

Unit 4

Business Combinations and Associations

Business Combinations

According to Haney,

“To combine is simply to become one of the parts of a whole and a combination is merely a union of persons, to make a whole or group for the prosecution of some common purpose.”

When a voluntary association of firms is formed to achieve common goals and to enjoy the monopoly advantages, that sort of initiative is called business combination.

Objectives of Business Combinations-

1. Use of Idle working capital.
2. Use of latest technology.
3. Competing in International Market.
4. Research Work.
5. Reducing Competition.
6. Maintaining Selling Prices.
7. Vertical Mergers.

Types of Business Combinations-

Horizontal Combination

A horizontal combination comes into being when units carrying on the same trade or pursuing the same productive activity join together with a common end in view.

Example of horizontal combinations are;

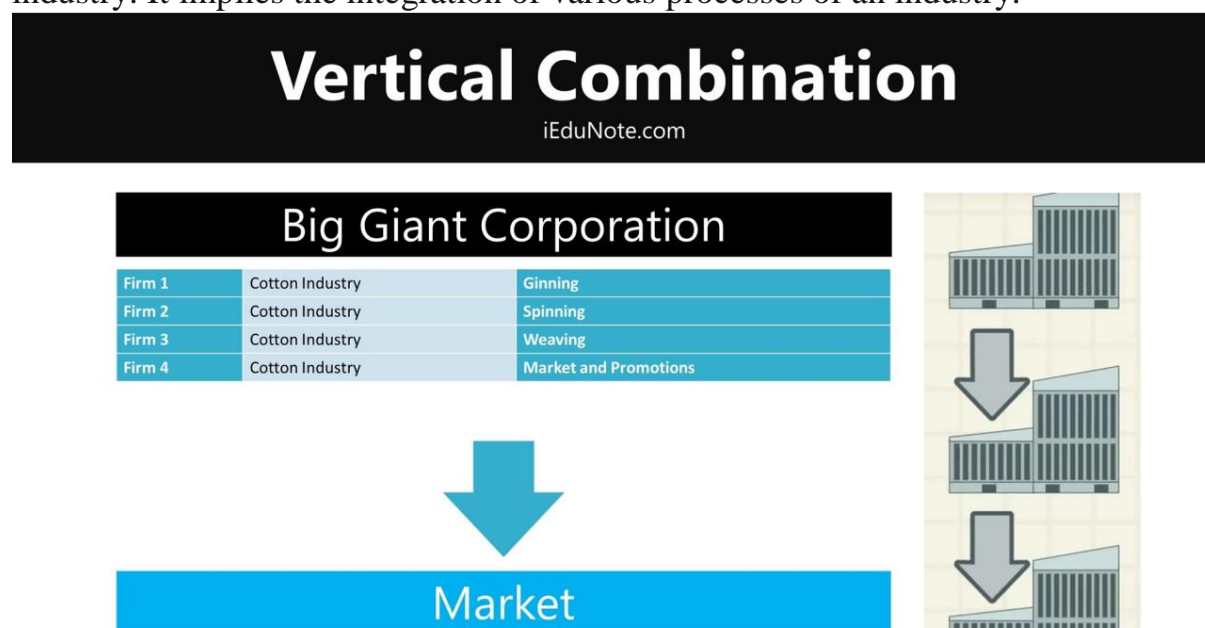
- Disney’s 2006 acquisition of Pixar.
- Facebook’s 2012 acquisition of Instagram.



The intensity of competition is naturally reduced when several units competing in the same line of business join together. The combining units can well take advantage of the various economies associated with large scale production by making common purchases, pooling resources for research, common advertising, etc.

Vertical Combinations

Vertical integration is the combination of firms in successive stages of the same industry. It implies the integration of various processes of an industry.



Vertical combinations are brought into existence with the following objects in view:

1. To eliminate the wasteful and unnecessary expenses involved in carrying on the connected processes separately.
2. To eliminate middlemen functioning between various units
3. To secure economies in marketing, advertising, and transport
4. To maintain control over the quality of raw materials and finished products.

