

**E-Content for B.Com Part-I**  
**SUBJECT-BUSINESS ORGANISATION**  
**Paper-Subsidiary**

**Topic- Business Combinations**  
**(Types of Combinations)**

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The industrial Revolution paved the way for the development of large-scale business. The doctrine of free competition attracted a large number of producers into the business field. As such, competition became increasingly acute. The policy of price-cuts and economic warfare resulted in narrowing down of the profit margins. The industrial magnates, therefore, were compelled to think of ways and means, by which unhealthy and cut-throat competition could be eliminated. Co-operation through combining with others was considered to be the only way out of this economic crisis. This philosophy of co-operation became the seed for the growth of business combinations.

Business combinations are combinations formed by two or more business units, with a view to achieving certain common objectives (especially elimination of competition); such combinations ranging from loosest combination through associations to fastest combinations through complete consolidations.

### **Causes of business combinations**

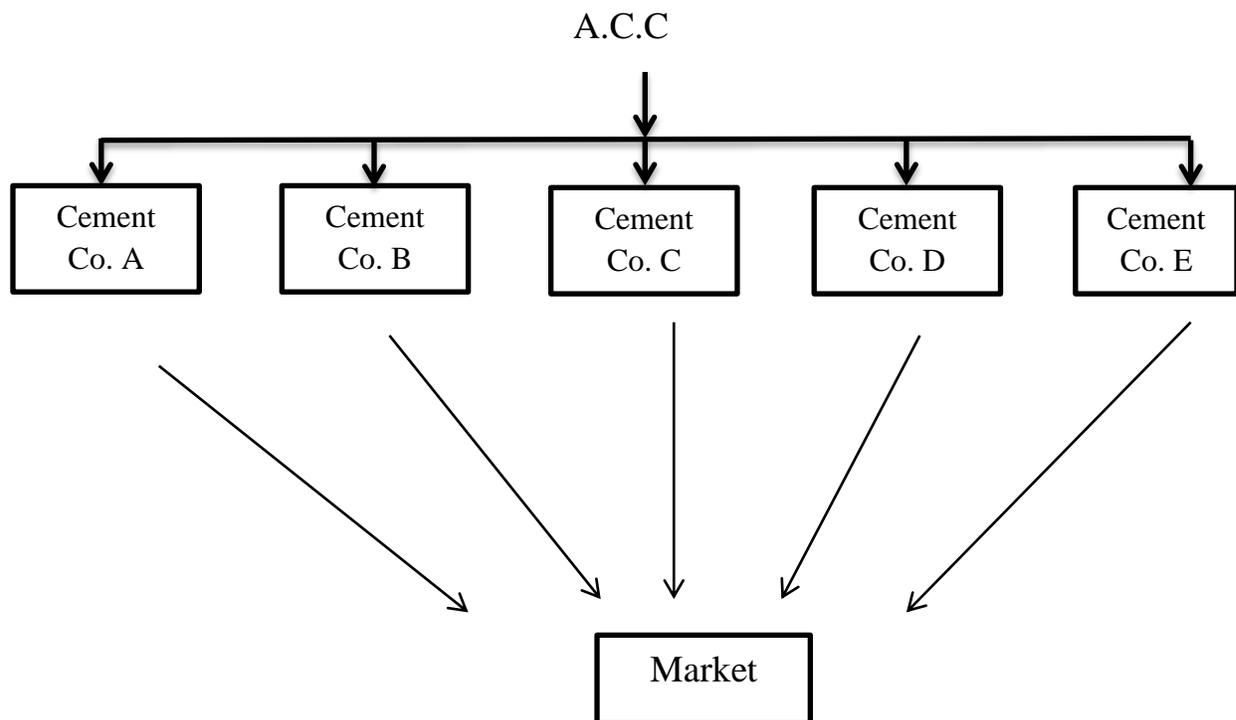
1. Wasteful competition.
2. Economies of large scale organization.
3. Desire for monopoly power.
4. Business cycles.
5. Joint stock companies.
6. Influence of tariffs.
7. Cult of the colossal (or Respect for bigness).
8. Individual organizing ability.

### **Types of Combinations**

1. Horizontal combinations
2. Vertical combinations
3. Circular combinations
4. Lateral or Allied combinations
5. Diagonal or Service combinations

## Horizontal combinations

The horizontal combination takes place when the units carrying on identical business activities join hands to achieve some common objectives. It is the result of horizontal integration which means that firms or units at the same stage of production or at the same level of activity in trade or commerce combine with each other with a view to eliminate the intensity of competition and to derive the economies of large scale business. The Sugar Syndicate, Associated Cement Companies (A.C.C) are horizontal combinations in India.



