HOW TO INCORPORATE A PUBLIC LIMITED COMPANY IN BANGLADESH? / STEP BY STEP PROCEDURE AS TO HOW TO INCORPORATION A PUBLIC LIMITED COMPANY IN BANGLADESH

The Company Act 1994 does not provide the step by step procedure on how to set up a Company rather deals with the statutory requirements of Company incorporation. It is dealt by the RJSC (Registrar of Joint Stock Company), the appropriate body; which provides the detailed guideline on its official website regarding the procedure of setting up a Company from name clearance to incorporation.

The steps for the registration of a Public Company in Bangladesh are detailed below:-

STEP 1: OBTAIN NAME CLEARANCE LETTER

Application for name clearance to RJSC along with the following information:

a) Application Form;

b) Proposed Name.

STEP 2: DOCUMENTATION

a) Drafting of Memorandum of Articles and Articles of Association and other required documents,

b) Directors' resolution to open a new Company in Bangladesh;

c) Obtaining and filling up the following forms for registration of the Company to RJSC:

- Form I: Declaration on registration of Company;
- Form VI: Notice of situation of registered office;
- Form IX: Consent of director to act;
- Form X: List of persons consenting to be directors;
- Form XII: Particulars of the directors, manager and managing agents.

STEP 3: FORMALITIES RELATED WITH BANK ACCOUNT

a. Directors shall open a temporary bank account in the name of the proposed Company with any scheduled bank with the condition that the account shall be regularized once the Company is duly registered with Company House;

b. Capital contribution into the bank account.

c. Encashment certificate from the bank which expresses that the sum required for capital contribution has been duly dispatched in the temporary bank account of the proposed organization.

STEP 4: SUBMISSION OF DOCUMENTS TO RJSC

Application to RJSC along with the documents executed as listed above and other certificates mentioned below.

(a) **<u>Trade License</u>:** The Companies have to obtain trade license from the relevant City Corporation. The proposed Company is required to file its application at the nearest City Corporation along with relevant documents and appropriate fees.

(b) **<u>Tax Identification Number ("TIN")</u>:** A Company has to obtain E-TIN from the recommended website of National Board of Revenue (NBR).

(c) **<u>VAT Registration Certificate</u>:** The newly incorporated Company has to collect a VAT registration certificate. In this regard, the application has to be made to the National Board of Revenue (NBR).

(d) **<u>Fire Certificate</u>:** Fire certificate is provided by the Bangladesh Fire Service and Civil Defense Authority.

(e) **<u>Environment Clearance Certificate</u>**: An environment clearance certificate from the Department of Environment has to be obtained by a company if it's involved in an industrial project, by executing the prescribed form.

(f) **Special Case (Investment in kind, etc.):** The concept of 'investment in kind' is not detailed under Companies Act 1994. However, in practice, significant investment is made by investing in machineries and other equipment in a Company by a shareholder or a proposed shareholder in a Company incorporated in Bangladesh. Although Company Act 1994 does not govern the procedure, the following steps are followed while carrying out such investment in kind:

- The concerned company has to be duly registered with <u>RJSC</u>,
- The concerned investors have to fill up the relevant Form(s),
- The concerned investors are required to have a vendors' agreement between them,
- The filled up Form(s) and the vendors' agreement have to be filed with RJSC.
- The RJSC will then record the investment and monitor whether the proper procedure has been duly followed.

Step 5: incorporation or Registration

Once the aforementioned formalities are complied with, RJSC generally provides with the certificate of incorporation (Company registration certificate) within 6-8 working days. It usually takes 2-3 weeks to register a Company from the date of submitting all the documents to RJSC.

Once the name clearance is obtained, the clearance remains valid for 6 months. Generally 3 working days are required to obtain a name clearance. After obtaining the Name Clearance certificate a bank account need to be opened where the initial paid up capital need to be transferred from the shareholders' account. If there is any foreign investment then the amount for paid up capital need to be remitted through the newly opened bank account following proper procedure. The governmental fees of the Company registration depend on the amount of Authorized Capital.

LESSON – 6: INTEGRATION, MERGER & ACQUISITION

After completion of this lesson you will be able to –

- *Differentiate private limited company from public limited company*
- *Understand the concept of integration*
- *Define merger and acquisition*
- *Analyze the reasons behind merger and acquisition.*

DIFFERENCES BETWEEN PRIVATE LIMITED COMPANY AND PUBLIC LIMITED COMPANY

The differences between private limited company and public limited company are given below:

1. **Minimum Number of members:** For a private company, the minimum number of member is 2. However, the minimum number of member of a public company is 7.
2. **Maximum Number of members:** For a private company limited by shares, the number of member is limited to 50. However, the number of member of a public company is no limitation.
3. **Transfer of shares:** A private company limited by shares is restricted to transfer share according to its articles but a public company is not restricted.
4. **Subscription:** Any invitation to the public to subscribe for any shares or debentures of the company is prohibited in a private company limited by shares. Nevertheless, it does not restrict a public company.
5. **Levels of regulatory regimes:** The requirements of a private company limited by shares in the Companies Ordinance are lower than those of a public company. Its annual returns filing with the Companies Registry are less information than ones of a public company. In addition, it does not have to file its accounts with the Companies Registry so that its financial information is not in the public domain. Therefore, the cost of compliance of a private company limited by shares is lower than a public company.
6. **Functions:** A private company limited by shares cannot become a listed company since becoming a listed company requires first becoming a public company. Thus, a public company may become a listed company.
7. **Risk:** A private company limited by shares is the lack of freedom to exchange shares and the low transparency level of their accounts. It leads to a higher risk investment. Consequently, it is lower level of capital investment. To opposite, a public company is lower risk investment.

CONCEPT OF INTEGRATION

When businesses acquire other businesses or operations that were previously competitors, suppliers, buyers, or sellers, they are engaging in a strategy known as integration. This strategy is based on the possibility of synergy, the idea that the sum of two entities will be greater than their individual parts—often expressed as 1+1=3. Integration can be accomplished in two primary ways: through mergers or acquisitions.

CONCEPT OF MERGERS

Merger is the combination of two or more business enterprises into a single entity. Mergers, the joining together of two corporations, have always been a concern in government policy because of increased market share and reduced competition.

There are three types of mergers, such as:

- **Horizontal merger:** A horizontal merger occurs when competitive firms in the same market merge into one firm. For example, a cell phone company merges with another cell phone company.
- **Vertical merger:** When a firm's merger with its supplier is called vertical merger. For example, a publishing company merges with a paper mill.
- **Conglomerate merger:** A conglomerate merger joins firms selling goods in unrelated markets. For example, a pharmaceuticals company purchased another food producing company.

CONCEPT OF ACQUISITION

An acquisition, on the other hand, occurs when a company purchases the assets of another business (such as stock, property, plants, equipment) and usually permits the acquired company to continue operating as it did prior to the acquisition. Acquisition usually refers to a purchase of a smaller firm by a larger one. Sometimes, however, a smaller firm will acquire management control of a larger and/or longer-established company and retain the name of the latter for the post-acquisition combined entity.

REASONS FOR MERGERS AND ACQUISITIONS

There are many good reasons for growing your business through an acquisition or merger. These include:

1. **Obtaining quality staff or additional skills, knowledge of the industry or sector, and other business intelligence**. For instance, a business with good management and process systems will be useful to a buyer who wants to improve their own.
2. **Accessing funds or valuable assets for new development.** Better production or distribution facilities are often less expensive to buy than to build. Look for target businesses that are only marginally profitable and have large unused capacity that can be bought at a small premium-to-net-asset value.
3. If the businesses are **struggling with regional or national growth**, it may well be less expensive to buy an existing business than to expand internally.
4. **Accessing a wider customer base and increasing the market share**. Target business may have distribution channels and systems that can use for their own offers.
5. **Diversification of the products, services, and long-term prospects of business**. A target business may be able to offer products or services that can sell through own distribution channels.
6. **Reducing costs and overheads** through shared marketing budgets, increased purchasing power, and lower costs.
7. **Reducing competition**. Buying up new intellectual property, products, or services may be cheaper than developing these yourself.

8. **Organic growth** (i.e., the existing business plan for growth needs to be accelerated). Businesses in the same sector or location can combine resources to reduce costs, eliminate duplicated facilities or departments, and increase revenue.

Discussion Questions:

1. Define sole proprietorship business.
2. Discuss the advantages of sole proprietorship business.
3. Describe the disadvantages of sole proprietorship business.
4. Explain the suitable areas of running sole proprietorship business.
5. What do you understand by One Person Company (OPC)
6. State the requirements of one person company.
7. Discuss the benefits of one person company.
8. Describe the structure of one person company.
9. State the documents that are required for one person company.
10. Discuss the registration process of one person company.
11. Define partnership business.
12. Discuss the types of partnership business.
13. Discuss the advantages of partnership business.
14. Discuss the disadvantages of partnership business.
15. State the issues that should be included in preparing a partnership contract.
16. State the consequences of non-registration of partnership business.
17. Describe the methods of dissolution of partnership business.
18. Define company form of business.
19. What are the types of company for of businesses? Discuss.
20. Analyze the features of a company.
21. Discuss the merits and demerits of company.
22. Discuss the formation of private limited company.
23. Discuss the formation of public limited company.
24. Differentiate private limited company from public limited company.
25. Define the concept of integration.
26. Define merger and acquisition.
27. Explain the reasons behind merger and acquisition.

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Company Management

4

Unit Highlights

- Lesson – 1: Company management and Shares
- Lesson – 2: Article of Association & Memorandum of Association

Technologies Used for Content Delivery

- BOUTUBE
- BOU LMS
- WebTV
- Web Radio
- Mobile Technology with MicroSD Card
- LP+ Office 365
- BTV Program
- Bangladesh Betar Program

LESSON – 1: COMPANY MANAGEMENT AND SHARES

After completion of this lesson you will be able to –

- *Define ownership and management in a company;*
- *Define share and explain its types;*
- *Understand how to transfer a share;*
- *Analyze the rights of shareholders;*
- *Understand the concept board of directors and how the directors are appointed;*
- *Analyze the disqualifications of directors;*
- *Explain the powers of directors;*
- *Analyze the duties of directors in a company; and*
- *Explain the duties and power of company chairman.*

OWNERSHIP AND MANAGEMENT IN A COMPANY

The ownership and management are separate in a joint stock company. While the ownership lies in the hands of the shareholders, the management lies in the hands of the directors.

In joint stock company there is separation of ownership and management and it involves placing the management of the firm under the responsibility of professionals who are not its owners. Owners of a company may include shareholders, directors, government entities and initial founders. In Bangladesh, a large number of listed companies are actually owned and managed by family members and their peers, who make policies as board of directors or board members. The family board members can control the actual executive functions of the company, as they do not keep any scope for the independence of the board.

The practice of family ownership in Bangladesh is very common and family owners as directors are perceived as being very active, hardworking and loyal. Company owners are usually unwilling to accept independent directors in the companies, as they also do not want to lose control over the company.

But the separation of ownership and control is beneficial in many ways. Hierarchical decision making sometimes can be more efficient than the market allocation of decisions under certain conditions. In this regard, directors exercise the hierarchical position and they can take several important decisions for the smoothness of the company or corporation.

DEFINITION OF SHARE AND ITS TYPES

A share represents a unit of equity ownership in a company. In other words, share is one of the equal parts into which a company's capital is divided. Shareholders are entitled to any profits that the company may earn in the form of dividends. They are also the bearers of any losses that the company may face.