Lateral Combination

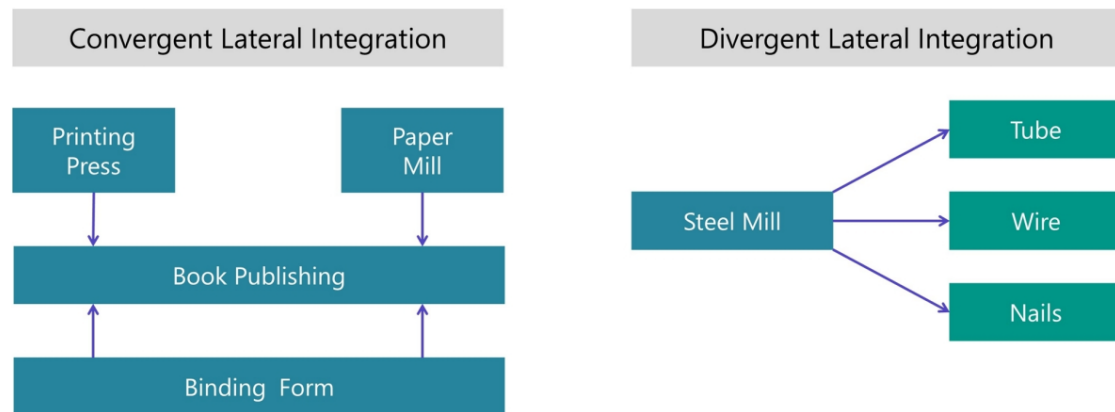
Lateral integration refers to the combination of those firms which manufacture different kinds of products though they are 'allied in some way.'

It can be of two kinds;

- i. Convergent lateral integration, and
- ii. Divergent lateral integration.

Lateral Combination

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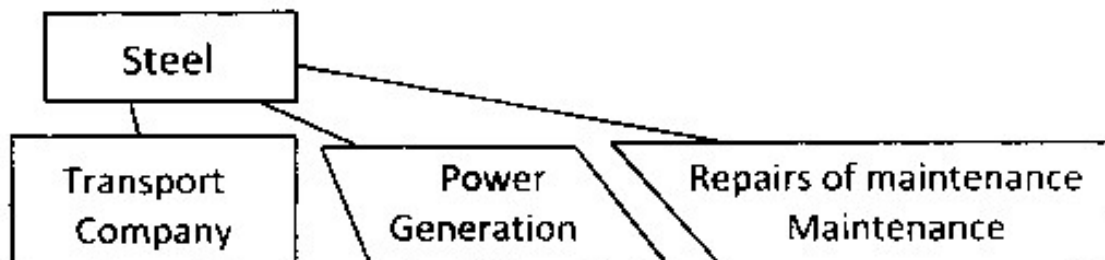


The convergent lateral combination comes into existence when different forms join together to supply goods and services to help the functioning of major undertakings.

Example: For instance, a book publishing may join with other units producing paper, doing printing work, and providing bookbinding services.

Diagonal Combination

It is also called 'Service' integration Diagonal integration comes into existence when a unit providing auxiliary goods and services to industry is combined with a unit engaged in the mainline of production, within the organization.

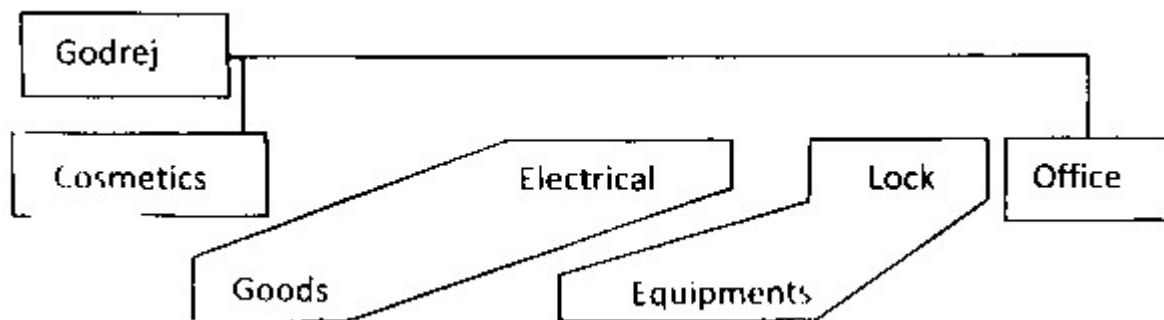


Example: For example, if an industrial enterprise combines with a transport company, a power station or a repairs and maintenance workshop, and makes these facilities available within the organization, it will be said to have effected diagonal integration.

