Choice of organization- Sole Proprietorship,Partnership,Joint stock Co.,Cooperative.Strategic Management in Small Business Enterprises:Strategies for Growth Stability,Merger,Diversification,Acquisition,Joint Ventures ,New Frontiers of Enterpreneurship

Unit 4 Entrepreneurship

Sole Proprietorship

Sole Proprietorship in simple words is a one-man business organisation. It is the type of entity that is fully owned and managed by one natural person (not a legal person/entity) known as the sole proprietor. The business and the man are the same, it does not have a separate legal entity.

A sole proprietorship usually does not have to be incorporated or registered. It is the simplest form of business organisations and the ideal choice to run a small or medium scale business. Let us look at some important features of a proprietorship.

Features of Sole Proprietorship

1] Lack of Legal Formalities

A sole proprietorship does not have a separate law to govern it. So there are not many special rules and regulations to follow. It does not require incorporation or registration of any kind. In most cases, only a license is required to carry out the desired business.

And just like in its formation, there is hardly any legal process involved in its closure. Overall it allows for ease of doing business with minimum hassles.

2] Liability

Since there is no separation between the owner and the business, the liability of the owner is also unlimited. So if the business is unable to meet its own liabilities, it will fall upon the proprietor to pay them. All of his personal assets (like his car, house, other properties etc) may have to be sold to meet the liabilities of the business.

3] Risk and Profit

The owner is the only risk bearer in a sole proprietorship. Since he is the only one financially invested in the company, he must also bear all the risk. If the business fails or suffers losses he will be the one affected.

However, he also enjoys all the profits from the business. He does not have to share his profits with any other stakeholders since there are none. So he must bear the full risk in exchange for enjoying full profits.

4] No Separate Identity

In legal terms, the business and the owner are one and the same. No separate legal identity will be bestowed upon the sole proprietorship. So

the owner will be responsible for all the activities and transactions of the business.

5] Continuity

Just as we saw above the business and the owner have one identity. So a sole proprietorship is entirely dependent on its owner.
The death, retirement, bankruptcy. insanity, imprisonment etc will have an effect on the sole proprietorship. In most of such cases, the proprietorship will cease to exist and the business will come to an end.

Advantages of Sole Proprietorship

- A proprietor will have *complete control of the entire business*, this will facilitate quick decisions and freedom to do business according to their wishes
- Law does not require a proprietorship to publish its financial accounts or any other such documents to any members of the public. This allows the business a great deal of *confidentiality* which is sometimes important in the business world
- The owner derives *maximum incentive* from the business. He does not have to share any of his profits. So the work he puts into the business is completely reciprocated in incentives
- Being your own boss is a great sense of *satisfaction and achievement*. You are answerable only to yourself and it is a great boost to your self-worth as well

Disadvantages of Sole Proprietorship

- One of the biggest limitations of a sole proprietorship is the *unlimited liability of the owner*. If the business fails it can wipe

out the personal wealth of the owner as well and affect his future business prospects too

- Another problem is the *limited capital* a sole proprietor has access to. His own personal savings and money he can borrow may not be enough to expand the business. Banks and financial institutions are also wary lending to proprietorships
- The life cycle of a sole proprietorship is undecided and attached to its owner. If the owner is incapacitated in any way it has a negative effect on the business, and it may even lead to the closure of the business. A sole proprietorship cannot carry on without its proprietor.
- A sole proprietor also has *limited managerial ability*. He cannot be an expert in all the fields of the business. And limited resources may mean that he cannot even hire competent people to help him out. This may lead to the business suffering from mismanagement and poor decisions.

Famous Businesses That Began as Sole Proprietorships

It should be noted that you don't have to keep the same form of business ownership for the life of a business. Many small businesses start out as sole proprietorships and then become corporations later as shown in the following examples.

J. Willard Marriott started several businesses as a sole proprietor, beginning with a root beer stand that eventually became the A&W restaurant chain. His hotel business began in 1959 and did not incorporate until 1969.

Richard Warren Sears started a mail-order watch and jewelry sales company as a sole proprietor. He later hired Alvah Curtis Roebuck to repair watches. The two decided on a partnership and eventually, Sears, Roebuck, and Company became the largest retailer in the United States.

James Cash Penney started his career as an employee in a small retail chain in 1898. He eventually bought out the existing partners and ran the business as a sole proprietor for a number of years. The number of stores continued to grow

and in 1913 the chain was incorporated under the name "J.C. Penney Company." By 1929 over 1,000 stores were in operation.

Partnership

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A partnership in a business is similar to a personal partnership. Both business and personal partnerships involve:

- Pooling money toward a common purpose
- Sharing individual skills and resources, and
- Sharing in the ups and downs of profit and loss.

What a Business Partnership Looks Like

A business partnership is a specific kind of legal relationship formed by the agreement between two or more individuals to carry on a business as co-owners. The partners in a business partnership invest in the business, and each investor/partner has a share in the profits and losses.[1]

Partnership features:

- Two or more persons in business
- Governed by state laws
- Each partner invests in the business
- Share in profits
- Unlimited personal liability for the partnership's debts.