A company may issue different types /classes of shares. These can include:

1. **Ordinary Shares:** Ordinary shares are the most common type of shares. They typically carry voting rights but do not give shareholders rights to receive or demand for dividends. Ordinary shareholders also receive less dividends compared to shareholders who hold preference shares. Companies may divide their ordinary shares into different classes (e.g. “A” and “B”) with different rights attached to each class.
2. **Preference Shares:** Preference shares confer some preferential rights on the holder, superior to ordinary shares. Normally, the preferential rights are the rights to fixed dividends, priority to dividends over ordinary shares and to a return of capital when the company goes into liquidation.
3. **Redeemable Preference Shares:** Redeemable preference shares allow for the repayment of the principal share capital to shareholders. The company may redeem these shares at an agreed value

on a specified date or at the discretion of the directors. This is on the condition that the company is a going concern.
4. Convertible Preference Shares: Convertible preference shares usually carry rights to a fixed dividend for a particular term. At the end of the term, the company can choose to convert it into ordinary shares or leave them as they are. Conversion prices must be specified in the company's constitution. If the price of an ordinary share rises, the conversion prices will not follow. It is essentially allowing the shareholder to purchase ordinary shares at a lower price.
5. Treasury Shares: Treasury shares are ordinary shares which the company acquired from shareholders. While the company is listed as the owner of the treasury shares, it is not allowed to exercise the right to attend or vote at meetings, and no dividends may be paid to the company. The total number of treasury shares held by the company is capped at 10% of the total number of ordinary shares issued. Any excess treasury shares (i.e. more than 10% of the total number of ordinary shares) must be cancelled or disposed of within 6 months.

TRANSFER OF SHARES

The ways of transfer of shares from company to the shareholders are discussed below:

(1) An application for the registration of the transfer of shares in a company may be made either by the transferer or the transfere, provided where such application is made by the transferer no registration shall in case of party paid shares be effected unless the company gives motive of the application to the transferee and subject to the provisions of sub-section (7) the company shall, unless objection is made by the transferee two weeks from the date of receipt of the notice, enter in its register of members the name of the transferee in the same manner and subject to the same conditions as if the application for registration was made by the transferee.

(2) For the purpose of sub-section (1), notice to the transferee shall be deemed to have been duly given if dispatched by prepaid post to the transferee at the address given in the instrument of transfer and shall be deemed to eve been delivered in the ordinary course of post.

(3) It shall not be lawful for the company to register a transfer of share in or debentures of the company unless the proper instrument of transfer duly stamped and executed by the transferor and the transferee has been delivered to the company along with script:
Provided that, where it is proved to the satisfaction of the directors of the company that an instrument of transfer signed by the transferor and transferee has been lost, the company may, if the directors think fit, on an application in writing made by the transferee and bearing the stamp required by an instrument of transferor register the transfer on such terms as to indemnity as the directors may think fit.

(4) If a company refuses to register the transfer of any shares or debentures the company, shall, within one month from the date on which the instrument of transfer was lodged with the company, send to the transferee and the transferor notice of the refusal.

(5) If default is made in complying with sub-section (4) of this section, the company shall be liable to a fine not exceeding one hundred taka for everyday during which the default continues and every director, manager secretary other officer who is knowing by a party to the default shall, be liable to a like penalty.

(6) Nothing in sub-section (3) shall prejudice any power of the company to register as shareholder or debenture holder any person to whom the right to any shares in or debentures of the company has been transmitted by operation of law.

(7) Nothing in this section shall prejudice any power of the company under its articles to refuse to register the transfer of any shares.

SHAREHOLDER’S RIGHTS

Shareholders are only liable for the amount they have invested in the share capital. They enjoy certain rights depending on the type of shares they own. These rights can include any or all of the following:

- To ensure that the directors comply with the regulations in the constitution of the company.
- To receive reports and other information.
- To inspect minutes of general meetings of the company.
- To restrain ultra vires (acts that are completed without the necessary legal authority) and illegal acts.
- To vote on major corporate matters such as the alteration of the constitution.
- To receive a portion of the dividends declared by the company.
- To attend, speak and vote at general meetings.
- To receive annual financial statements, reports and other information about the company.
- To be treated fairly.
- To be entitled to a return of a share of the proceeds if the company go into liquidation.
- To enjoy the rights promised to their share class.

BOARD OF DIRECTORS

A board of directors is a group of people who represent the interests of a company's shareholders. It also provides guidance and advice to an organization's CEO and executive team. A board provides general oversight of operations without getting involved in day-to-day operations.

Ideally, a board will include both management and non-management personnel, each elected for a specific period. Many companies aim to have board members’ terms begin and end at different times to avoid vacancies and the need to fill multiple positions at once.

The structure, composition and operating requirements of a board of directors are spelled out in a company’s bylaws.

APPOINTMENT OF DIRECTORS

The appointment of a company’s directors in accordance of Company Act 1994 is as follow:

(1) Notwithstanding anything contained in the articles of a company--

(a) The subscribers of the memorandum shall be deemed to be the directors of the company until the first director are appointed.

(b) The directors of the company shall be elected by the members from among their number in general meeting; and

(c) Any casual vacancy occurring among the directors may be filled in by the other directors but the person the appointed shall be a person qualified to be elected a director under clause (b) and shall be subject to retirement at the same time as if he had become a director on the day on which the director in whose place he is appointed was last appointed a director.

(2) Notwithstanding anything contained in the articles of a company other than a private company not less than one third of the whole number of directors shall be persons whose period of office is liable to determination at any time by retirement of directors rotation.

DISQUALIFICATIONS OF DIRECTORS

A director will considered disqualified in the following circumstances:

(1) A person shall not be capable of being appointed director of a company, if -

(a) He has been found to be of unsound mind by a competent court and the finding is in force; or

(b) He is an undischarged insolvent; or

(c) He has applied to be adjudicated as an insolvent and his application is pending; or

- ***(d)*** He has not paid any call in repect of shares of the company held by him, whether alone or jointly with others, and six months have elapsed from the last day fixed for the payment of the call; or
- ***(e)*** He is a minor.

(2) A company may in its articles provide additional grounds for disqualification of a director.

POWERS OF DIRECTORS

The Board of Directors of a Company has the following powers in the Company.

- Power to **make calls** in respect of **money unpaid on shares**
- **Call meetings** on suo moto basis.
- **Issue** shares, debentures, or any other instruments in respect of the Company.
- Borrow and invest funds for the Company
- Approve Financial Statements and Board Report
- Approve bonus to employees
- Declare dividend in the Company
- Power to grant loans or give **guarantee** in respect of loans
- **Authorize buy back** of securities
- Approve **Amalgamation/Merger/ Takeover**
- **Diversify the business** of the Company

DIRECTOR'S DUTY IN A COMPANY

The Board of Directors functions as the agent of the company. However, when acting for the Company, the Director must fulfill the responsibilities which are given following:

- Directors do any Act in good faith of the company and in accordance with the Company's Articles of Association.
- To act in the best interests of the Company and its stakeholders in order to promote the objectives of the Company Act.
- When performing obligations exercise due and reasonable care.
- To make decisions independently.
- Where his interests are at odds then do not get engaged in that situation with the Companies.
- He is not able to delegate his duties to anyone else.
- To avoid gaining an unfair profit.

DUTIES AND POWER OF CHAIRMAN

The Chairman is responsible for:

- leading, chairing and overseeing the performance of the Board and playing a pivotal role in the creation of the conditions necessary for overall Board and individual director effectiveness, both inside and outside the boardroom;
- ensuring effective communication with the Association Members and to chair General Meetings;
- promoting and overseeing the highest standards of corporate governance within the Board and the Group;
- leading the Board in discussions of proposals put forward by the executive team including on strategy, risk management, governance, capital, financial reporting and M&A activity;
- setting an agenda for the Board, which is focused on strategic matters, forward looking and evaluates and oversees the Group's businesses;
- ensuring the Board comply with schedule of matters reserved;
- being a sounding board and mentor to the Group CEO;
- representing Bupa with external parties; and
- fostering an open, inclusive discussion which challenges executives, where appropriate.

LESSON – 2: ARTICLE OF ASSOCIATION & MEMORANDUM OF ASSOCIATION

After completion of this lesson you will be able to –

- *Define article of association and memorandum of association;*
- *Understand the issues included in memorandum of association;*
- *Analyze the restriction of memorandum of association;*
- *Understand how alteration of memorandum of association is made;*
- *Describe the registration of article and memorandum; and*
- *Understand the issues/matters presented in board meeting.*

DEFINITION OF ARTICLE OF ASSOCIATION

Articles of association form a document that specifies the regulations for a company's operations and defines the company's purpose. The document lays out how tasks are to be accomplished within the organization, including the process for appointing directors and the handling of financial records.

Articles of association can be thought of as a user's manual for a company, defining its purpose and outlining the methodology for accomplishing necessary day-to-day tasks. The content and terms of the "articles" may vary by jurisdiction, but typically include provisions on the company name, its purpose, the share structure, the company's organization, and provisions concerning shareholder meetings.

Articles shall –

(a) be printed;
(b) be divided into paragraphs numbered consecutively;
(c) be signed by each subscriber of the memorandum, who shall add his address and description in the presence of at least two witness who shall attest the signature.

Subject to the provisions of this Act and to the conditions contained in its memorandum, a company may by special resolution alter, exclude from or add to its articles: and any alteration, exclusion or addition so made shall be as valid as if originally contained in the articles, and be subject in like manner to alteration, exclusion or addition by special resolution.

DEFINITION OF MEMORANDUM OF ASSOCIATION

A Memorandum of Association (MoA) represents the charter of the company. It is a legal document prepared during a company's formation and registration process. It defines the company's relationship with shareholders and specifies the objectives for which the company has been formed. The company can undertake only those activities mentioned in the Memorandum of Association.

As such, the MoA lays down the boundary beyond which the company's actions cannot go. When the company's actions are beyond the boundary of the MoA, such actions will be considered ultra vires and thus void. The MoA is a foundation upon which the company is established. The company's entire structure is written down in a detailed manner in the MoA.

ISSUES OF MEMORANDUM OF ASSOCIATION OF COMPANY LIMITED BY SHARES.

The following should be included in the case of a company limited by shares -

(a) The memorandum shall state.--

(i) The name of the company, with "limited" as the last word in its name;
(ii) The address of the registered office;
(iii) The objects of the company, and, except in the case of trading companies, the territories to which they extend;

(iv) That the liability of the members is limited;
(v) The amount of share capital with which the company proposes to be registered, and the divisions thereof into shares of a fixed amount;

(b) Each subscriber of the memorandum shall take at least one share;
(c) Each subscriber shall write opposite to his name the number of shares he takes.

RESTRICTION ON ALTERATION OF MEMORANDUM OF ASSOCIATION

(1) A company shall not alter the conditions on continued in its memorandum except provisions is made in the Act.
(2) Only those provisions which by any other specific provision contained in this Act, are required to be stated in the memorandum of the company concerned shall be deemed to be the conditions contained in its memorandum.
(3) Other provisions contained in the memorandum, including those relating to the appointment of director, managing agent or manager may be altered in the same manner as the articles of the company, but if there is any express provision in this Act permitting the alteration of such provisions in any other manner, they may also be altered in such other manner.
(4) All reference to the articles of a company in this Act shall be construed as including references to the other provisions contained in its memorandum as referred to in sub-section (3).

ALTERNATION OF MEMORANDUM OF ASSOCIATION

(1) Subject to the provisions of this Act, a company may, by special resolution, alter the provisions of its memorandum with respect to the objects of the company, so far as may be required to enable it--
  (a) to carry on its business more economically or more efficiently; or
  (b) to attain its main purpose by new or improved means; or
  (c) to enlarge or change the local area of its operations; or
  (d) to carry on some business which, under the existing circumstances. May conveniently or advantageously be combined with the business of the company; or
  (e) to restrict or abandon any of the objects specified in the memorandum; or
  (f) to sell or dispose of the whole or any part of the undertaking of the company; or
  (g) to amalgamate with any other company or body of persons.

