PART—I

ORGANISATION AND MANAGEMENT

1

Forms of Business Organisation

1.1. INTRODUCTION

In broad sense, business includes industry, commerce and trade. Its main aim is to increase wealth. Industry means a place where materials are extracted or converted into finished or semi-finished products. Trade means a process of buying and selling of commodities, while commerce relates to financial, transportation, insuring and allied activities. The form of organisation will be decided by various factors, such as :

1. Size and nature of the business to be started ;
2. Technical difficulties ;
3. Market conditions (i.e. competition and scope of the article in the market) ;
4. Capital required to start the business and the means to collect the funds ;
5. Limitations and restrictions put forth by the government (i.e. grant of loan, licence, foreign exchange and other such things).

Definitions of Business

Business may be defined as "an activity, in which different persons exchange something of value whether goods or service for mutual gain or profit."

It may also be defined as "an enterprise engaged in production and distribution of goods for sale in market or rendering services for a price."

Business Characteristics

(*i*) Business activities are directly or indirectly concerned with the transfer or exchange of goods and services for value.

(*ii*) Business consists of dealings in goods and services.

(*iii*) Business means exchange of goods and services undertaken continually or at least recurrently.

(*iv*) Business is a human activity directed towards the acquisition of wealth.

(*v*) Element of risk, that is possibility of loss arising out of the uncertainty that goes with the profit expected from a business activity.

Classification of Business

(*a*) **Industry.** This is a business activity which concerns itself with the production, processing or fabrication of products. The industries may be either of these 4 types : Extractive (fishing, mining, agriculture etc.). Genetic (breading farms, poultry farms, selling of horticulture plants etc.). Construction (buildings, bridges, roads, dams, canals etc.), and Manufacturing industries (like analytical, synthetic, processing and assembly line industries etc.)

(*b*) **Commerce.** Commerce is an activity whereby goods are transferred to those who need them.

(*c*) **Trade**

Objectives of Business

(*i*) *Organic Objectives.* To try for survival, and then to gain prestige and win recognition from the society and thus try to grow.

(*ii*) *Economic Objectives.* To earn as much profit as possible.

(*iii*) *Social Objectives.* Business must fulfill its obligations to society, by way of supply of quality goods, avoidance of profiteering and antisocial practices, and providing employment.

(*iv*) *Human Objectives.* These are (*a*) fair deal to employees, (*b*) development of human resources, (*c*) participation, and (*d*) job satisfaction.

(*v*) *National Objectives.* These are (*a*) ensuring social justice, (*b*) development of small enterprises, (*c*) production according to national priorities, (*d*) self sufficiency and export development and (*e*) development of skill of personnel.

1.2. TYPES OF BUSINESS ORGANISATIONS

Several types of business organisations are existing in order to satisfy various social, economic and human requirements. Following are the main types of business organisations :

(*A*) Private Sector :

1. Individual Ownership or Sole Proprietorship
2. Partnership Organisations
3. Joint Stock Companies
4. Co-operative Organisations
5. Joint Hindu Family Firm.

(*B*) Public Sector (State Ownership and Control) :

1. Departmental Organisations
2. Public Corporations (or Statutory Companies)
3. Government Companies.

(*C*) Joint Sector :

Ownership and control shared by private enterpreneur, state and public.

1.3. PRIVATE SECTOR ORGANISATIONS

1.3.1. Private Companies (Individual Ownership)

As the name suggests, such type of business is owned by one man. The businessman invests capital, employs labour and machines. This is the oldest and simplest form of business organisation. In such business owner supplies all the capital needed to run the organisation. He produces only with the help of his own land, capital and labour. Hence owner alone enjoys the profits and suffers the losses in his business. Therefore, he is the supreme authority to decide into different matters concerning to his business and has unlimited freedom of action within legal jurisdiction.

Overall control in single hand helps him in quick decision, efficient administation and working. In this type of organisation, owner must be anxious to obtain valuable advice and guidance from other sources.

In such organisations owner himself is responsible for all the liabilities. Hence creditor can collect the money even from the personal property. Therefore, to have this type of business it is not the money alone of the debtor that is necessary to start but also the zeal, enthusiasm, courage and faith of the person.

Applications. This form of organisation is most satisfactory in the following cases :

1. In small enterprises requiring small capital which can be spared by the one man (owner).
2. Where risk required is not too heavy. Because in this system risk involved is very high.
3. Where management by one man is possible.

Advantages.