The partnership as a business must register with all states where it does business. Each state his several different kinds of partnerships that you can form, so it's important to know the possibilities (explained below) before you register.

Some partnerships include individuals who work in the business, while other partnerships may include partners who have limited participation and also limited liability for the debts and lawsuits against the business.

A partnership, as different from a corporation, is not a separate entity from the individual owners. A partnership is similar to a sole proprietor or independent contractor business because in both of these businesses the business isn't separate from the owners, for liability purposes.

The partnership income tax is paid by the partnership, but the profits and losses are divided among the partners, and paid by the partners, based on their agreement.

A limited liability company (LLC) with two or more members (owners) is treated as a partnership for income tax purposes. Read more about the differences between LLCs and partnerships

Types of Partners in a Partnership

Partners can include individuals, groups of individuals, companies, and corporations. [1]

Depending on the type of partnership and the levels of partnership hierarchy, a partnership can have several different types of partners. This article on different types of partners explains the difference between:

- **General partners and limited partners.** General partners participate in managing the partnership and have liability for partnership debts and obligations. Limited partners invest but do not participate in management.[2,3]
- **Equity partners and salaried partners.** Some partners may be paid as employees, while others have only a share in ownership.
- The **different levels of partners** in the partnership. For example, there may be junior and senior partners. These partnership types may have different duties, responsibilities, and levels of input and investment requirements.

Types of Partnerships

Before you start a partnership, you will need to decide what type of partnership you want. You may have heard the terms:

- A **general partnership** is composed of partners who participate in the day-to-day operations of the partnership are who have liability as owners for debts and lawsuits. [4]
- A **limited partnership** has one general partner who manages the business and one or more limited partners who don't participate in the operations of the partnership and who don't have liability.[2]
- A **limited liability partnership (LLP)** is similar to the limited partnership, but it may have several general partners. An LLP is formed by partners in the same professional category (accountants, architects, etc.) and the partnership protects partners from liability from the actions of other partners. Each state has different categories of professionals that it allows to form an LLP.[5]

How Partners are Paid

Partners are owners, not employees, so they don't get a paycheck. Each partner receives a distributive share of the profits and losses of the business each year. Payments are made based on the partnership agreement, and the partners are taxed individually on these payments.

In addition, some partners may receive a guaranteed payment which isn't tied to their partnership share. This payment is usually for services like management duties.

Forming a Partnership

Partnerships are usually registered with the state in which they do business, but the requirement to register and the types of partnerships available vary from state to state. Partnerships use a partnership agreement to clarify the relationship between the partners, the roles and responsibilities of the partners, and their respective shares in the profits or losses of the partnership. This agreement is just between the partners; it's not registered with a state.

Check with your state's secretary of state to determine the requirements for registering your partnership in your state. Some states allow different types of partnerships, and there are different types of partners, based on their participation in the business and the type of partnership.

Once you have registered with your state, you can then proceed to the other typical tasks in starting a business.

Requirements for Joining a Partnership

An individual can join a partnership at the beginning or after the partnership has been operating. The incoming partner must invest in the partnership, bringing capital (usually money) into the business and creating a capital account. The amount of the investment and other factors, like the amount of liability the partner is willing to take on, determine the new partner's investment and share of the profits (and losses) of the business each year.

How a Partnership Pays Income Taxes

As noted above, the partnership business doesn't pay any income tax; the partners pay the taxes of the business, based on their share of the profits for a specific year, as spelled out in the partnership agreement.

The partnership income tax is passed through to the partners, who are taxed from the income (or loss) of the partnership on their personal income tax return, and the partnership files an information return (Form 1065) with the IRS.[6]

Multiple-member limited liability companies (LLCs) file income taxes as a partnership.[7]

How Partners Pay Income Tax

Individual partners pay income taxes on their share of the income of the partnership. The partners receive a Schedule K-1 showing their tax liability from the business for the year. The Schedule K-1 is included with the partner's other income on their personal tax return (Form 1040 or Form 1040-SR).[6]

Partners are self-employed, and they must pay self-employment tax (Social Security/Medicare tax) on their share of partnership earnings.

The Importance of a Partnership Agreement

When a partnership is formed, one of the first acts of the partners should be to prepare and sign a partnership agreement. This agreement describes all the responsibilities of the partners, sets out each partner's distributive share in profits and losses, and answers all the "what if" questions about what happens in a number of typical situations.

One good example of how a partnership agreement is important involves the situation when a partner leaves the partnership. If there is no partnership

agreement to spell out how to handle everything, state law determines everything.

The partnership agreement should include:

- Details on the duties and responsibilities of each active partner,
- Roles of specific partners who have day-to-day management,
- How and when contributions must be made, and
- How distributions are set.