Circular Combination

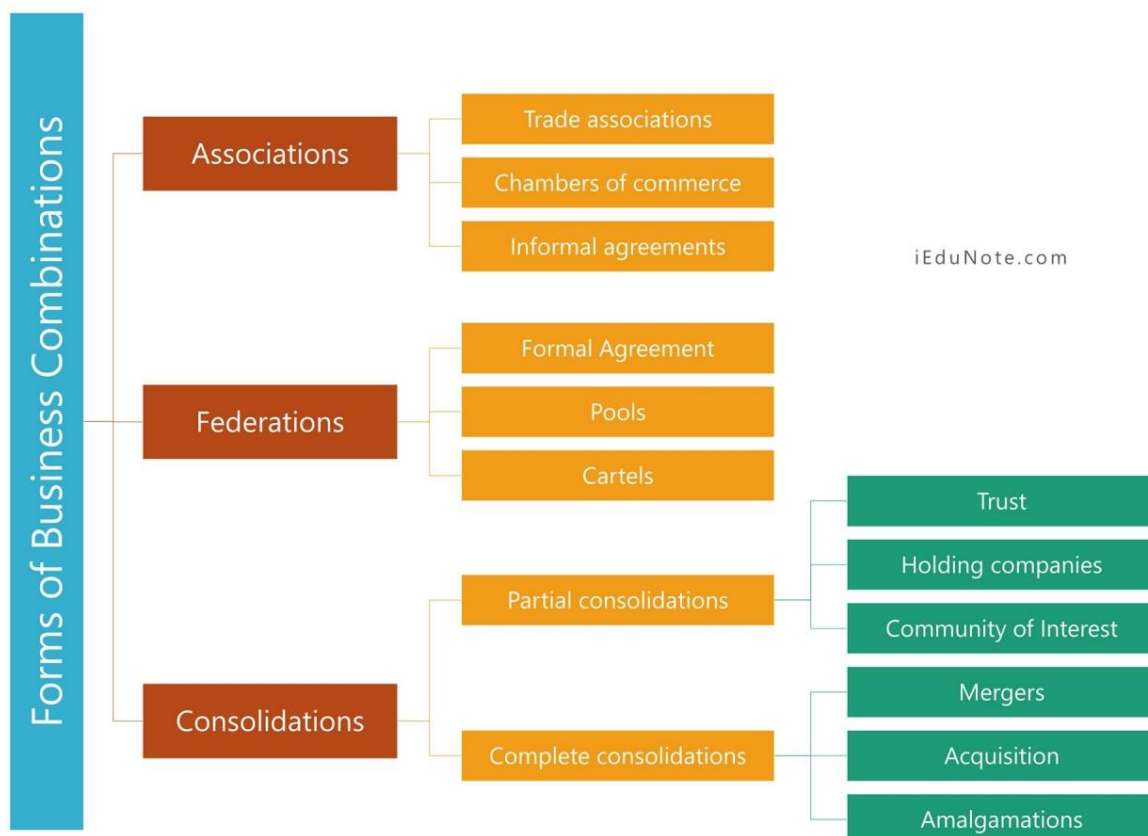
When firms belonging to different industries and producing altogether different products and combine under the banner of a central agency, it is called a mixed or circular combination.

This is affected to ensure smooth conduct of business operations by making timely availability of auxiliary services within the organization.



Example, For example, Godrej is engaged in the manufacturing of cosmetics, electrical goods, office equipment locks, etc. The object is to secure the benefits of large-scale operations arising out of co-operation.

Forms of Business Combinations



Associations

Business units combine to attain some purposes without surrendering their autonomy.

1. Trade Associations

Under trade association, business units engaged in a particular trade generally come together and discuss matters for the promotion of their economic and business interest.

They are generally formed on 'territory bases.

Such association is organized on a non-profit basis and is essentially educational. Sometimes the association may make representations to the government to safeguard the interests of a trade or an industry.

2. Chamber of Commerce

Chamber of commerce is voluntary associations of persons connected with commerce, trade, and industry.

These are formed with the object of promoting and protecting the interests of business and business communities in a region, country, or even in the world as a whole.

Their functions include promoting, supporting, or opposing legislative or other measures affecting the trade interests of the members, the collection and dissemination of information concerning trade, commerce, etc. to members.

They also undertake the function of referring disputes arising out of trade activities to arbitrations for settlement, performing such other things as may be conducive to the expansion of trade.