(2) The alteration shall not take effect until and except in so far it is confirmed by the Court on petition.
(3) Before confirming the alteration, the Court must be satisfied--
  (a) that sufficient notice has been given to every holder of debentures of the company, and to any person or class of person whose interest will, in the option of the Court, be affected by the alteration; and
  (b) that, with respect to every creditor who in the opinion of the Court is entitled to object, and who signifies his objections in manner directed by the Court, either his consent to the alteration has been obtained or his debt or claim has been discharged or has been determined, or has been secured to the satisfaction of the Court;

Provided that the Court may, in the cases of any person or class, for special reasons, dispense with the notice required by this section.

REGISTRATION OF MEMORANDUM AND ARTICLES.

(1) The memorandum and articles if any shall be field with the Registrar who if satisfied that the requirements of this Act have been complied with shall retain and register them within thirty days from the date of their receipt and in the event of refusal he shall communicate the grounds within ten days after that period to the company.

(2) An person on being aggrieved by a refusal of the Registrar under sub-section (1)ay make an appeal to the Government within thirty days of the receipt of the refusal order.

(3) The petition of appeal shall be accompanied by a treasury challan showing of a fee of two hundred fifty taka to be credited under the head of account specified in this behalf.

(4) The decision of the Government in an appeal under this section shall be final.

BOARDS REPORT

(1) There shall be attached to every balance sheet laid before a company in general meeting a report by its Board of Directors, with respect to-

- **(a)** the state of the company's affairs;
- **(b)** the amount, if any, which the Board proposes to carry to any reserve in such balance sheet;
- **(c)** the amount, if any, which the Board recommends should be paid by way of dividend;
- **(d)** material changes and commitments, if any, affecting the financial position of the company which have occurred between the end of the financial year of the company to which the balance sheet related and the date of the report.

(2) The Board's report shall, so far as is material for the appreciation of the state of company's affairs by its members, deal with any changes which have occurred during the financial years :-

- **(a)** in the nature of the company's business;
- **(b)** in the company's subsidiaries or in the nature of the business carried on by them; and
- **(c)** generally in the classes of business in which the company has an interest.

(3) The Board shall also be bound to give the fullest information and explanations in its report aforesaid on every reservation, qualification or adverse remark contained in the auditor's report.

(4) The Board report and any addendum thereto shall be signed by its Chairman if he is authorised in that behalf by the Board, and where he is not so authorized &, shall be signed by such number of director as are required to sign the balance sheet and the profit and loss account or the income and expenditure account, of the company by virtue of sub-section (1) and (2) of section 189.

(5) If any person, being a director of a company, fails to take all reasonable steps to comply with the provision of sub-section (1) to (3) or being the chairman, signs the Boards report otherwise than in conformity with the provisions of sub-section (4), he shall, in respect of each offence, be liable to fine which may extend to five thousand taka.

Discussion Questions:

1. Define ownership and management in a company.
2. Define share and explain its types;
3. Describe how shares are transfer from one to another.
4. Explain the rights of shareholders.
5. Define the concept board of directors and how the directors are appointed.
6. Discuss the disqualifications of directors.
7. Explain the powers of directors.
8. Analyze the duties of directors in a company.
9. Explain the duties and power of company chairman.
10. Define article of association and memorandum of association.
11. State the issues included in memorandum of association.
12. Describe the restriction of memorandum of association.
13. Explain how the alteration of memorandum of association is made.
14. Describe the registration of article and memorandum
15. State the issues/matters presented in board meeting.

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2. Introduction to Business SENIOR CONTRIBUTING AUTHORS: LAWRENCE J. GITMAN, SAN DIEGO STATE UNIVERSITY - EMERITUS CARL MCDANIEL, UNIVERSITY OF TEXAS, ARLINGTON AMIT SHAH, FROSTBURG STATE UNIVERSITY MONIQUE REECE LINDA KOFFEL, HOUSTON COMMUNITY COLLEGE BETHANN TALSMA, DAVENPORT UNIVERSITY AND GRAND RAPIDS COMMUNITY COLLEGE JAMES C. HYATT, UNIVERSITY OF THE CUMBERLANDS. Textbook content produced by OpenStax is licensed under a Creative Commons Attribution 4.0 International License (CC BY 4.0). OpenStax provides free, peer-reviewed, openly licensed textbooks for introductory college and Advanced Placement® courses
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Franchising and Small Business

5

Unit Highlights

- Lesson – 1: Concept of Franchising
- Lesson – 2: Small Business Management

Technologies Used for Content Delivery

- BOUTUBE
- BOU LMS
- WebTV
- Web Radio
- Mobile Technology with MicroSD Card
- LP+ Office 365
- BTV Program
- Bangladesh Betar Program

LESSON – 1: CONCEPT OF FRANCHISING

After completion of this lesson you will be able to –

- *Understand the concept of franchising business*
- *Describe the issues of franchising agreement*
- *Discuss the advantages of franchising business*
- *Discuss the disadvantages of franchising business*
- *Concept of international franchising*
- *Analyze the prospects of franchising business in Bangladesh.*

MEANING OF FRANCHISING

Franchising is a system for selective distribution of goods and / or services under a brand name through outlets owned by independent business owner. In this case franchisor supplies the franchisee with know-how or brand identification on a continuing basis, the franchisee enjoys the rights to profits and runs the risk of laws.

According to Moore and Petty, "Franchising is a marketing system revolving around a two party legal agreement whereby one party (the franchisee) is granted the privilege to conduct business as an individual owner but is required to operate according to the method and terms specified by the other party (the franchisor)".

The potential value of any franchising agreement is defined by the rights contained in an agreement. The legal agreement is known as the franchise contract and the rights it conveys are called the franchise. Normally, a franchisee pays a fee to operate under the franchisor's trade name, and established procedures, as well as paying a royalty percentage of sales.

ISSUES OF FRANCHISING AGREEMENT

Each franchise organization enters into a contractual agreement with each of its franchisees. These contracts may differ in a number of areas; such as capital needed, training provided, managerial assistance available and size of the franchise territory. Some common issues of franchising agreement are as follows:

- **Initial fees:** The franchise buyer normally pays an initial fee to the company and agrees to pay the franchisor a monthly percentage of sales. In exchange the franchisee has the right to sell a standard product or service.
- **Investment of money:** In almost every franchise, the franchisee must invest some money. The amount can vary from a few to large amount.
- **Well management:** Most franchise purchasers enter the business to earn money; in fact, the owner and the company both want to earn money. Earnings are a measure of the franchise's success. To succeed, it must be well managed, provide good products or services, and obtain repeat customers.
- **Royalty payment:** The franchisor also requires some type of royalty payment on gross sales. The amount of royalty or share of the proceeds, paid to the franchisor differs form company to company.
- **Agreement cancellation:** If the company does not consider the operator successful, the franchise agreement can be canceled after that time. This provision can force operators to run the business as directed by the franchisor.
- **Control over sale:** The franchisee will only sell items, products, or services that are acceptable to the franchisor. This means that the franchisor has control over what is sold directly to customers or clients.

ADVANTAGES OF FRANCHISING

Franchising is an attractive venture option for a variety of reasons. The advantages of franchising are as follows:

1. **Quick and easy start:** franchising is the most quick and easy entrepreneurial option to start a new venture with established product and firm reputation.
2. **Marketing research and site selection:** franchisors provide help for selecting site location by giving site criteria and expert assistance for choosing the best-fit location.
3. **Training provided to owners and staff:** The franchisor offers valuable training at the initial stage that help the franchise to alleviate the weakness in managerial skills of entrepreneurs as well as operating workers.
4. **Proven method:** A franchisee gets a long standing proven method of operation systems that increase its future successful operation and sustainability.
5. **Large scale advertising:** A franchise gets the benefit of nation-wide and international advertising promoted by the franchisor.
6. **Less risk:** Franchise is a less risk business. It takes the products and methods of operation of a reputed and well established enterprise.
7. **Financial assistance:** The costs of starting an independent business are often high and the typical entrepreneur's sources of capital are quite limited.
8. **Higher potential income:** The income potential is high in the franchising. With guaranteed product, management assistance, market and continued assistance, the franchise has got higher possibility of income and prosperity.
9. **New product development:** A franchise gets the newly developed product of the franchisor without involving into research and development. This gives the enormous opportunity for the franchisee to expand its business.
10. **Proven trade mark and logo:** Franchising gives the right to use the trade mark and logo of the franchisor which serves to identify the local enterprise with the widely recognized product and service.

DISADVANTAGES OF FRANCHISING

The disadvantages of franchising are as follows:

1. **Rigid system:** The franchise gets the franchisor's product, production and operation system and workers under it. The franchise has got no option to make change and get going with his own style of operation.
2. **High cost of entry:** Franchise costs have several components – initial franchise fee, cash investment, royalty payment and advertising cost. The franchising of a reputed firm is always costly.
3. **Profit sharing:** Franchise profit is divided between franchisor and franchisee. Sometime, the franchisee gets a little share of the profit.
4. **Failure to cope with market demand:** The franchise may loss market if the franchisor is not able to keep up with the market trend and change.
5. **Lack of independence:** The entrepreneur lacks a considerable amount of independence in signing a franchise agreement.
6. **Continuing obligation:** franchising is a contractual relationship and therefore, the entrepreneur work under continuing obligation.

7. **Lack of individual separate entry:** The entrepreneur has to work under the name and fame of the franchisors. S/he never gets his own business and separate identity in the market and in the society.

INTERNATIONAL FRANCHISING

Like other forms of business, franchising is part of our global marketplace economy. As international demand for all types of goods and services grows, most franchise systems are already operating internationally or planning to expand overseas. Restaurants, hotels, business services, educational products, car rentals, and nonfood retail stores are popular international franchises. Franchisors in foreign countries face many of the same problems as other firms doing business abroad. In addition to tracking markets and currency changes, franchisors must understand local culture, language differences, and the political environment. Franchisors in foreign countries also face the challenge of aligning their business operations with the goals of their franchisees, who may be located half a globe away.

PROSPECTS OF FRANCHISE BUSINESS IN BANGLADESH / ATTRACTIVENESS OF BANGLADESH FOR THE DEVELOPMENT OF FRANCHISE BUSINESS

Bangladesh is a densely-populated country located in South Asia, there are 164.7 million people living mostly in rural area (more than 63%).

The economy of the country was previously heavily dependent on agriculture. Nowadays, Bangladesh offers great opportunities in the energy, transportation, environmental and manufacturing sectors for domestic as well as foreign companies.

The largest cities of the country Dhaka (14.4 million), Chittagong (4.0million), Khulna (1.3 million), Rajshahi (0.76 million), Comilla (0.39 million) provide plentiful consumer demand which means diverse opportunities for franchise businesses.

Besides, there are several benefits which make Bangladesh attractive for running own franchise business such as low-cost labor force and no regulations barring franchise operations. Therefore, franchising is flourishing in the country. The most rapidly developing franchise companies can be found in Automotive, Beauty and Health, Education, Fashion, Food and Beverages, Hotel, Travel & Tourism and Fitness, etc. Bangladesh is a developing country with a growing middle class. Thus, the latest products from branded companies have not been popular among Bangladeshis so far.

So, such companies like Sbarro Inc., Global Academy, Gym 99, Johnny Rockets, Kentucky Fried Chicken, Pizza Hut, Burger King, and others which offer affordable goods and services successfully operate their franchises in Bangladesh.