Features of a Partnership

1] Formation/Partnership Agreement

A partnership firm is not a separate legal entity. But according to the act, a firm must be formed via a legal agreement between all the partners. So a contract must be entered into to form a partnership firm.

Its business activity must be lawful, and the motive should be one of profit. So two people forming an alliance to carry out charity and/or social work will not constitute this form of organisation. Similarly, a partnership contract to carry out illegal work, such as smuggling, is void as well.

2] Unlimited Liability

In a unique feature, all partners have unlimited liability in the business. The partners are all individually and jointly liable for the firm and the payment of all debts. This means that even personal assets of a partner can be liquidated to meet the debts of the firm.

If the money is recovered from a single partner, he can, in turn, sue the other partners for their share of the debt as per the contract of the partnership.

3] Continuity

A partnership cannot carry out in perpetuity. The death or retirement or bankruptcy or insolvency or insanity of a partner will dissolve the firm. The remaining partners may continue the partnership if they so choose, but a new contract must be drawn up. Also, the partnership of a father cannot be inherited by his son. If all the other partners agree, he can be added on as a new partner.

4] Number of Members

As we know that there should be a minimum of two members. However, the maximum number will vary according to a few conditions. The Partnership Act itself is silent on this issue, but the Companies Act, 2013 provides clarity.

For a banking business, the number of partners must not exceed ten. For a business of any other nature, the maximum number is twenty. If the number of partners increases it will become an illegal entity or association.

5] Mutual Agency

In this type of organisation, the business must be carried out by all the partners together. Or alternatively, it can be carried out by any of the partners (one or several) acting for all of them or on behalf of all of them. So this means every partner is an agent as well as the principal of the partnership.

He represents the other partners in some cases so he is their agent. But in other circumstances, he is bound by the actions of any of the other partners aking him the principal as well.

Types of Partners

Not all partners of a firm have the same responsibilities and functions. There can be various types of partners in a partnership. Let us study the types of partners and their rights and duties.

- **Active Partner**: As the name suggests he takes active participation in the business of the firm. He contributes to the capital, has a share in the profit and also participates in the daily activities of the firm. His liability in the firm will be unlimited. And he often will act as an agent for the other partners.
- **Dormant Partner**: Also known as a sleeping partner, he will not participate in the daily functioning of the business. But he will still have to make his share of contribution to the capital. In return, he will have a share in the profits. His liability will also be unlimited.
- **Secret Partner**: Here the partner's association with the firm is not public knowledge. He will not represent the firm to outside agents or parties. Other than this his participation with respect to capital, profits, management and liability will be the same as all the other partners.
- **Nominal Partner**: This partner is only a partner in name. He allows the firm to use the name of his firm, and the attached goodwill. But he in no way contributes to the capital and hence has no share in the profits. He does not involve himself in the firm's business. But his liability too will be unlimited.
- **Partner by Estoppel**: If a person makes it out to be, through their conduct or behaviour, that they are partners in a firm and he does not correct them, then he becomes a partner by estoppel. However, this partner too will have unlimited liability.

There can be general partnership with general partners, limited partnerships (or limited liability partnership) etc.

Joint Stock Company

When you think of all the largest companies in the world, these are not proprietorships or partnerships. These companies are all joint stock companies. When dealing with business on a fairly large scale, a joint stock company is the most suitable form of business organisation. Let us see why.

Joint Stock Company

The simplest way to describe a joint stock company is that it is a business organisation that is owned jointly by all its shareholders. All the shareholders own a certain amount of stock in the company, which is represented by their shares.

Professor Haney defines it as "*a voluntary association of persons for profit, having the capital divided into some transferable shares, and the ownership of such shares is the condition of membership of the company*." Studying the features of a joint stock company will clarify its structure.

Features of a Joint Stock Company

1] Artificial Legal Person

A company is a legal entity that has been created by the statues of law. Like a natural person, it can do certain things, like own property in its name, enter into a contract, borrow and lend money, sue or be sued, etc. It has also been granted certain rights by the law which it enjoys through its board of directors.

However, not all laws/rights/duties apply to a company. It exists only in the law and not in any physical form. So we call it an artificial legal person.

Unlike a proprietorship or partnership, the legal identity of a company and its members are separate. As soon as the joint stock company is incorporated it has its own distinct legal identity. So a member of the company is not liable for the company. And similarly, the company will not depend on any of its members for any business activities.

2] Separate Legal Entity

Unlike a proprietorship or partnership, the legal identity of a company and its members are separate. As soon as the joint stock company is incorporated it has its own distinct legal identity. So a member of the company is not liable for the company. And similarly, the company will not depend on any of its members for any business activities.

3] Incorporation

For a company to be recognized as a separate legal entity and for it to come into existence, it has to be incorporated. Not registering a joint stock company is not an option. Without incorporation, a company simply does not exist.

4] Perpetual Succession

The joint stock company is born out of the law, so the only way for the company to end is by the functioning of law. So the life of a company is in no way related to the life of its members. Members or shareholders of a company keep changing, but this does not affect the company’s life.