### Advantages

- Wasteful inter-firm competition is eliminated.
- Larger control over the market by combination will mean better price and more profit.
- The economies of large scale business are realized.
- The firms can obtain the equilibrium or balance in demand and supply in the market in estimating demand and controlling production.
- Standardization of product is possible.

## Disadvantages

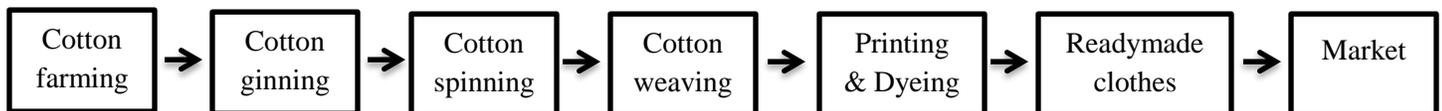
- Horizontal combinations lead towards monopolistic control in the market.
- They indulge in deliberate curtailment of output in order to raise the prices in the market.
- There may be diseconomies of management as the management of big combination is prove to be unwidely.

## **Vertical Combinations**

It is the combination of such firms which are inter-dependent for the supply of raw materials for the processing. The firms operate at the successive stages of same industry. It is also known as sequence or process combination. This type of combination takes place in an industry when a product passes through a number of processes. It is the result of integration of processes involved in the manufacture of a product. Such combinations are suited to industries possessing the following characteristics:

- (a) Where finished product of one unit becomes the raw material of another unit.
- (b) Where processes are complementary.
- (c) Where balanced production is necessary and some control over the supply of raw material is required to maintain certain standard of quality for finished product. For example, in textiles industry, management may integrate units engaged in the successive stages of cloth manufacture such as cotton ginning, spinning, weaving, painting and dyeing, marketing etc.

### Cotton Textiles



## Advantages

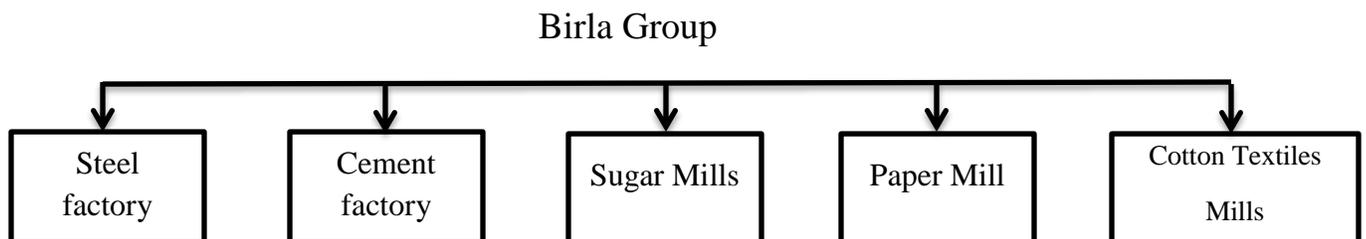
- Assurance of raw materials.
- Improvement in the quality of products.
- Economy in expenses.
- Protection against trade cycles.
- Increase in efficiency.
- Assurance of sale of manufactured goods.

## Disadvantages

- Limited utility.
- Economies of large scale production not possible.
- Mutual dependence.
- Less co-ordination.

## **Circular Combinations**

It is the integration of those units which are producing and marketing different types of goods and services and they want to have common administration. It is also known as mixed or complementary combination. This type of combination is achieved by inter-locked directorates or common boards of directors or common managing directors who provide administrative integration. The main cause for the growth of such combinations may be that of a firm having surplus funds cannot grow in a particular line and it may take the advantage of existing investment opportunities in other lines. Personal ambition of certain managements to become big may also be the cause for such combinations. In India, Tatas, Birlas, J.K Group, Dalimias etc. are good example of circular combinations.



## Advantages

- Economies of administrative integration.
- Entrepreneurs can grow without acquiring monopoly.

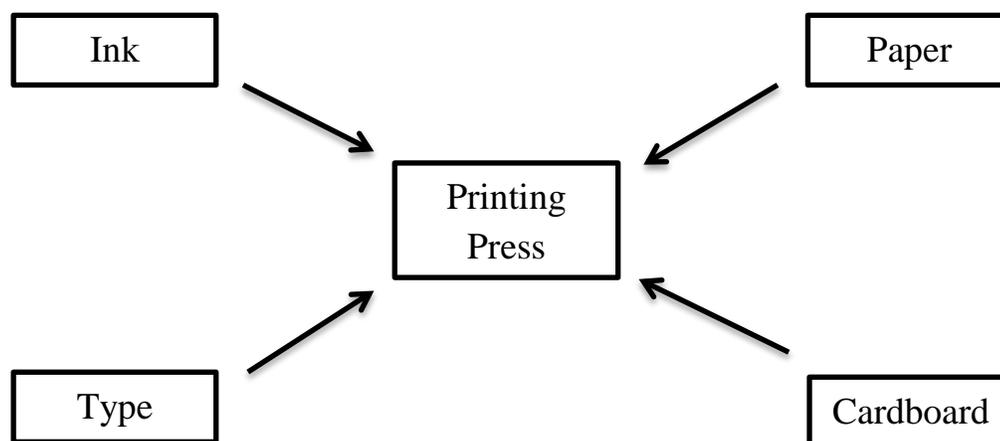
## Disadvantages

- Administrative integration may reduce cost up to a certain point beyond which diseconomies may set in.
- It results in the concentration of economic power in a few hands in the country. Unequal distribution of wealth and income may appear with all their social economic evils.