3. Informal Agreement

Informal agreements involve the exchange of promise among members regarding restriction of output, fixation of prices, etc. They are also referred to as Gentlemen's agreements.

It is only the moral duty of business units to keeping the promise.

Federations

Federations form of combination aims at rendering benefit to member-units for certain specific purposes under an agreement. Of such federations, 'Pools' and 'Cartels' are most notable.

1. Pools

It means that the members of the pooling agreement joint together to regulate the demand or supply of a product without surrendering their separate entities.

The agreement may relate to the regulation of output, reallocation of output, redistribution of income, etc.

Haney defines and industrial pools as a form of a business organization established through a federation of business units whose members seek a degree of control

over prices by combining some factors in the price making process in common aggregate and apportioning that aggregate among members.

2. Cartels

A pool having a common sales agency is known as Cartel. It is, thus, an output and profit pool.

The object of a cartel is to eliminate competition by forming a federation of producers that pool the output, fixes the price, and sells the product. The profits reaped by cartels are distributed amongst the members – units on a pre-determined basis.

Consolidations

The last form of combination is consolidation. This form involves the highest degree of integration. The consolidation may be of two types:

Partial Consolidation

1. Trusts

Trusts may be defined as a form of a business organization through temporary consolidation in which the shareholders of the constituent organizations under a trust agreement transfer a controlling amount of their stock to a board of trustees in exchange for a trusted certificate.

These trust certificates show their equitable interests in the income of the combinations.

Thus, trustees under the trust manage the affairs of the member concerns in the interests of the real owners, who are entitled to dividends based on trust certificates held by them.

2. Holding Companies

A holding company is a form of business organization that is created to combine industrial units by owning a controlling amount of their share capital. Controlled companies are referred to as subsidiary companies. The subsidiaries are independent and function in their name. But they are effectively managed by the holding company.

3. Community of Interests

A Community of interest may be defined as a form of business organization, in which without any formal central administration, the business policy of several companies is controlled by a group of common stockholders or directors.

,managerial integration, administrative integration, or financial integration.

Complete Consolidation

In complete consolidation, the combining units lose their entity.

It is defined as a form of business organization which is established by the outright purchase of the properties of the constituent organizations and the merging of such properties into single business units.

Complete consolidation may be of the following types:

1. Merger

A merger takes place when; two or more organizations merge, and their operations are absorbed by a new organization.

2. Acquisition

Acquisition refers to the process of acquiring a company at a price called the acquisition price or acquisition premium. The price is paid in terms of cash or acquiring the company's shares or both.

3. Amalgamation

Amalgamation is an arrangement where two or more companies consolidate their business to form a new firm or become a subsidiary of any one of the companies.

For practical purposes, the amalgamation and merger of the terms are used interchangeably.

Causes/Reasons for Business Combination

Although the business combination is primarily formed for achieving a common (single) goal, it may also be formed keeping in mind the following reasons:-

1. Elimination of Competition

Due to hard competition among the firms' rate of profit decreases. Some firms may suffer a loss also. So the industrialists feel pleasure in setting up a combination to avoid the competition.

2. To Solve Capital Problem

Small units of production face the problem of capital shortage. They cannot expand their businesses. As a result, small units may form a combination to overcome this problem.

3. To Achieve Economies

Some small units combine themselves to achieve the economies of large scale production advantage. It helps to purchase the raw materials at low prices and sell more product which would increase the profit

4. Effective Management

Generally, small units are unable to hire the services of experts and experienced managers. So small industrial units combine themselves to hire the services of effective management

5. Tariff Facilities

To compete with external firms, some industrial units combine themselves. The government also imposes heavy duties to protect domestic producers.

6. Uniform Policy

All the units adopt uniform policy due to business combinations. It regularizes the business activities of all the units.

7. Use of Technology

The business combination can use the latest technology and new methods of production because its sources are sufficient. In contrast, a single unit cannot do so.

8. To Face Crises

It is very difficult for the small industrial units to face crises in the days of inflation and deflation. So the small units combine themselves to face these problems easily.

9. Growth of Joint Stock Companies

The growth of Joint-stock companies has also made it possible for various industrial units to form combinations.

10. Status in Market

A big firm enjoys a higher status and respect than the smaller one. So, small business units prefer to combine themselves for higher status.

11. Demand and Supply Balance

A business combination is very useful in controlling the overproduction. It adjusts the supply according to the demand of the market. So overproduction cannot take place, and prices remain stable.