Following are the advantages of this form of organisation :

1. Such individual enterprises can easily be formed and simple to run and at the same time owner is free from all legal restrictions.
2. His (owner's) interest, care and efficiency directly effects the profit in the business. Hence efforts and rewards are directly related.
3. In this system owner himself is in touch with customers and hence can know their likings.
4. Since it is supervised by the proprietor himself, the overheads are very less and products can be sold cheaply.
5. Most of the business have their monoploy because of certain secrecy in their functioning. In this form of organisation such secret functions are performed by the owner himself and he does not disclose it to any body else. Therefore, he has the greatest possibility of running business well. In other forms of organisation, there are little chances of keeping such activities secret for a longer period.
6. It offers full freedom for work and hence such persons who do not want to serve under or with any body can get the chance to work independently and can show their talent. Thus they can enjoy free life.
7. As he has not to seek direction for any decision to be taken, he can act promptly. If at any time he feels some benefit in doing some work, he can act quickly without any body's advice and can avail the benefit.

Disadvantages.

This type of organisation has the following disadvantages :

1. Amount of capital that can be invested is limited, therefore, modern factory cannot be run with this system of organisation.
2. Owner cannot be the master of all techniques like management, sales, engineering processes etc. Hence work suffers.
3. Due to unlimited liability owner cannot take risk to start a big industry.

1.3.2. Partnership Organisations

Some of the above mentioned drawbacks of private companies are removed in the partnership organisation upto some extent.

Partnership is the relationship between the persons desirous of starting a business and they combine or invite together to incease their resources, i.e. capital, labour, skill and ability. The success of partnership depends upon mutual confidence, understanding, co-operation and adjustment of the members to accommodate and appreciate each other's view. Each of the partner should realise that it is his business and he should work hard to earn greater and greater profit.

Partnership has been defined by the Indian Partnership Act 1932. As "the relationship between persons who have agreed to share profit of a business concern carried on by all or any one of them acting for all". When two and upto twenty persons in case of nonbanking business and upto ten in case of banking business enter into a contract to carry on a business allowed by law, with the object of making profit, a partnership is said to be formed.

Every partner is liable and responsible for the acts of other partners in that business. To avoid any complication at a later stage the constitution of the company may be written in an agreement form. For the best partnership the number of partners should not be more than six, the lesser the better. It generally happens that persons with a good idea and experience of a business make partnership with moneyed people. Thus money and knowledge both are combined to earn profit.

Advantages.

This type of organisation has the following important advantages :

1. It can be formed without much legal formalities and without heavy expenditure of organisation and stamp duty.
2. This type of organisation enjoys more freedom and is not subject to strict government supervision.
3. Due to more number of owners the amount of capital that can be collected is more than that in the case of sole trade organisation.
4. In this type of organisation persons possessing different abilities and skills are chosen and brought together. Therefore, the managerial ability of the firm as a whole would be much greater than in case of a sole trader.
5. The affairs of firm can easily be kept secret .

Disadvantages.

Following are the disadvantages or limitations of the partnership organisation:

1. Due to unlimited liability risk involved is more.
2. After the death or retirement of any one partner, the partnership organisation may come to an end.
3. It can raise much less capital in comparison to the joint stock company. It is, therefore, unsuitable for modern industries, because they require huge capital and a large number of managerial abilities.
4. Sometimes, due to some misunderstanding, friction may arise between the partners, which effect adversely on the efficiency and expansion of business.
5. All the partners are jointly and severally liable for the acts of the partner, who is placed incharge of management. Thus sometimes mistakes of one partner may cause a big loss to all the partners.

In conclusion, though partnership firm can reduce the limitations of sole trade organisation to some extent, yet it has more or less all the limitations of a sole-trade organisation and, therefore, suffers the same fate.

Types of Partners

Members of this type of organisation may be associated in different ways and their extent of involvement may be also different, although their interest is common. These members can be classified in the following ways :

(*a*) *General Partners.* All the partners who are in the partnership known as general partners.

(*b*) *Active Partners.* These are those partners who take active part in the management and help in the formulation of policies. These are also known as working or managing partners.

(*c*) *Sleeping and Silent Partners.* Partners, who just invest money and do not take any part in the management are known as sleeping or silent partners. Such members after contributing their share of capital, wake up only either to share the profits or to liquidate the business.

(*d*) *Nominal Partners.* Partners, who do not invest money and do not take part in the management, but they lend their reputed name for the company's reputation are known as nominal partners. The nominal partners may, however, associate themselves only after ascertaining the soundness of the business.