Therefore, it can be concluded that the prospects of operations of franchising business in Bangladesh is appreciated.

LESSON – 2: SMALL BUSINESS MANAGEMENT

After completion of this lesson you will be able to –

- *Understand the concept of small business*
- *Describe the characteristics of small business*
- *Discuss the advantages and disadvantages of small business*
- *Analyze the small business administration*
- *Explain the opportunities of small business.*

MEANING OF SMALL BUSINESS

Small business is an enterprise that is comparatively small in size, operating in a geographically localized area except its marketing, employed fewer than 100 employees, and is financed by one individual or a small group of individuals.

According to Industrial Policy 1986, Small industry means an industrial undertaking engaged either in manufacturing process or service activity, within a total investment up Tk. 15 million and the investment in machinery and equipment not excluding Tk. 10 million excluding taxes and duties.

According to Industrial Policy 1999, Small will mean enterprises employing fewer than 50 workers excluding the cottage unit and/or with a fixed capital investment of less than Taka 100 million.

CHARACTERISTICS OF SMALL BUSINESS

The common characteristics of small business are as follows:

1. The business as a rule is **managed by the owner**. The management team of the business consists of family members. Relatives and close friends.
2. The responsibility of the **decision making** normally lies with one key executive, with very little or no delegation of authority.
3. There appears to be a **close management-employee relationship**. Entrepreneurs take active part in the management and operation of the firm.
4. Small business is the **reflection of the dreams and desires** of the entrepreneur.
5. There are fewer **functional specialists**, such as a full time accountant or a personnel manager, in the small organization.
6. In most cases, the owner-managers are **verbal communicators**. Least number of written communications is made within the small business.
7. The firm often places **little emphasis on long-term planning**.
8. In case of small business, the firms stock is **not listed with a stock exchange**.
9. The management of the firm is **independent**. They are not subject to any other's supervision.
10. The **capital is supplied** and the ownership is held by an individual or a small group of individuals.
11. The area of **operation is mainly local**, with the workers and owners living in one home community. However, the markets need not to be local.
12. The relative **size of the firm** within its industry is small, that is, not dominant in industry.

ADVANTAGES OF SMALL BUSINESS

The importance of small business are as follows:

1. **Encourage of innovation:** Small businesses are the major sources of innovation of our civilization. Substantive numbers of successful innovation are implemented by small business.
2. **Checks monopoly:** small businesses encourage competition by checking the development monopolies by large businesses. It produces new products, methods, services and so forth and checks the large firms' tendency to control the market.
3. **Creates employment:** Small, young, high technology businesses create jobs at a much higher rate than do older large business.
4. **Produces people:** Small business has more intimate knowledge of its communities; therefore, take more personal interest in them. It produces people as well as products and services.
5. **Contribute to GDP:** Small business contribute to the national economy of every country of the world significantly. In Bangladesh economy, small businesses contribute nearly 56% of the GDP.
6. **Higher financial performance:** Small business earns higher returns on owners' equity (ROE) than large manufacturers do. Because small business can respond more quickly and at less cost to the quickening rate of change in products and services.
7. **Makes big business dependent:** small businesses provide big businesses with many of the services, supplies and raw materials they needed. It is because big businesses cannot supply products and services as cheaply as do small business.
8. **Develops risk takers and foster flexibility:** Small entrepreneurs have relative freedom to enter and leave a business at will. They can start and grow, expand and contract, succeed or fail as they feel comfort with the situation.
9. **Seedbed for new venture:** Small business is the seedbed for new ventures throughout the world. Many of the big businesses today started small because of its many fold start-up advantages.
10. **Ease of entry:** small business does not require much formality to start. Financial requirement is not high too. Entrepreneurs can choose almost any line of business they like.

DISADVANTAGES OF SMALL BUSINESS

The following are the description of those weaknesses or demerits of small business:

1. **Inadequate management**: The lack of managerial knowledge and skills is the vital cause of failure of largest number of small business.
2. **Shortage of working capital**: Working capital is the lifeblood of all business enterprises. Small business, with small capital base, faces shortage of working capital to maintain desirable level of operation.
3. **Lack of balance**: Small business does not maintain a proper balance among many interrelated affairs of the organization. Such imbalances are the lack of coordination among production and marketing, record keeping, selling techniques etc.
4. **Unabated entry**: Any men and women can enter into small business without any hindrance. Freedom of opportunity means not only the freedom to succeed but also the freedom to fail.

5. **Lack of business experience**: Small business run people without prior experience are vulnerable to failure. People with any track start small business and could not cope with the operational problems and crises.
6. **Insufficient inventory turnover**: Small business faces inventory turnover problem that does not only blocks the working capital but also affects profit due to lack of sales and deters the smooth progress of the operation of the business.
7. **Wrong location**: Location is one of the fundamental reasons for the success and failure of the small business. Common saying is that 'the three most important factors in a small business success are location, location and location'.
8. **Non-business family background**: Business owners whose parents did not own a business have a greater chance of failure than the owners whose parents did not own a business.
9. **Neglect**: Little attention to the affairs of the small businesses by the entrepreneur or owner-manager is a strong reason for the failure of small business.
10. **Marketing inefficiency**: Market creation, maintenance and expansion are the pivotal tasks of small business.
11. **Lack of planning**: Small business that do not prepare business plans have a greater chance of failure than businesses that do.

SMALL BUSINESS OPPORTUNITIES

Many people imagine themselves running their business, making the key decisions, and earning a profit. The opportunities of small business owner are as follows:

1. **Manufacturing:** The manufacturing business involves converting raw materials into products needed by society. In fact, 30 percent of all manufacturing companies are considered small. This category includes printing shops, steel fabricating shops, clothing manufacturers, furniture shop etc.
2. **Service:** This service sector is a diverse field; there are hundreds of service business opportunities. Service business includes:
    - **Business services –** Business that provide service to other business organizations; include accounting firms, advertising firms, software writers, computer programmers, system analysts, tax consultant etc.
    - **Personal services –** include barber and beauty shops, laundries, music teacher, travel agencies etc.
    - **Repair services –** include automobile repair, jewelry repair, appliance repair, furniture repair etc.
    - **Hotel and motel –** include the hotels, motels, recreation vehicle camps.
3. **Wholesaling:** Wholesaling involves selling to other sellers, such as retailers, other wholesalers, or industrial firms. Wholesaler trade consists mainly of small business. Small wholesale firms also sell a wide range of products including groceries, supplies, machinery, appliances, grain and fruits and vegetables. These services serve as a link between manufacturers and retailers or industrial users.
4. **Retailing:** Retailers are merchants who sell goods to ultimate consumers. Small, local businesses sell many of the same products as these giant corporations.
5. **Home-based businesses:** Home-based business, the best business form is the sole proprietorship. An operator may have to register the business name and may need to obtain a license to conduct business. Some of home-based businesses today are computer counseling, event planning, catering, day care, home apartment cleaning etc.

Discussion Questions:

1. Define the concept of franchising business.
2. Describe the issues of franchising agreement.
3. Discuss the advantages of franchising business.
4. Discuss the disadvantages of franchising business.
5. Define the concept of international franchising.
6. Analyze the prospects of franchising business in Bangladesh.
7. What do you understand by small business?
8. Describe the characteristics of small business.
9. Discuss the advantages and disadvantages of small business.
10. Analyze the small business administration.
11. Explain the opportunities of small business in Bangladesh.

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Cooperatives

6

Unit Highlights

- Lesson – 1: Concept and objectives of Co-operative
- Lesson – 2: Advantages, Disadvantages & Types Cooperatives

Technologies Used for Content Delivery

- BOUTUBE
- BOU LMS
- WebTV
- Web Radio
- Mobile Technology with MicroSD Card
- LP+ Office 365
- BTV Program
- Bangladesh Betar Program

LESSON – 1: CONCEPT AND OBJECTIVES OF CO-OPERATIVES

After completion of this lesson you will be able to –

- *Understand the concept of cooperatives form of business.*
- *Understand the objectives of cooperatives*
- *Explore the historical existence of cooperatives business.*
- *Explain the main features of Cooperatives business.*

CONCEPT OF CO-OPERATIVES

Cooperatives are people-centered enterprises owned, controlled and run by and for their members to realize their common economic, social, and cultural needs and aspirations. Cooperatives bring people together in a democratic and equal way. The co-operative form of organization is based on the philosophy of self-help and mutual help.

The Indian Cooperative Societies Act, 1912, Section 4, defined co-operative as "a society, which has its objective the promotion of economic interests of its members in accordance with co-operative principles".

According to International Labor Organization "Co-operative organization is an association of persons, usually of limited means, who have voluntarily joined together to achieve a common economic and through the formation of a democratically controlled business organization, making equitable contributions to capital required and accepting a fair share of risks and benefits of the undertaking".

Thus, we can now define co-operative as a voluntary organization of those who are economically weak to stand on their own legs. They come together not to earn profits but improve their common economic interests through business propositions. The basic objectives of such organisation are self-help and mutual help. It differs from the other three forms of business ownership. The basic line of difference is a co-operative organization aims at rendering services in place of earning profits.

A co-operative organization needs to be registered with the Registrar of Co-operative Societies of the State in which the society's registered office is located. It should have a minimum of 10 members and no limit for maximum number of members. The members are the owners. They contribute capital to the organisation and get dividends. The liability of the members is limited.

The managing committee elected by the members in the annual general meeting manages the affairs of the co-operative organization.

OBJECTIVES OF CO-OPERATIVE SOCIETY

1. Creating Saving
2. Bringing economic welfare
3. Creating Unity and solidarity
4. Organizing
5. Development of efficiency
6. Supply of goods at fair price
7. Defense against disturbance

DEVELOPMENT OF CO-OPERATIVE SOCIETIES IN BANGLADESH

In 1904, the British government promulgated the Cooperative Societies Act, thereby encouraging the formation of cooperative societies, especially agricultural cooperative credit societies, all over India. An amended cooperative society's law was enacted in 1912 to make the Cooperative Movement stronger. It was further amended in 1940 by Bengal Legislative Council to enact the

Bengal Cooperative Societies Act to make the movement more effective. This law was in force in Bangladesh until 1984, when it was replaced by the Cooperative Societies Ordinance. At present, all cooperative societies are regulated by this law and the cooperative rules of 1987.

After Partition of Bengal in 1947 an effort was made to set up an apex cooperative bank in East Pakistan. Accordingly, the East Pakistan Provincial Cooperative Bank was established on 31 March, 1948. This bank was reconstituted as Bangladesh Jatiya Samabaya Bank Ltd after the liberation of Bangladesh. In 1977, it was renamed Bangladesh Samabaya Bank Ltd.

The basic philosophy of co-operative society is given below;

- Service in place of profits.
- Mutual help in place of competition.
- Self help in place of dependence.
- Moral solidarity in place of unethical business practice.

MAIN FEATURES OF COOPERATIVES

Based on the above definitions, we can now list out the main features of the cooperative form of ownership or organization as follows:

1. Voluntary Organization: Co-operative organization is a voluntary association of persons desirous of pursuing a common objective. They can come and leave the organization at their own will without any coercion or intimidation.

2. Democratic Management: As stated earlier, the management of a co-operative organization is vested in the hands of the managing committee elected by the members on the basis of 'one member-one vote' irrespective of the number of shares held by any member. The general body of the members lays down the broad framework within which the managing committee has to function. Democracy is, thus, the keynote of the management of a co-operative society.

3. Service Motive: One basic feature which distinguishes a cooperative organization from other three forms of business ownership is that the primary objective of a co-operative society is to render services to its members rather than to earn profits.