5] Limited Liability

This is one of the major points of difference between a company and a sole proprietorship and partnership. The liability of the shareholders of a company is limited. The personal assets of a member cannot be liquidated to repay the debts of a company.

A shareholders liability is limited to the amount of unpaid share capital. If his shares are fully paid then he has no liability. The amount of debt has no bearing on this. Only the companies assets can be sold off to repay its own debt. The members cannot be made to pay up.

6] Common Seal

A company is an artificial person. So its day-to-day functions are conducted by the board of directors. So when a company enters any contract or signs an agreement, the approval is indicated via a common seal. A common seal is engraved seal with the company's name on it.

So no document is legally binding on the company until and unless it has a common seal along with the signatures of the directors.

7] Transferability of Shares

In a joint stock company, the ownership is divided into transferable units known as shares. In case of a public company the shares can be transferred freely, there are almost no restrictions. And in a public company, there are some restrictions, but the transfer cannot be prohibited.

Advantages of a Joint Stock Company

- One of the biggest drawing factors of a joint stock company is the *limited liability of its members*. their liability is only limited up to

the unpaid amount on their shares. Since their personal wealth is safe, they are encouraged to invest in joint stock companies

- The shares of a company are *transferable.* Also, in the case of a listed public company they can also be sold in the market and be converted to cash. This ease of ownership is an added benefit.

- *Perpetual succession* is another advantage of a joint stock company. The death/retirement/insanity/etc does affect the life of a company. The only liquidation under the Companies Act will shut down a company.

- A company hires a board of directors to run all the activities. Very proficient, talented people are elected to the board and this results in effective and efficient management. Also, a company usually has large resources and this allows them to hire the *best talent and professionals*.

Disadvantages of a Joint Stock Company

- One disadvantage of a joint stock company is the complex and lengthy procedure for its *formation*. This can take up to several weeks and is a costly affair as well.

- According to the Companies Act, 2013 all public companies have to provide their financial records and other related documents to the registrar. These documents are then public documents, which any member of the public can access. This leads to a complete *lack of secrecy* for the company.

- And even during its day to day functioning a company has to follow a numerous number of laws, *regulations*, notifications, etc. It not only takes up time but also reduces the freedom of a company

- A company has many stakeholders like the shareholders, the promoters, the board of directors, the employees.

the debenture holders etc. All these stakeholders look out for their benefit and it often leads to a *conflict of interest.*

Cooperative Society

A business organization can take many forms. One such form is that of a cooperative society. Such societies have unique features of joint ownership and democratic leadership. Let us take a brief look at their features and some types of societies.

Introduction

A cooperative society is not a new concept. It prevails in all the countries, this is almost a universal concept. The cooperative society is active in all countries worldwide and is represented in all the sectors including agriculture, food, finance, healthcare, etc.

To protect the interest of weaker sections, the co-operative society is formed. It is a voluntary association of persons, whose motive is the welfare of the members.

Features of a Cooperative Society

(Source: encryptedtbn0)

- As it is a voluntary association, the membership is also voluntary. A person is free to join a cooperative society, and can also leave

anytime as per his desire. Irrespective of their religion, gender & caste, membership is open to all.

- It is compulsory for the co-operative society to get registration. The co-operative society is a separate legal identity to the society.
- It does not get affected by the entry or exit of its members.
- There is limited liability of the members of co-operative society. Liability is limited to the extent of the amount contributed by members as capital.
- An elected managing committee has the powers to take decisions. Members have the right to vote, by which they elect the members who will constitute the managing committee.
- The cooperative society works on the principle of mutual help & welfare. Hence, the principal of service dominates it's working. If any surplus is generated, it is distributed amongst the members as a dividend in conformity with the bye-laws of the society.

What are the Advantages and Disadvantages of Cooperative Society?

Types of Cooperative Society

1] Producer Cooperative

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

They perform several activities like processing, marketing & distributing their own products. This helps in

lower costs and strains in each area with a mutual benefit to each producer.

2] Consumer Cooperative

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

3] Credit Unions

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

4] Marketing Cooperative Society

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

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

5] Housing Cooperative Society

To help people with limited income to construct houses at reasonable costs, these societies are established. Their aim is to solve the housing

problems of the members. A member of this society aims to procure the residential house at lower cost.

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

Co-operative society in India

Before starting off on Co-operative society in India, at first one should know what is a **Co-operative Society** i.e. the definition of it, how it came into existence, its features, types and benefits.

Definition of Co-operative society in India

A **Co-operative society in India** can be described as the association of persons coming together voluntarily for a specific purpose of the same territory. Therefore, voluntarily some like-minded persons form a society to fulfil their economic, social and cultural needs. It is an autonomous body and self-help organization controlled by their members who actively participate in setting their principles and making decisions solely for the interest of the members of the society. To form a co-operative society there must be the consent of at least 10 members with equal voting rights or power.