(*e*) *Secret Partners.* These partners take part in the management secretly but nowhere their names appear.

(*f*) *Minor Partners.* A person who has not attained the age of 18 years and associated with the business is known as a minor partner. Such partner can be allowed only with the consent of other members. His liability is limited to investment only (i.e. limited liability).

Formation of Partnership

Partnership can be formed either verbally or by written agreement but to avoid the possibility of misunderstanding and further troubles which can arise at a later stage, it is desirable to enter into a written agreement. This written agreement is known as "Partnership Deed".

1.3.3. Joint Stock Companies

Limited financial resources and heavy burden of risk involved in both of the previous forms of organisation has led to the formation of joint stock companies. These have limited liability.

In this system capital is contributed by a large number of persons. It is voluntary association of individuals for profit, having a capital divided into transferable shares of different values.

The capital is raised by selling shares of different values. Persons who purchase the shares are called shareholders. The managing body known as "Board of Directors" is elected by these shareholders. The board of directors is responsible for policy making, important financial and technical decisions and efficient working of an enterprise.

In this form of organisation liability of a shareholder is limited to the extent of the amount of shares held by him and he is free from the responsibility of the debts and claims on the company beyond the value of shares. Because of this advantage all sections of people are encouraged to contribute for the company. These shares are transferable.

Characteristics of Joint Stock Company

Some of the important characteristics of joint stock company are :

1. A joint stock company can be created by registering or incorporating an association of persons under the Company Act.
2. A very stable existence.
3. A company has a separate legal existence as distinct from its members.
4. A company has a common seal and acts as its signature. It is affixed on all important legal documents and contracts.
5. There is a comlete separation of a ownership from management.
6. Liability of share holders is limited.
7. Lower tax liability.
8. Easy transferability of shares.
9. Risk of loss is widely distributed.
10. Large number of members.

Types of Joint Stock Companies

There are two main types of joint stock companies :

(*a*) Private Limited Company. (*b*) Public Limited Company.

(*a*) **Private Limited Company.** This type of company can be formed by two or more persons. The maximum number of membership is limited to 50. In this, transfer of shares is limited to members only and general public cannot be invited to subscribe the shares. Normally the members of such a company are friends and relatives.

A private limited company need not make the prospectus, accounts and other particulars open to the public. The members only are entitled to receive a copy of the balance sheet, and auditors' report. The government also does not interfere in the working of the company. In this system persons who want to take advantage of limited liability and at the same time to keep the business as private as possible, can subscribe.

(*b*) **Public Limited Company.** It is one whose membership is open to general public as its name indicates. The minimum number required to form such a company is seven, but there is no upper limit.

Such companies can advertise to offer its shares to general public through a prospectus. These public limited companies are subjected to greater control and supervision of the government. This control is necessary to protect the interest of the shareholders and the members of the public. Shares are transferable in part or full without requiring any prior approval. The affairs of the company are managed by an elected body, known as 'Board of Directors'. The number of members in the board of directors is limited to seven.

Liquidation

It becomes difficult to run the company if liability becomes much more than assets and when creditors press for payments of loan etc. At this time the company has to be dissolved or wind up. This is known as liquidation.

Liquidation may be compulsory or voluntary or under the supervision of court. If the resources do not permit the payment, then the assets of the company have to be sold and then the amount is paid to the creditors in proportion. If some amount is left after payments then it is distributed among the shareholders.

Amalgamation

An Amalgamation is a joining together of two business. It usually results in more efficient operation because of economics of large sales, administrative, and marketing etc.

Clearly both parties in a proposed amalgamation will have some existing assets and liabilities which could be set out in a balance sheet or statement of affairs at the date of amalgamation. The existing conditions may or may not be acceptable to the proposed partner. Usually some adjustments will be made to one or both of the balance sheets to take account of objections raised by the other party.

Raising Finance for Joint Stock Companies

Money is necessary to start and to keep the business running. It is also needed to meet expansion, replacement and alterations. The required capital is supplied by individuals, societies and associations. Funds can also be taken from banks, finance corporations etc., in the form of loan. Following are the sources from where money can be taken for an enterprise :

1. *Issue of Shares*. A portion of the money required for enterprise is collected in the form of shares.
2. *Issue of Debentures*. When company desires to raise the required finance through loans instead of sale of shares, then debentures are issued. In this way it is advantageous because debenture holder cannot claim for ownership and he is to be paid interest only. Debentures may be issued either for initial needs of enterprise or for development and extension.
3. Loan advances from banks, and other financial institutions, like L.I.C. and U.T.I.
4. State loans from Industrial Corporations, State Finance Corporation or through Industrial Development Corporation.