12. Transport and Communication Development Activities

It has made economic activities fast. Now there is close contact with a businessman with the others. So it has also contributed to the growth of combination.

13. Research Facilities

Small firms cannot set up the research department, while through business combination, these facilities can be enjoyed.

14. Economic Instability

In the case of economic and political instability, there is a chance of loss in every moment. To reduce the risk, small industrial units combine themselves.

Advantages of Business Combination

The advantages of a combination are controversial because the creation of monopoly and elimination of competition both are considered the merits and demerits of the combination.

Anyway, the following are the significant merits of combination:

1. Increase in Capital

The volume of capital may be increased by the formation of a combination. The members combine their resources to conduct large size business.

2. Elimination of Competition

By the formation of combination, unnecessary competition is eliminated, and member firms earn monopoly profit.

3. Saving in Expenses

Administrative production and distribution expenses reduce due to combination.

4. Controls over Production

The combination is very effective in controlling overproduction. It helps to adjust the supply according to the demand.

5. Large Scale Marketing

In the market, competition position is strong in bargaining. So it sells the product at a higher price.

6. Experts Services

A combination can acquire the services of experienced specialists. It increases the efficiency of the combination.

7. Research Work

A combination can spend money on research work, which is very important for the business. This research work reduces its cost and increases its profit.

8. Use of Modern Technology

A combination is capable of using the latest inventions and new methods of production as a consequence of a transfer of technology. It will increase profit.

9. Stability

A combination is a more stable form of business as compared to the individuals' units. The chances of dissolution are also less than others.

1. Division of Labor

The principle of division of labor is applied in combination, which increases the production efficiency of combination.

Disadvantages of Business Combination

Following are important disadvantages of combination:

1. Creation of Monopoly

It creates a monopoly that is harmful to the people in the long run.

2. The concentration of wealth

It concentrates the wealth in a few hands and divides society into few classes, such as rich, middle, and poor.

3. Reluctant to be Accepted

The combination is disliked by the people, and it is not acceptable.

4. Changes in Friction

The chances of friction among directors and officers are bright. They quarrel with, each other for their interest

5. No Personal Contact

It is not possible to maintain direct contact between employees, creditors, and shareholders, due to this business may suffer a loss.

6. Costly Management

A combination hires costly management, which increases the cost of production.

7. Over Capitalization

There is always a danger of over-capitalization in the combination. It is harmful to the combination.

8. Misuse of Funds

The directors of the company enjoy unlimited power and misuse the capital.

9. National Interest Ignored

Generally, the combinations ignore the national interest, and they involved in such activities that are against the national interest.

Business Associations-

Business associations are organisations that create a means for business involved in a given industry to interact to the mutual benefit of all concerned.

Funded by contributions made by the member companies, the industry association often functions as a means of enhancing the public image of the industry in general, providing a unified voice to lobby on matters of legislation that are anticipated to give an impact on the industry.

The business associations often provides the mechanism necessary to make the voice of the industry known in the law making process.

Rather than focusing on the wares of a particular company, business associations will engage in marketing and publicity campaigns that entice consumers to purchase and enjoy the goods produced by a particular industry.

Some of the major associations are as follows:-

Chambers of Commerce
and Industry in India:
Indian Chamber of
Commerce (ICC)

Federation of Indian
Chambers of Commerce
and Industry (FICCI)

Confederation of Indian
Industry (CII)

Associated Chambers of
Commerce and Industry
of India (ASSOCHAM)

All India Manufacturers
Organisation (AIMO)

Chamber of Commerce and Industry in India: Indian Chamber of Commerce (ICC)-

Founded in 1925, Indian Chamber of Commerce (ICC) is the leading and only National Chamber of Commerce having headquarter in Kolkata, and one of the most pro-active and forward-looking Chambers in the country today.

Set up by a group of pioneering industrialists led by Mr G D Birla, the Indian Chamber of Commerce was closely associated with the Indian Freedom Movement, as the first organised voice of indigenous Indian Industry. Several of the distinguished industry leaders in India, such as Mr B M Birla, Sir Ardeshir Dalal, Sir Badridas Goenka, Mr S P Jain, Lala Karam Chand Thapar, Mr Russi Mody, Mr Ashok Jain, Mr.Sanjiv Goenka, have led the ICC as its President.