How Co-operative society in India came into existence

The sole purpose of introducing the concept of co-operative society in India was to establish economic and social regeneration and welfare among the weaker and poorer section of the community across India including women empowerment. At times, there was a very adverse situation when rich were becoming richer and poor were becoming poorer. To eradicate exploitation of the weaker sections of the society especially farmers by the then hungry businessmen, The Government of India came up with The Indian Co-operative societies Act, 1912. After independence, different State Govt. adopted the original act and further reconstructed various acts and rules in conformity with the original Co-operative societies act according to the needs of their people.

Self Help Group(**SHG**) of women is not a scheme. It is rather a medium of development. With the help of this group, women in India have been able to find out the ladder of success and enlightening every corner of the society with extreme happiness. Women in India, in the current day, are not going to stay in distress any more as the Co-operative society in India give them access to form a self-sufficient group which is popularly known as **SHG** or **Self**

Help Group. Therefore, Co-operative society takes an active part in **women empowerment**, **women development** and **reduction in women exploitation**.

7th July is celebrated as the "International Co-operative Day" across the world. In India 14th to 20th November is celebrated as the "National Co-operative Week" every year.

Features of Co-operative society in India

- A Co-operative society must be voluntary in nature;
- A Co-operative society shall be accessible to all irrespective of all caste, creed, and religion of the members. This means it should not be formed only for the welfare of a particular caste or religion;
- A Co-operative society must necessarily be democratic in nature and be controlled by their members only;
- The essential part of a Co-operative society is that its state of affairs shall be managed and administered by elected or appointed persons as consented by all the members;
- Every member of a Co-operative society shall enjoy equal voting rights in conformity with their basic principle;
- The members of a Co-operative society enjoy limited liability facility along with limited right to receive limited compensation. Means cannot be held liable personally for any debts of the society;
- Every member of a Co-operative society shall enjoy equal profit sharing facility. This results in fewer chances of grievances among its members;
- It must be registered under Co-operative societies act;
- A Co-operative society must act in the interest of its members and must co-operate with other Co-operative societies as far as practicable;
- Last but not the least A Co-operative society must provide priority to the welfare and sustainable development of its members;
- The main feature of Co-operative society in India is that members produce articles or goods by themselves and directly sell those things to customers resulting avoidance intermediaries.
- Being a non-profit seeking entity, Co-operative society delivers various social services to the community. It not only takes from the society but returns back to the community by engaging in different social activities like blood donation, Swach Bharat Abhiyan, arranging education among the poorest and many more.

Strategic Management in Small Businesses

There is a Japanese saying that goes, “When you’re dying of thirst, it is too late to think about digging a well.” This saying exalts the importance of strategic management to success in any endeavor. Planning is something that has become a habit for many, in one or more areas of our

lives. Whether you're making a big move in your career or presenting an idea, or anything else for that matter; planning is a part of nearly everything we do and many of the steps we take in life require an enormous amount of planning. Of course, it's possible to do just about anything without first planning for it. However, most of the time when we do things without planning we are taking huge risks, with results that often are discouraging or unsatisfying, at best. In few areas is planning as important as it is in business. In fact, it is so important that it has a unique title: strategic management.

Strategic management, especially when done well, is important for a business' long-term success. When we say that a business is carrying out strategic management, what is meant is that "strategic management" defines a strategy for its business activities, with clear, well-defined goals. The business will then create clear, well-defined plans that it will then put in action to achieve its goals and to align its business activities, so that the business will be in harmony with those goals. It also will allocate all of the necessary resources to achieve those goals.

A good strategic management plan goes beyond the improving a business' bottom line. A good plan also gives the company a valid social license for operations. In today's environment, this is becoming an ever-more important aspect for each business, because businesses have multiple internal and external stakeholders. For example, consumers are seeing an increase in their awareness of their products being sold by companies. They're also becoming increasingly more interested, not only in the products a business produces, but also in the way that a company conducts its business activities. This includes operations from an environmental standpoint as well as from an ethical one. All of these aspects should be considered in strategic management and should be included in the business' plans, which should ensure that the business will survive in the long run.

What Are the Skills Required for Strategic Management?

Strategic management is a multi-faceted operation that requires lots of different skills in business and in leadership. For example, strategic management requires the manager be highly analytical and to have refined analytical skills.

Leaders who develop the strategies that drive a business are also required to have a bird's eye view of the company, as well as an intimate understanding of how everything in the business is interconnected. They need to understand such things as the expectations of the stakeholders, the

needs of the customers, the competitive landscape, the global trends, the environment within which the business operates and so on.

For strategic management to be successful, it needs to start with an understanding of the internal factors as well as the external factors that determine the success of the company, whether short term or long term. That understanding needs to be both honest and clear.

The relevance of strategic management is all about strategy, and so it will require strategy. The manager must have the ability to be abstract in the theoretical world of business analysis and also to be practical in business strategy. Business managers should be able to look at the business analysis, so that can identify the opportunities that the analysis reveals. They should then be able to choose the opportunities that they will follow, so that they can then develop a unique strategy, which defines how the business will leverage the opportunities, so that he will become successful.