Advantages.

Following are the advantages of the joint stock company over the previous two forms of business organisation :

1. The liability being limited, the shareholder bear no risk and, therefore, more and more persons are encouraged to invest capital. Thus more amount of capital can be collected to run modern industries.
2. Because of large number of investors, the risk of loss is divided. Therefore, even an average person can contribute capital without much hesitation.
3. In the joint stock companies the work is divided among different groups of persons ; hence better work can be done.
4. It can bear the high salaries of the good managing agents, chief manager and other managers etc. Thus administration is better.
5. Joint stock companies are not affected by the death or retirement of the shareholders.
6. It has great potentialities for expansion.

Disadvantages.

Following are the main disadvantages of the joint stock company :

1. Lack of personal interest on the part of the salaried managers because there is no relation between effort and income for them and this leads to inefficiency and waste.
2. This form of organisation offers sufficient scope to the directors and other members of the management for their personal profits. Because they have intimate knowledge of the financial position of the company, therefore, they can purchase or sell the shares

accordingly.

3. In this form of bussiness there are hundreds of investors from different parts of the country who invest their savings but very rarely come to atttend the general body meetings or exercise any effective check. Such persons offer unlimited scope for cautious persons to secure control over companies and deceive the innocent share-holders.
4. It requires a large number of legal formalities to be observed.
5. It is difficult to preserve secrecy in these companies.

1.3.4. Co-operative Societies

With the study of individual ownership, partnership and joint stock companies we have seen that they neglect the interest of consumers and employees in the concern. This is the most democratic form of business organisation for the betterment of general public. These co-operative societies help to protect the interests of the consumers, small and independent producers, and of the workers while fighting against the monopolists and capitalists. Members supply the capital, manage the business and share all its profits and losses. These have been developed in agriculture to a large extent. In economic field, these do not have the idea of earning profits but to benefit the members.

Co-operative society is an association of individuals formed for the purpose of obtaining goods, specially the articles of daily use at rates lower than that of market. Thus, it is a means to level the inequality of wealth which had come into existence as a result of private individual form of ownership. The idea of co-operative society is to benefit the shareholders who are the consumers or producers.

Mr. N. Barow defined co-operative society, as "voluntary organisation" of persons with unrestricted membership and collectively owned fund, consisting of wage earners and small producers, united on a democratic basis for the establishment of enterprises under joint management for the purpose of improving their household or business economy.

The main object of co-operative society is to promote self help and mutual assistance among men of moderate means and incomes having needs and interests in common. Such men are industrial workers, small artisans, agriculturists and members of the middle class. In this system liability of shareholders is limited.

To start a co-operative society an application is submitted to the registrar of co-operative societies. The officials of this department will attend the first general body meeting in which bye-laws are framed to govern the society and the directors are elected by the shareholders. Then if the authorities are satisfied about its soundness, a licence will be issued by the registrar and thus the company is formed. Board of Directors meet at least once in every three months.

The Indian Government to protect the interests of small consumers, is encouraging the co-operative movement and provides loans through financial corporations, banks etc. The accounts of the enterprise are audited by state government. It can be formed by minimum of 10 members and should be registered with the registrar of co-operatives. The government of India has tried to introduce co-operative societies in many fields since long but it has not met with much success. Although co-operative movement is very conducive for Indian economy but has failed to achieve the objectives.

Main objectives

Main objectives of the co-operative societies are following :

1. It is a voluntary organisation. A member can continue his membership as long as he

desires, and can by giving a notice, withdraw his capital and cease to be a member.

2. There is no limit to its membership. Face value of one share is generally kept as Rs. 10. Thus small value of share makes it possible to enroll a large number of persons because even a poor man can afford this much amount.
3. Its management is based on democratic basis of equality. Therefore, every member can cast only one vote, whatsoever the number of shares he has.
4. Its object is to serve the members and to earn profit.

Types

The various types of co-operative societies in our country are :

(*a*) Producers' or Manufacturers' co-operative society.
(*b*) Consumers' co-operative society.
(*c*) Housing co-operative society.
(*d*) Co-operative farming.
(*e*) Co-operative credit society.

Consumers' and housing co-operative societies are gaining popularity in our country.