The Indian Chamber of Commerce **headquartered in Kolkata**, over the last few years has truly emerged as a national Chamber of repute, with **full-fledged State Offices in New Delhi, Mumbai, Guwahati, Bhubaneshwar, Hyderabad, Agartala, Siliguri, Ranchi and Patna** functioning efficiently, and building meaningful synergies among Industry and Government by addressing strategic issues of national significance.

The ICC constituents are mainly large manufacturing units with operations all over the country and abroad. A large number of corporate bodies of India form the backbone of the organization. Leading industrial promotion organizations, banks & financial institutions, as well as governmental organizations, are members of the ICC and lend a diversified membership base for the Chamber. This apart, the ICC Secretariat runs a number of important national level industry associations, as members, around the country. Some of the important Industry Associations are the Indian Foundry

THE ICC INDIA IS ESTABLISHED TO FULFIL THE FOLLOWING:

- Participate in the promotion of the activities of International Chamber of Commerce.
- Facilitate commercial interaction among member countries.
- Evolve business view on all international matters relating to finance, industry, commerce and environment, among others.
- Encourage progress, promote peace and cordial relations among countries and their citizens by the cooperation of businessmen and organisations,
- Nominate members on the bodies of ICC to represent Indian Business interests.
- Do all such things as may be incidental or conducive to the proper representation of the commercial, industrial, financial, shipping and trading interests of India in the organisation and work at the international Chamber.

Services offered by the ICC-

1. Business Information Services at ICC.
2. ICC EXIM Initiative.
3. ICC Agri Business Initiative.
4. ICC Environment Management Centre.
5. ICC Council of Arbitration.
6. ICC Young Leaders Forum.

7. ICC North-East Initiative.
8. ICC Convention Facilities.
9. ICC Voice IT Initiatives.
10. ICC Calcutta Foundation.
11. Global MSME Forum.
12. ICC Informatics.

Federation of Indian Chambers of Commerce and Industry (FICCI)-

Established in 1927, FICCI is the largest and oldest apex business organisation in India. Its history is closely interwoven with India's struggle for independence, its industrialization, and its emergence as one of the most rapidly growing global economies.

A non-government, not-for-profit organisation, FICCI is the voice of India's business and industry. From influencing policy to encouraging debate, engaging with policy makers and civil society, FICCI articulates the views and concerns of industry. It serves its members from the Indian private and public corporate sectors and multinational companies, drawing its strength from diverse regional chambers of commerce and industry across states, reaching out to over 2,50,000 companies.

FICCI provides a platform for networking and consensus building within and across sectors and is the first port of call for Indian industry, policy makers and the international business community.

The main objectives of FICCI are as follows:

1. To promote healthy interface between the business community and the government.
2. To work for deregulation of the economy by persuading the government to lift administrative and other controls.
3. To create conditions for the globalisation of the Indian economy
4. To assist members in export promotion, modernisation, quality control, pollution, control, etc.
5. To assist government in achieving socio-economic goals of removing poverty and increasing employment opportunities.
6. To promote scientific research, import substitution, and fullest possible utilisation of national resources.

Role of FICCI-

1. Role in Policy Making.
2. Jointly works with similar Associations of Foreign countries.
3. Provides Guidance and Education.
4. Conducts various Programmes and Events.
5. Assistance to Government.
6. Assists its Members.
7. Invites and Arrange the Talks with Foreign Business Delegates.

Confederation of Indian Industry Association (CII)-

The Confederation of Indian Industry (CII) works to create and sustain an environment conducive to the development of India, partnering Industry, Government and civil society, through advisory and consultative processes.

CII is a non-government, not-for-profit, industry-led and industry-managed organization, with around 9000 members from the private as well as public sectors, including SMEs and MNCs, and an indirect membership of over 300,000 enterprises from 286 national and regional sectoral industry bodies. For more than 125 years, CII has been engaged in shaping India's development journey and works proactively on transforming Indian Industry's engagement in national development. CII charts change by working closely with Government on policy issues, interfacing with thought leaders, and

enhancing efficiency, competitiveness and business opportunities for industry through a range of specialized services and strategic global linkages. It also provides a platform for consensus-building and networking on key issues.

Extending its agenda beyond business, CII assists industry to identify and execute corporate citizenship programmes. Partnerships with civil society organizations carry forward corporate initiatives for integrated and inclusive development across diverse domains including affirmative action, livelihoods, diversity management, skill development, empowerment of women, and sustainable development, to name a few.