Also, strategic management is all about leadership and, as such, it will require leadership skills of the strategic manager. The manager should be a strong enough leader to be able to implement the business strategy that's been set out in the strategic-management arm of the business. These managers need to engage with the stakeholders of the company, both internally and externally, and be aware of the challenges that face strategic implementation. Additionally, they should be skilled enough leaders to overcome those challenges.

Training Required for Strategic Management

In theory, at least, it is possible to master all of the skills that strategic management requires, simply by gaining experience on the job. However, this is impractical and slow, at best. It is important to develop a training program for strategic management so that it is faster to attain the abilities that strategic management requires. This training should also be conducted under the guidance of a strategic management expert.

There are many institutions out there that offer courses in business development and management. When picking a college to go to, look for a course that is practical and takes you along the tricky path from business analysis to business strategy. That said, there are quite a few advantages to a good strategic management training program:

Understanding

When you take a good strategic management course, you gain an intimate understanding of the way the business environment today is both interconnected and global.

Development

When you take a good strategic management course, you get the opportunity to develop your strategic thinking skills, especially in relation to the way your business operates within its immediate and greater environment.

Identification

Good training in strategic management will give you the ability to quickly and easily identify opportunities for your company in its immediate as well as greater business environment.

Creation

A good strategic management course will teach you how to create strategies that are both effective and efficient in the leveraging of the opportunities which you identify for your business.

Management

As would be expected, good training in strategic management will give you the ability to manage both your team and the organization as a whole, as it moves forward to achieve the goals of your strategic plan.

The best kind of training in strategic management will give you the ability to work directly on the issues that affect your business. You will analyze the challenges faced by your business and provide support for your business as you develop a strategy for it. Good training will also provide you with the necessary leadership skills that will help you execute your business strategies.

The Long-Term Results of Good Strategic Management Training

When you seek the right kind of strategic management training, you will have what it takes to lead your company into the future, and to play a key role in that future. You will have the advantage of the necessary skills, thought processes, and the tools you need to unlock value for your company in the present and the future.

That doesn’t mean that this will be a smooth process, however. You should be ready to meet many challenges on your journey, some of which will be critical to your business. After all, the

contemporary business environment changes daily. At the end of the day, that's the point of strategic management - to be able to keep up with the constant pace of change in the business environment.

Mergers and Acquisitions

What is Mergers & Acquisitions?

Mergers and acquisitions (M&A) are defined as consolidation of companies. Differentiating the two terms, ***Mergers*** is the combination of two companies to form one, while ***Acquisitions*** is one company taken over by the other. M&A is one of the major aspects of corporate finance world. The reasoning behind M&A generally given is that two separate companies together create more value compared to being on an individual stand. With the objective of wealth maximization, companies keep evaluating different opportunities through the route of merger or acquisition.

Mergers & Acquisitions can take place:

• by purchasing assets

• by purchasing common shares

• by exchange of shares for assets

• by exchanging shares for shares

Types of Mergers and Acquisitions:

Merger or amalgamation may take two forms: merger through absorption or merger through consolidation. Mergers can also be classified into three types from an economic perspective depending on the business combinations, whether in the same industry or not, into horizontal (two firms are in the same industry), vertical (at different production stages or value chain) and conglomerate (unrelated industries). From a legal perspective, there are different types of mergers like short form merger, statutory merger, subsidiary merger and merger of equals.

Reasons for Mergers and Acquisitions:

• Financial synergy for lower cost of capital

• Improving company's performance and accelerate growth

• Economies of scale

• Diversification for higher growth products or markets

• To increase market share and positioning giving broader market access

• Strategic realignment and technological change

• Tax considerations

• Under valued target

• Diversification of risk

Principle behind any M&A is 2+2=5

There is always synergy value created by the joining or merger of two companies. The synergy value can be seen either through the Revenues (higher revenues), Expenses (lowering of expenses) or the cost of capital (lowering of overall cost of capital).

Three important considerations should be taken into account:

• The company must be willing to take the risk and vigilantly make investments to benefit fully from the merger as the competitors and the industry take heed quickly

• To reduce and diversify risk, multiple bets must be made, in order to narrow down to the one that will prove fruitful

• The management of the acquiring firm must learn to be resilient, patient and be able to adopt to the change owing to ever-changing business dynamics in the industry

Stages involved in any M&A:

Phase 1: Pre-acquisition review: this would include self assessment of the acquiring company with regards to the need for M&A, ascertain the valuation (undervalued is the key) and chalk out the growth plan through the target.

Phase 2: **Search and screen targets:** This would include searching for the possible apt takeover candidates. This process is mainly to scan for a good strategic fit for the acquiring company.

Phase 3: **Investigate and valuation of the target:** Once the appropriate company is shortlisted through primary screening, detailed analysis of the target company has to be done. This is also referred to as due diligence.

