

Course Name: Business Fundamentals for Entrepreneurs – Part 1 – Internal Operations

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Week – 01

Lecture – 02

Week 1 Module 2 Part 1

Namaskar. I am Prof. Devdip Purkayastha from the Indian Institute of Technology, Bombay. Welcome to my course, Business Fundamentals for Entrepreneurs, Part 1, Internal Operations of a Company. Today is the second module, and the name of the module is Company and Structures. But before I get into the module itself, let me just explain a little bit about the course discussion and how does today's module fit into the overall flow.

In the first module, I shared an overall perspective of business. But you cannot do a business without a business structure and the most popular structure to do a business is a company. So today I will share an overview of companies, how they operate, how they are structured and different kinds of companies. In the next module, I talk about how companies set their vision, mission, goals, strategies and plans and how they create a high-performance culture.

After that, I will get into the operating modules. I will start with how companies innovate and create new products. Then how do they take the new product and do mass manufacturing and control the quality. Then I will talk about how companies account for their sales, their revenues, their profits, their cash. And then is a very important session on leadership.

Whether you are an employee or an aspiring entrepreneur, you need to develop leadership traits. So, what is leadership, and how do you manage a large organization? My last session will be on how good companies take care of the environment and society and how they are well governed. After this, you can do my course, Business Fundamentals for Entrepreneurs Part II, which talks about the external operations. And in that course, I will cover sales, marketing, retail distribution, supply chain, everything that is outside the company. So that is how the structure is.

So, let us get into today's module, which is company and structures. Every module in this course will have six topics. There will also be two reflection points in every module. So you can spend a little bit of time thinking, absorbing and above all writing down what you have learned, applied to your own business or to your own aspirations and plans. And, of course, there will be one assignment.

So, every module will have six topics, two reflection points and one assignment. Today's topics are what is a company? How did they start? What are the characteristics of a company? What are the governing laws for a company? What are the different types of companies? You will see that there are many different types, some legal and some structural. And then what is a conglomerate, which is a collection of companies under one structure? So let us start with the first topic: what is a company? But before I get to the definition (please note) companies evolved about 1,000 years ago. Before that, for thousands of years, individual people traded with individual people. They produced rice and maybe they traded that for wood.

They cut wood and maybe traded them for food. Sometimes they travel from one country to another country carrying the products. But they are all individual traders, which is not scalable. So about a thousand years back, a structure started coming up called a company and you can see at the bottom of the slide how it originated as an old French term called company in 12th century. And then over the next thousand years, till today, they have taken off and they have taken on the shape and size that you see today.

So, what is a company then? First of all, a company is a legal unit, which means it is not a physical unit. It is not a plant and it is not a factory. It is not a shop and it is not a person. It is not you and me. It is a legal entity, which I will talk more about later on.

A legal entity created by a voluntary association of people. So some of you can form a company voluntarily. Companies can also create a new company amongst themselves. So, two companies can create a third company. And every company will have a common objective and a common purpose of what they are trying to do.

And they have declared it when they form to the government. And there are frameworks for that called memorandum of understanding and articles of association, etc. So that is what a company is. It is a legal entity. So, what are the characteristics of this legal entity called a company? First, it has to be a voluntary association.

Nobody can force you to form a company. You can form a company. You can leave a company as an order. So it is voluntary. Secondly, it is an association, which means there has to be legal structure and some documentation in the forming of a company.

And there are some other aspects of a voluntary association. First, a company has limited liability. Let me explain that. So when you are trading as a person with another person, and if you have a debt and you cannot repay that debt, your liability is 100% of the debt. And if you don't have money, you may have to sell your property or your belongings to settle that debt, which means your liability is unlimited.

But if you are a part owner of a company, your liability is limited to your stake in the business. So if you have bought shares in a company for 1,000 rupees and the company dies, your loss, your liability will be to the extent of the shares that you own, maybe 1,000

rupees. So it is limited. There is also a limitation of action. So, companies cannot do whatever they want to do.

They have to abide by whatever they have declared as the purpose, as the memorandum, as the articles of association. So it is of limited purpose, limited action. Companies have perpetual succession, which means that a company doesn't cease to exist whenever a person leaves or a person comes in. 5% may form a company, they may sell their shares and go away, and 5 new persons may come in. But the company will continue.

Our owner may die, but the company may not die. Separate management basically means that the people who own the company may not run the company. So if you bought shares in the share market, you are a part owner of that company, but you are not managing that company. The company will have a separate management. Termination of company also has to be in a formal process, and it will not be just because people have left.

There is a formal legal process with which you end the life of a company. So this is what voluntary association characteristics mean. As I said, a company is an artificial person created by a law. What does it mean? Which means it's not a citizen. You and I may be the citizens of a country.