As India completes 75 years of Independence in 2022, it must position itself for global leadership with a long-term vision for India@100 in 2047. The role played by Indian industry will be central to the country's progress and success as a nation. CII, with the Theme for 2022-23 as Beyond India@75: Competitiveness, Growth, Sustainability, Internationalisation has prioritized 7 action points under these 4 sub-themes that will catalyze the journey of the country towards the vision of India@100.

With 62 offices, including 10 Centres of Excellence, in India, and 8 overseas offices in Australia, Egypt, Germany, Indonesia, Singapore, UAE, UK, and USA, as well as institutional partnerships with 350 counterpart organizations in 133 countries, CII serves as a reference point for Indian industry and the international business community.

Objectives of CII-

1. To identify and strengthen industry's role in the economic development of the country
2. To act as a catalyst in bringing about the growth and development of Indian Industry
3. To reinforce industry's commitment to society
4. To provide up-to-date information and data to industry and government
5. To create awareness and support industry's efforts on quality, environment, energy management, and consumer protection
6. To identify and address the special needs of the small sector to make it more competitive
7. To promote cooperation with counterpart organisations
8. To work towards the globalisation of Indian industry and integration into the world economy

Associated Chambers of Commerce and Industry of India (ASSOCHAM)-

The Associated Chambers of Commerce & Industry of India (ASSOCHAM) is the country's oldest apex chamber. It brings in actionable insights to strengthen the Indian ecosystem, leveraging its network of more than 4, 50,000 members, of which MSMEs represent a large segment. With a strong presence in states, and key cities globally, ASSOCHAM also has more than 400 associations, federations and regional chambers in its fold.

Aligned with the vision of creating a New India, ASSOCHAM works as a conduit between the industry and the Government. The Chamber is an agile and forwardlooking institution, leading various initiatives to enhance the global competitiveness of the Indian industry, while strengthening the domestic ecosystem.

With more than 100 national and regional sector councils, ASSOCHAM is an impactful representative of the Indian industry. These Councils are led by wellknown industry leaders, academicians, economists and independent professionals. The Chamber focuses on aligning critical needs and interests of the industry with the growth aspirations of the nation.

ASSOCHAM is driving four strategic priorities - Sustainability, Empowerment, Entrepreneurship and Digitisation. The Chamber believes that affirmative action in these areas would help drive an inclusive and sustainable socio-economic growth for the country.

ASSOCHAM is working hand in hand with the government, regulators and national and international think tanks to contribute to the policy making process and share vital feedback on implementation of decisions of far-reaching consequences. In line with its focus on being future-ready, the Chamber is building a strong network of knowledge architects. Thus, ASSOCHAM is all set to redefine the dynamics of growth and development in the technology-driven 'Knowledge-Based Economy'. The Chamber aims to empower stakeholders in the Indian economy by inculcating knowledge that will be the catalyst of growth in the dynamic global environment.

The Chamber also supports civil society through citizenship programmes, to drive inclusive development. ASSOCHAM's member network leads initiatives in various segments such as empowerment, healthcare, education and skilling, hygiene, affirmative action, road safety, livelihood, life skills, sustainability, to name a few.

All India Manufacturers Organisation (AIMO)-

AIMO was founded by Bharat Ratna Sir. M. Visvesvaraya in 1941. The organization has established itself as a body committed to Industrial progress with the motto "Prosperity through Industry". AIMO has its headquarters in Mumbai and AIMO has numerous State and Regional level boards elected annually. AIMO has Secretariats at the headquarters and also multiple State Boards.

Traditionally AIMO members have been from Small, Medium and Large scale industries from all over the country with diverse interests such as engineering, chemicals, pharmaceuticals, food processing and services. Recently we have seen a surge in interest from the Start up and New Age Entrepreneurs of the country as they believe that AIMO is a credible support and a genuine voice for their concerns at the Policy level.

The purpose of AIMO is to encourage dialogue and partnership among various stakeholders of the MSME ecosystem for promoting innovation and knowledge sharing on MSME related issues. AIMO also aims to bridge the last mile connectivity between the Government and the MSME's towards the implementation of the numerous schemes, AIMO has a national footprint of Micro, Small & Medium Enterprises (MSME's) and the MSMEs in the Services Sector which is the most vibrant and dynamic sector promising high growth potential for the Indian economy.