Phase 4: Acquire the target through negotiations: Once the target company is selected, the next step is to start negotiations to come to consensus for a negotiated merger or a bear hug. This brings both the companies to agree mutually to the deal for the long term working of the M&A.

Phase 5:Post merger integration*:* If all the above steps fall in place, there is a formal announcement of the agreement of merger by both the participating companies.

Reasons for the failure of M&A – Analyzed during the stages of M&A:

Poor strategic fit: Wide difference in objectives and strategies of the company

Poorly managed Integration: Integration is often poorly managed without planning and design. This leads to failure of implementation

Incomplete due diligence: Inadequate due diligence can lead to failure of M&A as it is the crux of the entire strategy

Overly optimistic: Too optimistic projections about the target company leads to bad decisions and failure of the M&A

Example: Breakdown in merger discussions between IBM and Sun Microsystems happened due to disagreement over price and other terms.

Recent Mergers and Acquisitions

Acquirer	Target Company	Deal Size	Comments
Flipkart	Myntra	USD300mn	Acquisition led to scripting of largest ecommerce stories
Asian Paints	Ess Ess bathroom products	undisclosed	to be onestop provider in home décor space
RIL	Network 18 Media & Investments	Rs4000cr	78% percent shares were taken over by RIL
Merck	Sigma	USD17bn	Acquisition to boost lab supply business of Merck
Sun Pharma	Ranbaxy	USD4bn	increase presence in global and domestic markets
TCS	CMC		merger to consolidate IT business
Tata Power	PT Arutmin Indonesia	Rs 47.4bn	Purchased 30% stake
Groupe Lactalis	Tirumala Milk	USD275mn	lactalis entry into India
CSP CX	Aditya Birla Minacs	USD260mn	Aditya Birla's exit from IT industry
Thomas Cook	Sterling India	Rs 870cr	Entry into hospitality business
Yahoo	Bookpad	USD15mn	First acquisition made by Yahoo
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Diversification

Definition: Diversification can be understood as the corporate strategy that a company implements to increase the market share and sales volume by introducing new products in new markets or industry, which is distinct from its core business.

Simply put, diversification refers to the expansion of business by entering into a completely new segment or investing in a business which is external to the scope of the company's existing product line. Businesses use this strategy for managing risk by potential threats during the economic slowdown.

It is a part of Ansoff's Product/Market grid:

Types of Diversification

1. **Vertically Integrated Diversification**: The form of diversification in which the firm intends to enter in the business which is associated with the firm's present business. In this way, the firm stays in the same business and moves ahead or reverse in the chain and introduces new product so as to enter the new business for the firm.

- **Forward Integration**: It is a kind of vertically integrated diversification, wherein the firm decides to move ahead in the value chain that is directly related to the firm's existing business, so as to ease the distribution process.
- **Backward Integration**: In this type of integration, the firm opts to move backwards in the value chain so as to create an effective supply of the goods by expanding the business and entering the business of suppliers.

Horizontally Integrated Diversification: In horizontal diversification, the firm acquires one or more than one businesses that are engaged in the similar business and at the equivalent level of production-marketing chain to enter into complementary goods, or taking over competitor's products.

- **Related Diversification**: When the new business has some sort of connection with the existing business then it is known as related diversification. It includes the exchange of business assets by exploiting marketing skills, manufacturing skills — economies of scale, brand name, research and development, etc. **Example**: A cloth manufacturing firm enters into the distribution of clothes.
- **Unrelated Diversification**: When the new business has no relation to the value chain activities of the company. It includes investing in new product portfolios, concentrate on multiple products, minimization of risk by operating in various product markets, implementation of new technologies. **Example**: An FMCG company enters into the textile industry.

Concentric Diversification: It is similar to related diversification, wherein the new business entered into by the firm is associated with the existing business by way of process, technology or

market. The newly entered product is a spin-off from the already existing facilities. Hence, there are advantages of synergy with the existing operations.

Conglomerate Diversification: The conglomerate diversification is similar to unrelated diversification, there is no relationship between the new business or product and the existing business or product in any way.

Firm's use diversification strategy to reduce risk, use surplus cash, build corporate brand equity, increase customer base, exploit new opportunities, effective capital utilization, build shareholder's wealth, access to the new market, etc.

Joint Venture

Definition: Joint Venture can be described as a business arrangement, wherein two or more independent firms come together to form a legally independent undertaking, for a stipulated period, to fulfil a specific purpose such as accomplishing a task, activity or project. In other words, it is a **temporary partnership, established for a definite purpose**, which may or may not uses a specific firm name.

For example, Maruti Ltd. of India and Suzuki Ltd. of Japan come together to set up Maruti Suzuki India Ltd.

The firms joining hands in a joint venture are called **Co-venturers**, which can be a private company, government company or foreign company. The co-venturers come to a contractual agreement for carrying out an economic activity, which has **shared ownership and control**. They contribute capital, pooling the financial, physical, intellectual and managerial resources, participating in the operations and sharing the risks and returns in the predetermined ratio.