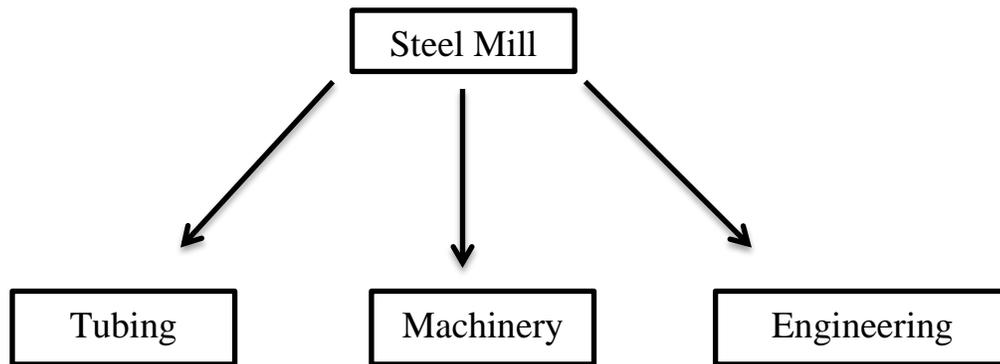
## **Lateral or Allied Combinations**

It is the combination of firms producing different types of those commodities but being allied in one way or the other. It may be convergent lateral combination or divergent lateral combination.

Convergent lateral combination refers to integration of those business units whose products form the allied components of main line of product. It is a form of material integration. For example, printing press unit may integrate with the units dealings in machinery, types, papers and ink. Different material of these units converges on the same product.



Divergent combination is brought about where firms producing different commodities but using the same raw material combine together. For example, a steel mill may supply steel to a number of allied concerns for the manufacture of variety of products, such as tubing, machinery, engineering goods etc.



### **Advantages**

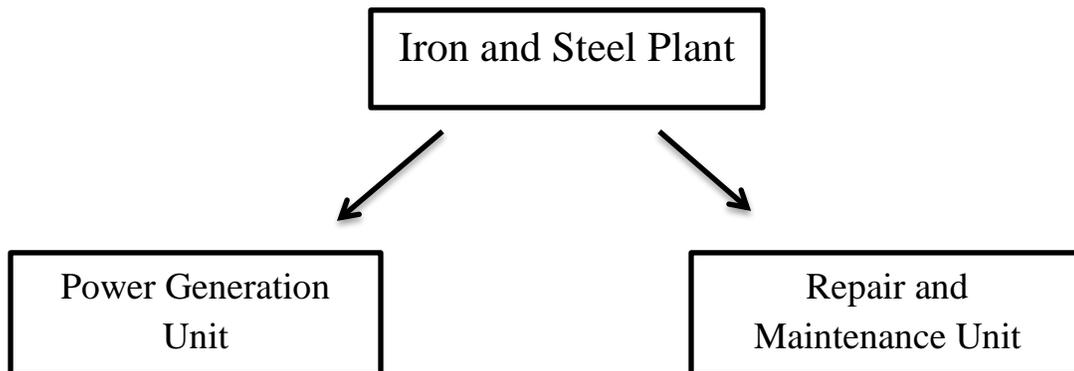
- Economies in management take place since the units can employ common managerial experts.
- Marketing costs are considerably reduced.
- Un-interrupted and regular supply of raw material is ensured.

### **Disadvantages**

- Such combinations become monopolies and therefore are anti-social.
- The output of constituent units is purposely restricted and they do not use full capacity because they produce only that quantity which gets consumed with the combinations.

## **Diagonal or Service Combinations**

It is the combination of main unit producing particular type of goods with the units which provide ancillary services, or supply services required to keep up the production. For example, an iron and steel company may require power and the same may be supplied by another unit and if both of them combine, it would be called diagonal combinations.



### **Advantages**

- It helps in achieving self-sufficiency in operations.
- It ensures regular and uninterrupted service to the manufacturing industry.
- Wastage of time due to breakdown is reduced to a great extent.
- It ensures services of the required quality and standards.

### **Disadvantages**

- It can increase competitiveness as more information of ongoing production is given
- It may consume time of the employees.

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