4. Capital and Return Thereon: The capital is procured from its members in the form of share capital. A member can subscribe subject minimum of 10 members and no limit for maximum number of members. Shares cannot be transferred but surrendered to the organization. The rate of dividends paid to the members/shareholders is restricted to 9% as per the Co-operative Societies Ordinance, 1984.

5. Government Control: The activities of co-operative societies are regulated by the Co-operative Societies Ordinance 1984 and the State Co-operative Rules-1987. Co-operative societies are required to submit their annual report and accounts to the Registrar of Cooperatives.

6. Distribution of Surplus: After giving dividends to the members, the surplus of profits, if any, is distributed among the members in the proportion of business they have done with the co-operative society. For example, in case of a consumer co-operative society, bonus is given in the proportion of purchases made by the members from the society.

PRINCIPLES OF COOPERATIVE

The cooperative principles are guidelines by which cooperatives put their values into practice.

1. Voluntary and Open Membership: Cooperatives are voluntary organizations, open to all persons able to use their services and willing to accept the responsibilities of membership, without gender, social, racial, political or religious discrimination.

2. Democratic Member Control: Cooperatives are democratic organizations controlled by their members, who actively participate in setting their policies and making decisions. Men and women serving as elected representatives are accountable to the membership. In primary cooperatives members have equal voting rights (one member, one vote) and cooperatives at other levels are also organized in a democratic manner.

3. Member Economic Participation: Members contribute equitably to, and democratically control, the capital of their cooperative. At least part of that capital is usually the common property of the cooperative. Members usually receive limited compensation, if any, on capital subscribed as a condition of membership. Members allocate surpluses for any or all of the following purposes: developing their cooperative, possibly by setting up reserves, part of which at least would be indivisible; benefiting members in proportion to their transactions with the cooperative; and supporting other activities approved by the membership.

4. Autonomy and Independence: Cooperatives are autonomous, self-help organizations controlled by their members. If they enter into agreements with other organizations, including governments, or raise capital from external sources, they do so on terms that ensure democratic control by their members and maintain their cooperative autonomy.

5. Education, Training, and Information: Cooperatives provide education and training for their members, elected representatives, managers, and employees so they can contribute effectively to the development of their co-operatives. They inform the general public - particularly young people and opinion leaders - about the nature and benefits of co-operation.

6. Cooperation among Cooperatives: Cooperatives serve their members most effectively and strengthen the cooperative movement by working together through local, national, regional and international structures.

7. Concern for Community: Cooperatives work for the sustainable development of their communities through policies approved by their members.

LESSON – 2: ADVANTAGES, DISADVANTAGES & TYPES COOPERATIVES

After completion of this lesson you will be able to –

- *Analyze the advantages and disadvantages of cooperatives*
- *Explore the types of cooperatives and critically analyze their roles*
- *Make decision for the appropriate types of business ownership.*

ADVANTAGES OF COOPERATIVES

You have learnt the main features of co-operative form of business organisation. In view of these features, this form of ownership offers the following advantages:

1. Easy Formation: Compared to the formation of a company, formation of a cooperative society is easy. Any ten adult persons can voluntarily form themselves into an association and get it registered with the Registrar of Co-operatives. Formation of a cooperative society also does not involve long and complicated legal formalities.

2. Limited Liability: Like company form of ownership, the liability of members is limited to the extent of their capital in the cooperative societies.

3. Perpetual Existence: A co-operative society has a separate legal entity. Hence, the death, insolvency, retirement, lunacy, etc., of the members do not affect the perpetual existence of a co-operative society.

4. Social Service: The basic philosophy of co-operatives is self-help and mutual help. Thus, co-operatives foster fellow feeling among their members and inculcate moral values in them for a better living.

5. Open Membership: The membership of co-operative societies is open to all irrespective of caste, colour, creed and economic status. There is no limit on maximum members.

6. Tax Advantage: Unlike other three forms of business ownership, a co-operative society is exempted from income-tax and surcharge on its earnings up to a certain limit. Besides, it is also exempted from stamp duty and registration fee.

7. State Assistance: Government has adopted co-operatives as an effective instrument of socio-economic change. Hence, the Government offers a number of grants, loans and financial assistance to the co-operative societies to make their functioning more effective.

8. Democratic Management: The management of co-operative society is entrusted to the managing committee duly elected by the members on the basis of 'one-member one vote' irrespective of the number of shares held by them. The proxy is not allowed in cooperative societies. Thus, the management in co-operatives is democratic.

DISADVANTAGES OF COOPERATIVES

In spite of its numerous advantages, the co-operative also has some important disadvantages which must be seriously. Considered before opting for this form of business ownership. The important among the disadvantages are:

1. Lack of Secrecy: A co-operative society has to submit its annual reports and accounts with the Registrar of Co-operative Societies. Hence, it becomes quite difficult for it to maintain secrecy of its business affairs.

2. Lack of Business Acumen: The member of co-operative societies generally lack business acumen. When such members become the members of the Board of Directors, the affairs of the society are expectedly not conducted efficiently. These also cannot employ the professional managers because it is neither compatible with their avowed ends nor the limited resources allow for the same.

3. Lack of Interest: The paid office-bearers of co-operative societies do not take interest in the functioning of societies due to the absence of profit motive. Business success requires sustained efforts over a period of time, which, however, does not exist in many cooperatives. As a result, the co-operatives become inactive and come to a grinding halt.

4. Corruption: In a way, lack of profit motive breeds fraud and corruption in management. This is reflected in misappropriations of funds by the officers for their personal gains.

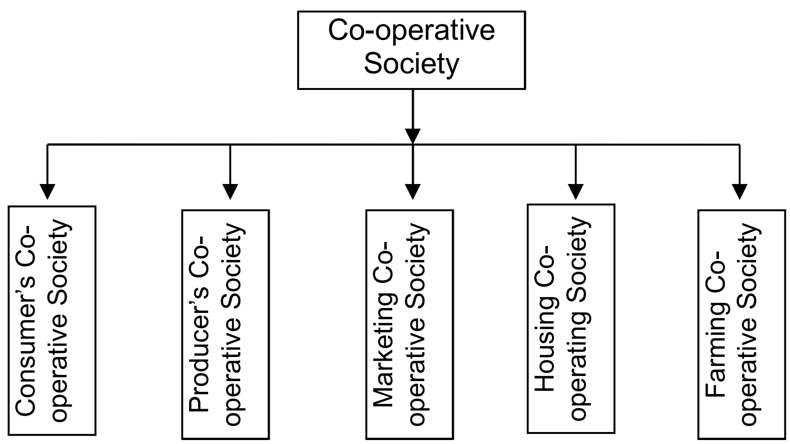
5. Lack of Mutual Interest: The success of a co-operative society depends upon its member's utmost trust to each other. However, all members are not found imbued with a spirit of co-operation. Absence of such spirit breeds mutual rivalries among the members. Influential members tend to dominate in the society's affairs.

TYPES OF COOPERATIVES AND THEIR ROLES

Cooperative societies in Bangladesh work in the three stages with the Bangladesh Samabaya Bank Ltd. at the apex, central cooperative banks and the central cooperative societies in the middle, and primary societies at the field level. The apex bank provides capital to the mid-level banks, which in turn lend money to the primary societies. The societies distribute this fund as loan among their members. All cooperative banks in Bangladesh are members of the apex bank.

The co-operative society can be classified from different points of view. They are:

Figure: Co-operative Societies in Bangladesh



1. **Consumer Co-operative Society:** Consumer co-operative societies are established by the consumers of a certain locality for the purpose of economic and social upliftment of their members. The objectives of consumer's co-operative societies are:
    - Availability of consumer goods of higher quality at a cheap rate.
    - Eliminating the middlemen by establishing a direct link with the producers.
    - Maintaining stability in the prices of essential commodities.
    - Avoiding black marketing and hoarding practices.
    - Avoiding the evil effects on inflation as far as possible.
    - Enhancing the purchasing power of the members
2. **Producer's co-operative societies:** These societies are build for the benefit of the small producers, who have difficulty in collecting various factors of production and face market problems. The objectives of producer's co-operative societies are;
    - To stimulate higher production.
    - To improve quality of the products
    - To make full use of available industrial skills of individuals.
    - To strengthen the position of small scale artisans or crafts.

3. **Marketing co-operative societies:** These societies are formed to enable their members to secure fair prices for their goods. In other words, these co-operatives are association of producers for selling their produc5ts at remunerative prices. The objectives of marketing co-operative societies are:
    - To ensure a ready, steady and favorable market for the products of different members.
    - To undertake centralized selling of the produce contributed by their members.
    - To eliminate middlemen and reduce the costs of marketing.
    - To provide services like assembling, grading, storing, packing etc.
    - To improve the bargaining power of the producers.
    - The control the flow of supplies and thus influences prices.
4. **Housing co-operative societies:** These societies are organized to provide residential accommodation to their members, either on an ownership basis or at fair rents. The members of the society contribute their savings to the common fund of the society with borrowed money from banks to buy a plot of land in order to construct a building for their dwelling purposes.
5. **Farming co-operative societies:** These societies are voluntary associations of small farmers, who join hands with the objectives of achieving the economics of large scale farming and maximizing agricultural output.

SELECTION OF AN APPROPRIATE FORM OF OWNERSHIP STRUCTURE

You have understood that the various forms of business ownership have their relative advantages and disadvantages. Thus, none of them is found ideal in all respects. In a way, selecting one best form of business ownership is like looking for a shirt that may fit everybody in the family. The best form of ownership is one which helps an entrepreneur attain the business objectives decided upon by him/her. While selecting the best form of ownership structure, the entrepreneur should keep the following considerations in his/ her mind:

1. Nature of Business: The selection of an appropriate form of business ownership depends upon, to a great extent, the nature of the proposed business itself. For example, the business that requires personal attention and skill for their success are usually organized as proprietary concerns. Business requiring pooling of funds and skills are generally run as partnership firms. For business involved in large scale production, the company form of business ownership is preferred.

2. Area of Operations: The area of operation has also an important bearing on the selection of the form of ownership. If the operation of a business is confined to an area or locality only, the appropriate form of ownership will be proprietorship. On the contrary, in case the area of operation is widespread catering to national and international markets, the suitable form of business ownership may be company.

3. Degree of Control: In case, direct control over business operations is required, the suitable form of ownership may be proprietorship or partnership. In case direct control over business operations is not needed, the best form of business ownership will be a company.

4. Capital Requirements: The capital required in the business also determines the selection of business ownership. If business requires a small amount of capital, the best, the best form of ownership may be either proprietorship or partnership. In case of huge capital requirements, the company form of ownership will be the best.

5. Extent of Risk and Liability: Business involves risk. If an entrepreneur is ready and capable to bear risk involved in business, he/she can organize his/her business on proprietorship or partnership. But if the entrepreneur is hesitant to bear the risk involved in business, he/she can go for a company where individual risk is limited.

6. Duration of Business: If business is proposed for a definite duration and on ad hoc basis, proprietorship or partnership are better forms of business ownership. The reason s that they are easy to form and dissolve. In case, the business is to be run on permanent basis, it can be organized as company or a co-operative because they enjoy perpetual succession.

7. Government Regulations: If an entrepreneur does not like much government is involvement in his/her business, he/she can select proprietorship or partnership as the form of his/her business ownership instead of a company or co-operative where the government rules and regulations apply more.

8. Tax burden: Various forms of ownership are taxed differently under the Income tax Act of Bangladesh. If the expected profit is very high it may be profitable to start a company. A company taxed at a uniform rate, that is, the rate of tax remains the same irrespective of the volume of profits, whereas in case of partnership and proprietorship, the rate of tax increases with the volume of taxable income.