Salient Features of Joint Venture

1. **Agreement**: Two or more firms come to an agreement, to undertake a business, for a definite purpose and are bound by it.
2. **Joint Control**: There exist a joint control of the co-venturers over business assets, operations, administration and even the venture.
3. **Pooling of resources and expertise**: Firms pool their resources like capital, manpower, technical know-how, and expertise, which helps in large-scale production.
4. **Sharing of profit and loss**: The co-venturers agree to share the profits and losses of the business in an agreed ratio. The computation of the profit and loss is usually done at the end of the venture, however, when it continues for the long duration, the profit and loss is calculated annually.
5. **Access to advanced technology**: By entering into joint venture firms get access to various techniques of production, marketing and doing business, which decreases the overall cost and also improves quality.
6. **Dissolution**: Once the term or purpose of the joint venture is complete, the agreement comes to an end, and the accounts of the coventurers, are settled, as and when it is dissolved.

The co-venturers are free to carry on their own business, unless otherwise provided in the joint venture agreement, during the life of the venture.

Objectives of Joint Venture

- To enter foreign market and even new or emerging market.
- To reduce the risk factor for heavy investment.
- To make optimum utilisation of resources.
- To gain economies of scale.
- To achieve synergy.

Joint ventures are primarily formed for construction of dams and roads, film production, buying and selling of goods etc.

The type of joint venture is based on the various factors like, the purpose for which it is formed, number of firms involved and the term for which it is formed.

Possibilities in a Joint Venture

A joint venture can be very flexible which can be in context to the requirements of the organization. The agreement between the companies should have detailed terms and conditions with respect to the activities that will be carried by them. This aids in clarification and don't allow any ambiguity between the stakeholders. The agreement also helps to designate the actual scope of work which either of parties has to conduct.

Two organizations of different countries can also undergo a Joint Venture to conduct a business. In this case, the directives issued by the respective governments have to be followed before entering into any kind of Joint Venture. These norms help the governments to keep a check on the activities of the organizations and ensure a legal activity is conducted by the organizations in Joint Venture.

(Source: globalcompliancenews)

Characteristics of a Joint Venture

1. Creates Synergy

A joint venture is entered between two or more parties to extract the qualities of each other. One company may possess a special characteristic which another company might lack with. Similarly, the other company has some advantage which another company cannot achieve. These two companies can enter into a joint venture to generate synergies between them for a greater good. These companies can work on economies of large scale to give cost advantage.

2. Risk and Rewards can be Shared

In a typical joint venture agreement between two or more organization, may be of the same country or different countries, there are many diversifications in culture, technology, geographical advantage and disadvantage, target audience and many more factors to overcome. So the risks and rewards pertaining to the activity for which the joint venture is agreed upon can be shared between the parties as decided and entered into the legal agreement.

3. No Separate Laws

As for joint venture, there is no separate governing body which regulates the activities of the joint venture. Once they are into a corporate structure, then the Ministry of Corporate Affairs in association with Registrar of Companies keep a check on companies. Apart from that, there is no separate law for governing joint ventures.

Advantages of Joint Venture

1. Economies of Scale

Joint Venture helps the organizations to scale up with their limited capacity. The strength of one organization can be utilized by the other. This gives the competitive advantage to both the organizations to generate economies of scalability.

2. Access to New Markets and Distribution Networks

When one organization enters into joint venture with another organization, it opens a vast market which has a potential to grow and develop. For example, when an organization of United States of America enters into a joint venture with another organization based at India, then the company of United States has an advantage of accessing vast Indian markets with various variants of paying capacity and diversification of choice.

At the same time, the Indian company has the advantage to access the markets of the United States which is geographically scattered and has good paying capacity where the quality of the product is not compromised. Unique Indian products have big markets across the globe.

3. Innovation

Joint ventures give an added advantage to upgrading the products and services with respect to technology. Marketing can be done with various innovative platforms and technological up gradation helps in making good products at efficient cost. International companies can come up with new ideas and technology to reduce cost and provide better quality products.

4. Low Cost of Production

When two or more companies join hands together, the main motive is to provide the products at a most efficient price. And this can be done when the cost of production can be reduced or cost of services can be managed. A genuine joint venture aims at this only to provide best products and services to its consumers.

5. Brand Name

A separate brand name can be created for the Joint Venture. This helps in giving a distinctive look and recognition to the brand. When two parties enter into a joint venture, then goodwill of one company which is already established in the market can be utilized by another organization for gaining a competitive advantage over other players in the market.

For example, a big brand of Europe enters into a joint venture with an Indian company will give a synergic advantage as the brand is already established across the globe.

6. Access to Technology

Technology is an attractive reason for organizations to enter into a joint venture. Advanced technology with one organization to produce superior quality of products saves a lot of time, energy, and resources. Without the further investment of huge amount again to create a technology which is already in existence, the access to same technology can be done only when companies enter into joint venture and give a competitive advantage.