A company is not. It cannot vote. It can be an Indian company, but it's not an Indian citizen, and it cannot vote in Indian elections. It's a separate legal entity. You may have two companies.

You may own two companies. Both the companies are separate. They are separate legal entities. You can transfer shares in a company. So if you form a company, you can sell the shares of your company to me, and then I become an owner or part owner.

It allows for separate property. If an owner, such as you, owns a piece of land, it doesn't become the company land. And if a company, the legal entity, buys the land, it is not your land. The properties are separate. Because the company is a legal entity, it can actually sue another legal entity, another company, or it could sue a person. And it could also be sued, which means a case can be brought into a court of law by a company for a company.

It also has contractual rights, which means that a company can enter into a contract. Since the company is a legal entity and an artificial entity, it cannot physically sign a contract. But the managers who are running the company can sign a contract on behalf of a company. So that's what it means when I say that a company is an artificial person created by law. Now, what are the other characteristics of a company? First of all, all companies have a defined organization.

So there will be a senior manager, and you will hear terms like managing director, director, chief executive officer. There are senior managers, a vice president, head of sales, head of marketing. They're all senior managers, and they are defined in a company. Then you've got middle managers, and you'll hear terms such as regional manager of North India region, or a factory head, or HR recruitment head.

These are probably middle managers. And then you have project leads, team leads who are working on specific projects, specific geographics, specific parts of an assembly line, or a specific part of a finance function. They're junior managers or team leads. And there are many people who are the frontline employees who are directly doing the work. They may be in sales function doing selling, finance function doing accounting. They may be assembling product in a factory.

So, these are the frontline employees. The characteristic of a company means that they have a defined organization. Because they have a defined organization, they also have a defined supervisory structure, which means there's always a boss and there's a subordinate. So, a vice president of marketing may report to the CEO or the managing director. And a general manager may report to a vice president. And a junior manager may report to a senior manager.

Why is this needed? It's not just about supervision, because supervisory staff, supervisory manager, supervisory structure allows for three things. First, everybody cannot decide, and everybody cannot do. So it clearly differentiates between who is defining the work to be done and who is doing the work. Second, for improvement, you also have to have coaching and training. So typically a supervisor is a more senior person who supervises but also coaches a junior person.

And thirdly, you have to evaluate the person of the junior person. So a supervisor will typically supervise and also evaluate the junior person. So, that is a supervisory structure. And next time you apply for a job or you look up or you meet someone, a company employee, you can pay some more attention to figuring out where that person fits into the supervisory structure. What are the other characteristics? In a company, along with the structure, roles and responsibilities are also clearly defined.

So, the company leadership, which means the managing director, the directors, the executive directors are called the company leaders and they are responsible for defining the long-term plans, the vision, the mission, the strategy of a company, which I will talk in my next module. The department heads, the head of marketing, head of sales, head of finance, head of HR, don't work at a company level but define the work, monitor the work, recruit the people, train the people in that function or the division or the geography. And if you are a global multinational, you could have global leadership, but then you could also have India leadership, Canadian leadership, or Singapore leadership, but they are responsible for their own geographics. So that's what a departmental or divisional role is. And then you have implementation, planning, and monitoring, which means what will I do today? What will I do this week? What will I do this month? What will I do this year? So that's about implementation.

Step by step, in sales, which is my customer base? In marketing, how do I develop my advertising campaign? In finance, where do I raise my money from? These are kind of implementation planning. And then there are the implementation roles. Someone who goes

and sells, someone who goes and makes the product, someone who goes and delivers the service. So that's the other characteristic of a company, defined roles and responsibilities.

Functional expertise is very important. Remember, in my last module, I talked about how companies basically do very structured work repetitively, every day, every month, every week, every year. And if they are producing a product, there are activities like bringing in the raw material, making the product, sending out the finished goods, marketing, sales and after sales. There are also support activities like managing the IT infrastructure, managing offices, factories. Then there is the human resource aspect, recruiting people, training people, which I'll talk, I'll talk all of these in my later modules. Then there is the information technology and actually the buying of raw materials.

So, these are all the activities in a value chain of a company. I have so far talked about the vertical layers of a company, but company also has what is called functional specialization, which means there are functions and if you look at the chart, you will see functions, there are many functions. Function one may be marketing, function two may be finance, function three may be advertising, function four may be production, function five may be quality management, function six may be accounting or HR or external relations. So, there is also functional specialization in a company. Why is it needed? Because functional specialization allows you to be the best in class in that function, so keep developing your skills till you become better than others.