9. Managerial requirements: Organizational and administrative requirements depend upon the size of business. Small businesses using simple processes of production and distribution can be managed effectively as proprietorships and partnerships. On the other hand, giant enterprises involving the use of complex techniques and procedures require professional management. Such enterprises can be managed efficiently only as joint stock companies. Due to identify of ownership and management, motivation is very high in proprietorships and partnerships. Such motivation is lacking in a company due to separation of ownership from management.

There are four forms of business ownership: (1) proprietorship, (2) partnership, (3) company, and (4) co-operative. These all forms have relative advantages and disadvantages. While proprietorship enjoys the great advantage of one being one's own boss and total autonomy, it also suffers from unlimited liability and limited resources. Pooling resources, easy formation and tax advantage are the advantages of partnership form of business ownership. Its main disadvantages are limited life, unlimited liability and non-transferability of interest to others. Company form of ownership offers the advantages of limited liability, transferability of interest and perpetual succession. But, its main disadvantage is complex procedure involved in its formation. Co-operative form of ownership is characterized by the advantages and disadvantages similar to a company.

Discussion Questions:

1. What do you understand by the cooperatives form of business?
2. Describe the objectives of cooperatives.
3. Assess/Evaluate the historical existence of cooperatives business.
4. Explain the main features of Cooperatives business.
5. Describe the advantages and disadvantages of cooperatives.
6. Identify the types of cooperatives and critically analyze their roles
7. How will you make decision about the selection of appropriate types of business ownership? Explain.

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Ethical Issues and Social Responsibilities of Business

7

Unit Highlights

- Lesson – 1: Meaning of Business Ethics
- Lesson – 2: Social Responsibility

Technologies Used for Content Delivery

- BOUTUBE
- BOU LMS
- WebTV
- Web Radio
- Mobile Technology with MicroSD Card
- LP+ Office 365
- BTV Program
- Bangladesh Betar Program

LESSON – 1: MEANING OF BUSINESS ETHICS

After completion of this lesson you will be able to –

- *Understand the concept of business ethics*
- *Discuss the unethical business activities*
- *Analyze the factors influencing business ethics*
- Analyze how ethical behavior can be encouraged?

MEANING OF BUSINESS ETHICS

Ethics are principles of behavior that distinguish between right and wrong. Ethical conduct conforms to what a group or society as a whole considers right behavior. People working in business frequently face ethical questions.

Business ethics is the evaluation of business activities and behavior as right or wrong. Ethical standards in business are based on commonly accepted principles of behavior established by the expectation of the society, the firm, the industry and an individual's personal values.

Most business leaders realize their firms cannot succeed without the trust of customers and the goodwill of society. A violation of ethics makes trust and goodwill difficult to maintain.

RECOGNIZING UNETHICAL BUSINESS ACTIVITIES

Researchers from Brigham Young University tell us that all unethical business activities will fall into one of the following categories:

1. **Taking things that don't belong to you.** The unauthorized use of someone else's property or taking property under false pretenses is taking something that does not belong to you. Even the smallest offense, such as using the postage meter at your office for mailing personal letters or exaggerating your travel expenses, belongs in this category of ethical violations.
2. **Saying things you know are not true.** Often, when trying for a promotion and advancement, fellow employees discredit their coworkers. Falsely assigning blame or inaccurately reporting conversations is lying. Although "This is the way the game is played around here" is a common justification, saying things that are untrue is an ethical violation.
3. **Giving or allowing false impressions**. The salesperson who permits a potential customer to believe that cardboard boxes will hold the customer's tomatoes for long-distance shipping when the salesperson knows the boxes are not strong enough has given a false impression. A car dealer who fails to disclose that a car has been in an accident is misleading potential customers.
4. **Buying influence or engaging in a conflict of interest.** A conflict of interest occurs when the official responsibilities of an employee or government official are influenced by the potential for personal gain. Suppose a company awards a construction contract to a firm owned by the father of the state attorney general while the state attorney general's office is investigating that company. If this construction award has the potential to shape the outcome of the investigation, a conflict of interest has occurred.
5. **Hiding or divulging information.** Failing to disclose the results of medical studies that indicate your firm's new drug has significant side effects is the ethical violation of hiding information that the product could be harmful to purchasers. Taking your firm's product development or trade secrets to a new place of employment constitutes the ethical violation of divulging proprietary information.

6. **Taking unfair advantage.** Many current consumer protection laws were passed because so many businesses took unfair advantage of people who were not educated or were unable to discern the nuances of complex contracts. Credit disclosure requirements, truth-in-lending provisions, and new regulations on auto leasing all resulted because businesses misled consumers who could not easily follow the jargon of long, complex agreements.
7. **Committing improper personal behavior**. Although the ethical aspects of an employee's right to privacy are still debated, it has become increasingly clear that personal conduct outside the job can influence performance and company reputation. Thus, a company driver must abstain from substance abuse because of safety issues. Even the traditional company holiday party and summer picnic have come under scrutiny due to the possibility that employees at and following these events might harm others through alcohol-related accidents.
8. **Abusing power and mistreating individuals.** Suppose a manager sexually harasses an employee or subjects employees to humiliating corrections or reprimands in the presence of customers. In some cases, laws protect employees. Many situations, however, are simply interpersonal abuse that constitutes an ethical violation.
9. **Permitting organizational abuse.** Many U.S. firms with operations overseas, such as Apple, Nike, and Levi Strauss, have faced issues of organizational abuse. The unfair treatment of workers in international operations appears in the form of child labor, demeaning wages, and excessive work hours. Although a business cannot change the culture of another country, it can perpetuate or stop abuse through its operations there.
10. **Violating rules.** Many organizations use rules and processes to maintain internal controls or respect the authority of managers. Although these rules may seem burdensome to employees trying to serve customers, a violation may be considered an unethical act.
11. **Condoning unethical actions**. What if you witnessed a fellow employee embezzling company funds by forging her signature on a check? Would you report the violation? A winking tolerance of others' unethical behavior is itself unethical.

After recognizing that a situation is unethical, the next question is what do you do? The action that a person takes is partially based upon his or her ethical philosophy. The environment in which we live and work also plays a role in our behavior. This section describes personal philosophies and legal factors that influence the choices we make when confronting an ethical dilemma.

FACTORS INFLUENCING BUSINESS ETHICS

The factors that influence on the ethical behavior are as follows:

1. **The business environment:** Almost daily, business managers face ethical dilemmas resulting from the pressures of the business environment. They are challenged to meet sales quotas, cut costs, increase efficiency or overtake competitors. Managers and employees may sometimes think the only way to survive in the competitive world of business is by description or cheating. Conflict of interest is another common ethical problem stemming from the business environment. Often an individual has a chance to further selfish interest rather than the interest of the organization or society.
2. **The organization:** The organization itself also influences behavior. Individuals often learn ethical or unethical behaviors by interacting with others in the organization. An employee who sees a superior or coworker behaving unethically may follow suit. An organization can also use rewards to influence the behavior of its members. If an individual is rewarded or is not punish for behaving unethically, the behavior will probably be repeated. Likewise the threat of punishment and the lack of reward for unethical activities encourage ethical behavior.

3. **The individual:** A person's own moral philosophy also influences his or her ethical behavior. A moral philosophy is the set of principles that dictate acceptable behavior. These principles are learned from family, friends, coworkers, and other social groups and through formal education. In developing a moral philosophy, individual can follow two approaches: humanistic and utilitarian. The **humanistic philosophy** focuses on individual rights and values. The **utilitarian philosophy** seeks the greatest good for the largest number of people.

ENCOURAGING ETHICAL BEHAVIOR

Many organization take positive steps to encourage ethical behavior. Some offer courses in ethics and include ethics in training programs.

A basic way of an organization to encourage ethical behavior is to establish a code of ethics. A **code of ethics** is a statement specifying exactly what the organization considers ethical behavior. Many firms, as well as trade and professional associations, have established code of ethics. By enforcing code of ethics, rewarding ethical behavior, and punishing unethical behavior, a firm limit opportunities to behave unethically.

Employees of an organization can also encourage ethical behavior by reporting unethical practices. **Whistle-blowers** are employees who inform their superiors, the media, or a government regulatory agency about unethical behavior within their organization. Whistle-blowers often risk great professional and personal danger. Nevertheless, some organizations have developed plans that encourage employees to report unethical conduct and that provide protection for whistle-blowers.

LESSON – 2: SOCIAL RESPONSIBILITY

After completion of this lesson you will be able to –

- *Understand the concept of social responsibility*
- *Analyze the responsibilities to consumers, employees, environment, and investors*
- *Apply how to advancing the social responsiblity*
- Analyze the trends in ethics and corporate social responsibility.

SOCIAL RESPONSIBILITY

Social responsibility is the awareness that business activities have an impact on society and that consideration of that impact by firms in decision making. Besides, emphasizing profits, firms concerned with social responsibility voluntarily engage in activities that benefit society. Many, for instance, take an active role in rebuilding our public education system. A socially responsible firm makes deliberate, regular efforts to increase its positive impact on society while reducing its negative impact.

Practicing social responsibility costs many. Consumers, special interest groups, and the general public are aware of business's impact on society and expect firms to do more than try to make profits.

RESPONSIBILITY TO CONSUMERS

When a customer is satisfied with the product, he will buy and use it again and may be recommend it to his friends. Firms trying to succeed provide products that satisfy the needs of their customers. So a firm has some responsibilities to their customers. These are:

1. **The right to safety:** The most basic consumer right is the right to products that are safe to process and use. To ensure safety of goods, manufacturer should test them and provides buyers with explicit directions for use.
2. **The right to be informed:** Consumers have the right to receive information available about a product before they purchase it. Customer seeking a loan from a bank or other financial institution, for example, should be told of all costs and repayment terms associated with the loan. Necessary information for goods includes ingredients and detailed instruction for use. Consumers also have the right to know if the product has any limitations or problems.
3. **The right to choose:** Consumers have the right to choose and make purchases from a variety of products at competitive prices. They also have the right to expect quality service at a fair price. Consumer demand for pesticide-free foods, for example, has resulted in a movement to grow vegetables and fruits without chemicals.
4. **The right to be heard:** Consumers also have the right to have their opinions considered in the formation of government policies and in business firms' decisions that affect them. A number of large firms have established consumer affairs division to address consumers concerns. Small business may not have reason or resources to established hotline or hire personnel specifically for consumer relations. But small business owners and managers can set up procedures and train employees to invite consumer comments, answer questions, and handle complaints.

RESPONSIBILITY TO EMPLOYEES

Like consumers, employees hold certain expectations of business firms. Firms aware of their responsibility to the people who work for then make every effort to meet these expectations. The firm's responsibilities to employees are as follows:

1. **Safety in the work place:** Many firms realize that responsibility for employee safely lies with them, not with the government agency. They adopt and carry out their own health and safety programs. Managers often face a balancing act to keep the workplace safe and yet continually improve efficiency. The company emphasizes safety training to avoid injuries and repetitive-motion illness, which results from performing the same stressful arm or hand motions over and over.
2. **Equality of the workplace:** Individuals also expect to be treated equally in the workplace. Nonetheless, some inequalities still exist. Although women and minority workers are being hired by more companies, they have generally been denied the needed experience to attain top-level positions. In some cases, women, minority workers and handicapped people earn less than white men, even when they perform the same work.
3. **The hard-core unemployment:** Some organizations also have taken active step to train the hard-core unemployed. These are individuals with little training or few skills and a long history of unemployed. This effort help people to gain dignity and become productive members of society; it also reduces the burden of the nation's welfare system and adds trained individuals to the workforce. Firms can take a progressive step by providing programs or extra training to qualify persons who want to work.

RESPONSIBILITY TO ENVIRONMENT

The public is concerned with the impact of business decisions and actions on ecology and the environment around the world. Socially responsible managers take active measures to protect our environment. The responsibilities to the environment are as follows:

1. **Water pollution:** Water pollution is caused by the dumping of toxic chemicals, sewage, and garbage into rivers and streams. Toxins and pollutants from buried industrial waste can also find their way into underground water suppliers. Environmental laws such as the Water Quality Improvement Act of 1970 and the Water Pollution Control Act Amendment of 1972 regulate pesticides, but prosecutions are rare.
2. **Air pollution:** Air pollution is caused by carbon monoxide and hydrocarbons that come from motor vehicles and by smoke and other pollutants from manufacturing plants. The Clean Air Act of 1970 and the 1977 Clean Air Act Amendment provide stringent emission for standards for automobiles, airplanes, and factories. Many scientists fear that the earth's ozone layer, which shields the planet from the sun's deadly ultraviolet rays, is being destroyed, with a global warming trend as a result.
3. **Land pollution:** Land pollution results from strip mining of coal and minerals, forest fires, garbage disposal, and dumping of industrial wastes, including chemicals and medical supplies such as used hypodermic needles. Land pollution also result in water pollution because toxic wastes drain into water supplies. Business and government organizations face the problems of where to dispose of solid waste and how to do so safely. Many used products and containers do not have to go to the dump; they could be recycled.

RESPONSIBILITY TO INVESTORS

Business firms also have a responsibility to the people who invest money in them. The responsibilities to the investors are as follows:

1. **Proper management of funds:** Firms has a responsibility to manage funds properly so as to return a fair profit to investors. Investment scams have probably existed since people started using money. Managers have a responsibility to thoroughly investigate their investments and to clearly present all facts and risks to investors. When investors lose confidence in a firm, they find another place to invest their money.

2. **Access to information:** Firms have the responsibility to make stock information available to all potential investors. Insider trading occurs when individual buy and sell stock on the basis of information gained through their positions or contracts with others that is not available to other investors or the general public.
3. **Executive compensation:** Executives who run firms carry tremendous responsibility and deserve to be compensated accordingly. A fair compensation program should definitely reward executives for outstanding performance. In fact, some executives might be considered underpaid when one look at the performance of their companies.

ADVANCING SOCIAL RESPONSIBILITY

Many firms recognize the importance of social responsibility and take steps to see that their policies and activities make a positive impact on society. These are:

1. **Community support:** Business firm throughout the country provide support for a wide variety of activities designed to improve their communities. Both large and small businesses contribute to the art, build park, denote equipment to schools, and sponsor academic scholarship. Some sponsor social programs to help the disadvantages. The program provides antibiotics for homeless individuals and funding to develop health care programs.
2. **Self-regulation:** The business community can also advance social responsibility by establishing standards of conduct and ensuring that individuals follow them. One of the best known self-regulatory agencies is the *better business forum*, a nationwide organization with local branches supported by local firms. Many other industries, trade associations, and professional organizations establish self-regulatory programs. Business people generally prefer self-regulation to that imposed by the government. The guidelines established within an industry are often more realistic than those established by the government.
3. **Social audit:** Some firms conduct a systematic review of their performance of social responsibility activities through a social audit. A social audit looks at the firm's short-term and long-term contribution to the society. With information of a social audit, managers can evaluate how effective the current programs are and decide whether they should initiate new courses of actions.

TRENDS IN ETHICS AND CORPORATE SOCIAL RESPONSIBILITY

Three important trends related to ethics and corporate social responsibility are strategic changes in corporate philanthropy, a new social contract between employers and employees, and the growth of global ethics and corporate social responsibility.

1. **Changes in Corporate Philanthropy:** Historically, corporate philanthropy has typically involved companies seeking out charitable groups and giving them money or donating company products or services. Today, the focus has shifted to strategic giving, which ties philanthropy (humanity) and corporate social responsibility efforts closely to a company's mission or goals and targets donations to the communities where a company does business. Some of the top businesses recognized for their efforts in giving back to the communities in which they operate include technology giant Salesforce, San Antonio's NuStar Energy, insurance and financial services firm Veterans United, and software leader Intuit.
2. **A Social Contract between Employer and Employee:** Another trend in social responsibility is the effort by organizations to redefine their relationship with their employees. Now, companies recognize that the social contract between employer and employee is an important aspect of the workplace and that both groups have to be committed to working together in order for the organization to prosper. The social contract

can be defined in terms of four important aspects: compensation, management, culture, and learning and development. **Firstly,** when it comes to compensation, companies today must recognize that most employees do not stay with one organization for decades. Thus, companies need to change their compensation structure to acknowledge the importance of short-term performance and to update their methods for determining compensation, including benefits and other nontraditional perks such as increased paid leave and telecommuting options. **Secondly,** managers need to take a more active and engaged approach to supervising employees and perhaps change the way they think about loyalty, which may be difficult for managers used to supervising the same group of employees for a long period of time. Engaging employees on a regular basis, setting realistic expectations, and identifying specific development paths may help retain key employees. **Thirdly**, some employees feel empowered to demand more from their employer and its overall culture via strategies such as increased flexibility, transparency, and fairness. This increased importance of the employee's role in the company's culture helps workers stay engaged in the mission of the organization and perhaps makes them less likely to look elsewhere for employment. **Finally,** rapidly changing technology used in today's workplace continues to shift the learning and development component of the employer-employee contract, causing immense challenges to both companies and workers. It may be more difficult to identify the employee skills that will be critical over the next several years, causing employers either to increase training of current workers or to look outside the organization for other individuals who already possess the technical skills needed to get the job done.

3. **Global Ethics and Social Responsibility:** When U.S. businesses expand into global markets, they must take their codes of ethics and policies on corporate social responsibility with them. As a citizen of several countries, a multinational corporation has several responsibilities. These include respecting local practices and customs, ensuring that there is harmony between the organization's staff and the host population, providing management leadership, and developing a solid group of local managers who will be a credit to their community. When a multinational firm makes an investment in a foreign country, it should commit to a long-term relationship.

Discussion Questions:

1. Describe the concept of business ethics.
2. Discuss the unethical business activities.
3. Analyze the factors that influence on business ethics.
4. Analyze how ethical behavior can be encouraged among the employees.
5. Describe the concept of social responsibility.
6. Discuss the responsibilities to consumers, employees, environment, and investors.
7. How an organization can advancing its activities of social responsibility.
8. Describe the trends in ethics and corporate social responsibility.

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International Business

8

Unit Highlights

- Lesson – 1: Meaning and theories of International Business
- Lesson – 2: Environments of International Business

Technologies Used for Content Delivery

- BOUTUBE
- BOU LMS
- WebTV
- Web Radio
- Mobile Technology with MicroSD Card
- LP+ Office 365
- BTV Program
- Bangladesh Betar Program

LESSON – 1: MEANING AND THEORIES OF INTERNATIONAL BUSINESS

After completion of this lesson you will be able to –

- *Define international business*
- *Understand concepts about international business*
- *Analyze the reasons of international business*
- *Describe the theories related to international business.*

MEANING OF INTERNATIONAL BUSINESS

International business is the performance of the business activities across national boundaries. Every nation in the world participates in international business to some extent. Large companies as well as smaller firms sell their products throughout the world.

According to Michael R. Czinkota, "International business consists of transactions that are devised and carried out across national borders to satisfy the objectives of the individuals, companies and organizations.

International business focuses on any commercial activity or transaction between companies, organizations, individuals, or government entities that crosses borders into different countries and regions. International business refers to those business activities that take place beyond the geographical boundaries of a country. It involves not only the international movements of goods and services but also capital, technology, IP like patents, trademarks, copyright, etc.

SOME BASIC CONCEPTS RELATED TO INTERNATIONAL BUSINESS

Several basic concepts are important for an understanding of international business. These are:

- **Exporting and Importing:** Exporting is selling domestic-made goods in another country. Importing is purchasing goods made in another country.
- **Balance of trade:** Balance of trade is the result of importing and exporting. A country's balance of trade is the difference between the amount it exports and the amount it imports. A nation that exports more than its imports maintain a favorable balance of trade or a trade surplus. A nation that imports more than it exports has an unfavorable balance of trade or a trade deficit.
- **Balance of payments:** A balance of payments is the total flow of money into and out of the country. The balance of trade id determined by a country's balance of trade, foreign aid, foreign investment, military spending and money send by tourists in other countries. A country has a favorable balance of payments if more money is flowing in than is flowing out.
- **Exchange rate:** The rate at which one country's currency can be exchanged for that of another country is called the exchange rate. Government and market conditions determine exchange rate. Devaluation by its government reduces the value of a nation's currency in relation to currencies to other countries. The exchange rate may be fixed or floating. An unvarying exchange rate set by government policy is known as **fixed exchange rate**; and an exchange rate that fluctuate with market conditions is known as **floating exchange rate**.

WHY INTERNATIONAL BUSINESS / REASONS OF INTERNATIONAL BUSINESS

A country with a surplus of some product may decide to sell this surplus to other nations. Such sales will enable the country to purchase other products that it may not have the ability to produce. The reasons why firms conduct international business are as follows:

1. **Scarcity of resources:** The scarcity of resources is perhaps the major reason why nations trade with other nation. No nation has every material or resource; no nation can produce everything it needs. Most nations specialize in producing particular goods or services. So due to the scarcity of the resources firm conduct international business.
2. **Absolute advantages:** A nation has an absolute advantage if it can produce a product most efficiently than other nation. South Africa has an absolute advantage in the production of diamonds. Absolute advantage are rare because usually at least two countries can efficiently supply a specific product.
3. **Comparative advantage:** A country has a comparative advantage if it can produce one product more efficiently than other products, in comparison to other nations. For instance, countries with low labor costs, such as China and South American countries have a comparative advantage in producing labor-intensive products such as shoes and clothing.

THEORIES OF INTERNATIONAL BUSINESS

1. Theory of Absolute Advantage

The Scottish economist Adam Smith developed the trade theory of absolute advantage in 1776. A country that has an absolute advantage produces greater output of a good or service than other countries using the same amount of resources. Smith stated that tariffs and quotas should not restrict international trade; it should be allowed to flow according to market forces. Contrary to mercantilism Smith argued that a country should concentrate on production of goods in which it holds an absolute advantage. No country would then need to produce all the goods it consumed. The theory of absolute advantage destroys the mercantilistic idea that international trade is a zero-sum game. According to the absolute advantage theory, international trade is a positive-sum game, because there are gains for both countries to an exchange. Unlike mercantilism this theory measures the nation's wealth by the living standards of its people and not by gold and silver.

There is a potential problem with absolute advantage. If there is one country that does not have an absolute advantage in the production of any product, will there still be benefit to trade, and will trade even occur? The answer may be found in the extension of absolute advantage, the theory of comparative advantage.

2. Theory of Comparative Advantage

The most basic concept in the whole of international trade theory is the principle of comparative advantage, first introduced by David Ricardo in 1817. It remains a major influence on much international trade policy and is therefore important in understanding the modern global economy. The principle of comparative advantage states that a country should specialize in producing and exporting those products in which has a comparative, or relative cost, advantage compared with other countries and should import those goods in which it has a comparative disadvantage. Out of such specialization, it is argued, will accrue greater benefit for all.

In this theory there are several assumptions that limit the real-world application. The assumption that countries are driven only by the maximization of production and consumption, and not by issues out of concern for workers or consumers is a mistake.