So, in a company structure, if you are a student and you are looking for a job, you can now, based on what I've said very clearly look at which function will you be, which is the horizontal line, the vertical lines and then the levels. You can see those dotted lines. So if you are a student, you can very quickly figure out where that job fits in that you are being offered. If you are an employee in an existing firm, now you can place yourself in the overall company structure, which level, which function and then if you want to build your career and you want to develop yourself, you can very quickly start planning. I am here in this function at this level, but I want to go to that function at that level.

I am in sales, I want to go to marketing. I am a junior manager, I want to become a senior manager, and therefore these are the skills that I need. So based on what I have said today in terms of company characteristics, you can plan your career and if you are a student, you can evaluate a job that you are applying for. If you are an entrepreneur, then your challenge is very different. Then, you don't have any of that pyramid except the top because you start at the top. But what I am sharing with you in this module will also help you if you are an entrepreneur and you have become the founder of a company, to plan your company.

How many levels should you have? How many functions should you have? And therefore whether you are a student, employee or an entrepreneur, an understanding of how companies work hopefully will help you. Let's move on. Let's look at some practical examples of companies around us. So, as you look at these slides and I talk to you, please think about the different kinds of companies that you see in your daily life. First, you will probably be buying groceries from a shop near to you.

If you are in India or many parts of Africa or Asia or Latin America, etc., you will probably buy your groceries from a small shop like this. This in India is called Kirana store. In other countries, it's called a mom and pop store. So you will be working with and buying from this kind of companies.

If it is beyond a certain size, there will still be a company because you have to register that company for paying your income tax and your goods and sales tax. But that company may be owned by the owner. It may be a single person who owns that shop, that store. So this is one kind of company. This is another kind of company and you see some people who are making products.

It's probably a mid-sized company which is manufacturing a product. And these small businesses may be having names which you are not aware of, but they will probably be supplying to a large company, a large automotive company, a large electronic company, a large company which makes phones or aeroplanes or cars or air conditioners. So you may know the name of the person of the company who is making the car. Still, please understand that behind the company that making the car which you are driving, there will be hundreds and thousands of smaller companies like this which are supplying components to the big company. These are all companies.

You will be banking and you get banking services. You can keep your money and earn an interest or you can take a loan. And there are many Indian banks, State Bank, Bank of Baroda, Punjab National Bank, etc., etc. The private sector banks, HDFC, ICICI, Axis, these are Indian banks.

There are also global banks, HSBC, Citibank and so on. So every country has banks which provide financial services and some banks operate in many countries. You may, God forbid, also fall sick at some times. You may go to a clinic to get a treatment or you go to a hospital if, God forbid, you are seriously unwell. That's also a company which is providing medical services. You will be travelling in buses or trains or aeroplanes and the company which is providing railway services, typically in India there may be Indian railways which is government owned or a bus service or an airline.

It could be an Indian airline like Air India or Indigo or it could be a foreign airline like British Airways or American Airlines or Singapore Airlines or Emirates or whatever. So these are providing transportation services. Then you must be working and buying services from online platforms. There are Indian ones and there are global ones and there are many in other countries.

So, it could be an e-commerce site. It could be where you're booking tickets for your travel. It could be where you're going to book, booking tickets for your cinema or an event. It could be a platform where you're ordering food from. So these are e-commerce sites, also called digital platforms or aggregator sites.

Then there are very special kinds of companies which do charitable work. So they raise donations, and they use that donation to go and do social work. These are called non-

governmental organizations or charitable organizations or not for profit organizations. I have personally worked and have had the privilege of working for a wonderful global non-governmental organization, a network of not for profit students, social entrepreneurs who are doing amazing work around the world. And the laws allow for creating a not-for-profit company which gives them some tax benefits as long as they're doing the social work that they've declared that they will do.

So, these are non-governmental organizations. So I've now shared with you different kinds of companies. Now I'd like for you to do a three minute reflection and typically during this three minute reflection I'd like you to write in your journal some of the questions I'm asking you. And if you keep doing this three minute reflections in every module, you'll have a journal by the end of the course which will then help you remember what you have learned in this course, in each of the modules, each of the topics. So this three minute module is about your thinking of a company which you are working for or which is probably a dream company that you'd like to work for.

So, think of that company. Think of what product or service that company offers to customers. Think of what that company is known for. Think about where is it based. Is it an Indian company? If it's in India, where is it? If it is outside of India, where is it based? Try to find out and reflect how is the company managed.

Try to find out a few names. The senior manager names, executive director, managing director, chief executive officer, vice president, president. See if you can find out from the net or think of someone you know in that company who is a middle manager, general manager, divisional manager, product manager, advertising manager, that kind of roles. And think of people that you know who are implementing, an analyst or a salesperson, a sales manager, territory sales manager. So, I'd like you to reflect and write down in your journal based on your own life and based on what you have learned in the modules so far.

Thank you.