Heckscher-Ohlin Theory

In the early 1900s an international trade theory called factor proportions theory emerged by two Swedish economists, Eli Heckscher and Bertil Ohlin. This theory is also called the Heckscher-Ohlin theory. The Heckscher-Ohlin theory stresses that countries should produce and export goods that require resources (factors) that are abundant and import goods that require resources in short supply. This theory differs from the theories of comparative advantage and absolute advantage since these theory focuses on the productivity of the production process for a particular good. On the contrary, the Heckscher-Ohlin theory states that a country should specialize production and export using the factors that are most abundant, and thus the cheapest. Not produce, as earlier theories stated, the goods it produces most efficiently.

The Heckscher-Ohlin theory is preferred to the Ricardo theory by many economists, because it makes fewer simplifying assumptions. In 1953, Wassily Leontief published a study, where he tested the validity of the Heckscher-Ohlin theory. The study showed that the U.S was more abundant in capital compared to other countries, therefore the U.S would export capital-intensive goods and import labour-intensive goods. Leontief found out that the U.S's export was less capital intensive than import.

3. Product Life Cycle Theory

Raymond Vernon developed the international product life cycle theory in the 1960s. The international product life cycle theory stresses that a company will begin to export its product and later take on foreign direct investment as the product moves through its life cycle. Eventually a country's export becomes its import. Although the model is developed around the U.S, it can be generalized and applied to any of the developed and innovative markets of the world.

The product life cycle theory was developed during the 1960s and focused on the U.S since most innovations came from that market. This was an applicable theory at that time since the U.S dominated the world trade. Today, the U.S is no longer the only innovator of products in the world. Today companies design new products and modify them much quicker than before. Companies are forced to introduce the products in many different markets at the same time to gain cost benefits before its sales declines. The theory does not explain trade patterns of today.

4. Theory of Mercantilism

According to Wild, 2000, the trade theory that states that nations should accumulate financial wealth, usually in the form of gold, by encouraging exports and discouraging imports is called mercantilism. According to this theory other measures of countries' well-being, such as living standards or human development, are irrelevant. Mainly Great Britain, France, the Netherlands, Portugal and Spain used mercantilism during the 1500s to the late 1700s.

Mercantilistic countries practiced the so-called zero-sum game, which meant that world wealth was limited and that countries only could increase their share at expense of their neighbors. The economic development was prevented when the mercantilistic countries paid the colonies little for export and charged them high price for import. The main problem with mercantilism is that all countries engaged in export but was restricted from import, prevention from development of international trade.

LESSON – 2: ENVIRONMENTS OF INTERNATIONAL BUSINESS

After completion of this lesson you will be able to –

- *Analyze the environmental factors of international business*
- *Analyze the barriers of international business*
- *Understand the regulations of international business*
- *Discuss the approaches of international business*
- *Describe the features of multi-national companies.*

ENVIRONMENTS OFINTERNATIONAL BUSINESS

The home-based or the domestic export expansion measures are necessarily related to the conditions prevailing in possible markets. An Exporter has to overcome various constraints and adapt plans and operations to suit foreign environmental conditions. The main elements of foreign environment affecting marketing activities of a firm in a foreign country consist of the following:

A) POLITICAL environment:

Nations greatly differ in their political environment. Govt. policies, regulations and control mechanisms regarding the countries, foreign trade and commercial relations with other countries or groups of countries. At least four factors should be considered in deciding whether to do business in a particular country. They are

1. Attitudes towards International Buying:
Some nations are very receptive, indeed encouraging, to foreign firms, and some others are hostile. For e.g.: Singapore, UAE and Mexico are attracting foreign investments by offering investment incentives, removal of trade barriers, infrastructure services, etc.

2. Political Stability:
A country's future and stability is another important issue. Government changes hands sometimes violently. Even without a change, a region may decide to respond to popular feeling. A foreign firm's property may be seized; or its currency holdings blocked; or import quotas or new duties may be imposed. When political stability is high one may go for direct investments. But when instability is high, firms may prefer to export rather than involve in direct investments.

3. Monetary Regulations:
Sellers want to realize profits in a currency of value to them. In best situations, the Importer pays in the seller's currency or in hard world currencies. In the worst case they have to take the money out of the host country in the form of relatively unmarketable products that they can sell elsewhere only at a loss. Besides currency restrictions, a fluctuating exchange rate also creates high risks for the exporter.

4. Government Bureaucracy:
It is the extent to which the Government in the host country runs an efficient system for assisting foreign companies such as: efficient customs handling, adequate market information, etc. A foreign political environment can be extremely critical; shifts in Government often means sudden changes in attitudes that can result in expropriation, expulsion, or major restrictions in operations. The fact is that a foreign company is foreign and thus always subject to the political whim to a greater degree than a domestic firm.

B) CULTURAL environment:

The manner in which people consume their priority of needs and the wants they attempt to satisfy, and the manner in which they satisfy are functions of their culture which moulds and dictates their style of living. This culture is the sum total of knowledge, belief, art, morals, laws, customs and other capabilities acquired by humans as members of the society. Since culture decides the style of living, it is pertinent to study it especially in export marketing. e.g. when a promotional message is written, symbols recognizable and meaningful to the market (the culture) must be used. When designing a product, the style used and other related marketing activities must be culturally acceptable.

C) ECONOMIC environment:

In considering the international market, each exporter must consider the importing country's economy. Two economic characteristics reflect the country's attractiveness as an export market. They are the country's industrial structure and the country's income distribution by employment industrialization and socio economic justices.

D) LEGAL environment:

The legal dimension of international Business environment includes all laws and regulations regarding product specification and standards, packaging and labeling, copyright, trademark, patents, health and safety regulations particularly in respect of foods and drugs. There are also controls in promotional methods, price control, trade margin, mark-up, etc. These legal aspects of marketing abroad have several implications which an exporting firm needs to study closely.

BARRIERS TO INTERNATIONAL BUSINESS

Firms desiring to enter into international business face several obstacles. These are:

1. **Cultural and Social barriers:** A nation's culture and social forces can resist international business activities. Culture consists of a country's general concepts and values and tangible items such as food, clothing and buildings. Social forces include family, education, religion and customs. Selling products from one country to another is sometimes difficult when the culture of two countries differ significantly.
2. **Political barriers:** The political climate of a country can have a major impact on international business. Nations experiencing political unrest may change their attitude toward foreign firms at any time; this instability creates an unfavorable atmosphere for international trade. Countries such as USA and Japan are more attractive because f their political stability.
3. **Tariffs and Trade restrictions:** Tariffs and trade restrictions are also barrier to international business. These may be observed in several forms:
    a) **Import tariffs:** A duty or tax, levied against goods brought into a country is an import tariffs. Tariffs can be used to discourage foreign competitors from entering a domestic market.
    b) **Quotas and embargoes:** A quota is a limit on the amount of a product that can leave from or enter into a country. An embargo is a total ban on certain imports and exports.
    c) **Exchange control:** Restrictions on the amount of certain currency that can be bought or sold in a nation are called exchange controls. The government can use exchange controls to limit the amount of products that importers can purchase with a particular currency. For example, in 1985 China placed strict restrictions on foreign exchange expending. retaliate

REGULATIONS OF INTERNATIONAL BUSINESS

As business between nations has grown, so has the number of laws and organizations involved in the regulations of international business. These are:

1. **Legislation:** The major laws of a country affect in international business in any country. There are various types of acts in most of the country that allow the companies to work

together to develop export markets, allow companies to reduce competition using unfair methods of competition.

2. **International Organization:** Several international organizations exist to facilitate world trade. Some of them are as follows:
    a) **GATT:** The General Agreement on Tariffs and Trade (GATT) formed an international organization of 23 nations in 1947. GATT works to reduce or eliminate tariffs and other barriers to international trade. Today nearly 153 countries agree to the guidelines established by GATT. From 1st January 1995, GATT has renamed into WTO.
    b) **Economic communities:** An organization formed to facilitate the movement of products among member nations through the creation of common economic policies is called an economic community. One of the largest is the European Community (EC), formed in 1957. some other economic community are Latin American Free Trade Association (LAFTA), European Free Trade Association (EFTA), Organization of Petroleum Exporting Countries (OPEC), and so on.
    c) **IMF and World Bank:** Two international organizations have been established to help finance international trade. The International Monetary Fund (IMF) was founded in 1944 to promote cooperation among member nations by eliminating trade barriers. IMF lends money to countries that need short-term loans to conduct international trade. The World Bank was formed in 1946 to lend money to underdeveloped and developing countries for various projects. The WB makes loans to member nations to fund the development of roads, factories, and medical facilities.

APPROACHES TO INTERNATIONAL BUSINESS

A firm that decides to enter international trade must select an approach. It can be done in a number of ways; some require relatively low levels of commitment, while others require much higher levels. The approaches of international business are as follow:

1. **Exporting:** The simplest way to enter international business is exporting, selling domestic goods to foreign country. It requires the lowest level of resources and commitment. In many cases, a firm can locate an exporting firm that can provide assistance in selling products to foreign countries.
2. **Licensing:** An agreement in which one firm allows another firm to sell its product and use its brand name in return for a commission or royalty. In a licensing agreement, one firm (the licensor) agrees to allow another firm (the licensee) to sell the licensor's product and use its brand name. In return, the licensee pays the licensor a commission or royalty. For example, a beverage company such as Pepsico might enter into a licensing agreement with a firm in Taiwan. The Taiwanese firm would have the right to sell Pepsi products in Taiwan and would pay Pepsico a specified percentage of the income from sales of the product.
3. **Joint Ventures:** Firms may also conduct international business through a joint venture, in this case a partnership between a domestic firm and a firm in a foreign country. One major drawback to international joint ventures is that organizations may lose control of their operations.
4. **Trading Companies:** A trading company buys products in one country and sells them in another without being involved in manufacturing. Trading companies take title to products and move them from one country to another. Trading companies can simplify entrance into foreign markets because they are usually favored by the foreign governments.
5. **Countertrading:** Complex bartering agreements between two or more countries are involved in countertrading. Countertrading allows a nation with limited cash to participate

in international trade. The country wishing to trade requires the exporting country to purchase products from it before allowing its products to be sold there.

6. **Direct Ownership:** A much more involved approach to international business is direct ownership – purchasing one or more business operations in a foreign country. Direct ownership requires a large investment in production facilities, research, personnel, and marketing activities. Many large companies, such as Ford, Polaroid, and 3M, own facilities outside the United States. Though direct ownership, a firm has greater control over a foreign subsidiary.
7. **Multinational Corporations:** A firm that operates on a global basis, committing assets to operations or subsidiaries in foreign countries. Some corporations operate as if the world were a global market. This approach represents a total commitment to international business, and is used by multi-national corporations who have assets committed to operations or subsidiaries in foreign countries.

FEATURES OF MULTI-NATIONAL COMPANIES (MNCs)

The features of multi-national companies are as follow:

1. MNCs have managerial headquarters in home countries, while they carry out operations in a number of other (host) countries.
2. A large part of capital assets of the parent company is owned by the citizens of the company's home country.
3. The absolute majority of the members of the Board of Directors are citizens of the home country.
4. Decisions on new investment and the local objectives are taken by the parent company.
5. MNCs are predominantly large-sized and exercise a great degree of economic dominance.
6. MNCs control production activity with large foreign direct investment in more than one developed and developing countries.
7. MNCs are not just participants in export trade without foreign investments.

Discussion Questions:

1. Define international business.
2. Describe some concepts that are related to international business.
3. Discuss the reasons behind the intention of doing international business.
4. Describe the theories related to international business.
5. Explain the environmental factors that are related to international business.
6. Describe the barriers of international business.
7. Discuss the regulations that are related to international business.
8. Discuss the approaches of international business.

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