(*a*) **Producers' Co-operative Society.** This is the form of association in which persons combine together to form a society for the purpose of manufacturing goods. Although it is a democratic management of industrial production, this is useful where neither large capital is necessary nor much technical and expert knowledge of management is needed. In India, this is applied to agricultural and cottage industries. This has largely succeeded in countries like Denmark, United State of America, Sweden, Israel etc. In India some of the Sugar mills, Rice mills and Ginning mills are running under this formation.

(*b*) **Consumers' Co-operative Society.** This type has got some popularity. Its object is to eliminate the middleman's profit by directly purchasing things from manufacturers and distributing among the members and non-members at reasonable prices. This can be of retail or wholesale type.

These are also named as "co-operatives". Super Bazars in all the important cities have been established so as to make available the things at cheaper rates. These have achieved good success in the very beginning but latter on it is found that due to mismanagement, corruption and lack of experience some of them are not functioning satisfactorily.

(*c*) **Housing Co-operative Societies.** These societies are formed for the purpose of getting plots or houses for the needy persons. For such purpose government provides great facilities.

(*d*) **Co-operative Farming.** This type is not popular in India. The object is to enlarge the size of agriculture land by forming the co-operative group of cultivators. It will thus make possible the use of modern implements, science and technology in agriculture which in turn increase the yield.

(*e*) **Co-operative Credit Society.** Its object is to finance the poor cultivators by advancing loans for the development of land and purchase of machinery etc.

Advantages.

Following are the advantages of co-operative oraganisations :

1. It sells the products cheaper ; as money required to spend on advertisement and publicity is not needed.
2. Expenses for book keeping, auditing and management task are kept minimum, as members provide honorary service for such tasks.
3. It offers to its employees better wages and reasonable conditions of service.

4. There is no question of profiteering, hoarding and black marketing type of evils as the aim is to serve the community.
5. Middleman's profit is eliminated as purchasing is directly made from manufacturer.
6. It suits well to Indian cultivators in improving the problems of mechanised farming, warehousing and credit etc.
7. Profits are shared equally and, the balance goes for social causes and development of locality such as medical aid, education, playgrounds and children gardens etc.
8. It tries to equalise money distribution.
9. It benefits general public.
10. It promotes a sense of co-operation among the members.
11. It is possible to take large amount of capital in the form of loans (say upto 8 times the subscribed capital) from the government.

Limitations.

It has its own limitations, some of them are listed below :

1. As its members come mostly from the working class and middle class, its capacity to raise capital is limited. Therefore, it is suitable for small and medium sized undertakings only.
2. Due to limited financial resources services of highly qualified persons cannot be utilized.
3. Although it trades for the benefit of members only but at the same time it is not possible to refuse to trade with non members.
4. Mostly inefficient management and sometimes found that management is inexperienced and corrupt.
5. Members usually try to make undue advantage.
6. It requires better and strict supervision.
7. There are chances of excess officialization.

1.3.5. Joint Hindu Family Firms

Ancestral property inherited by a Hindu from his great grandfather to grandfather, and by grandfather to father, and by father to him. Therefore after the death of a Hindu, his business is jointly owned by the living male issues. Such firm is known as Joint Hindu Family Firm. The female members or their relatives do not have any claim in the firm.

Advantages :

(*i*) These are not dissolved on the death of a member.
(*ii*) It has no binding of company's Act 1956.

Draw backs :

(*i*) Continuity of the firm depends upon the continuity of the joint family itself.
(*ii*) Resources are limited compared to joint stock company.
(*iii*) Since the management of this type of firm is in the hands of eldest male member, there is generally lack of management skill or adequate business knowledge.
(*iv*) Business is looked after by the active member(s), but the profit is shared by all. This affects his interest and efforts for the growth and efficient running of the firm.

Joint Hindu Family Firm v/s Partnership Firms

(*i*) This is a creation of Hindu law, hence there is no contract. Partnership firm is formed under the contract.

(*ii*) This is a continuous firm and do not dissolve on the death of a member, but ceases if the joint family breaks down. Whereas partnership firm gets dissolved in the event of death of a partner.

(*iii*) This does not have female as members, whereas partnership firm can have female partners.

1.4. STATE OWNERSHIP (PUBLIC SECTOR ORGANISATIONS)

Such ownership is only serious competitor to the joint stock companies. This form is most suitable for the establishment and development of modern industries, because of facilities like power, transport, credit, insurance etc. are easily available to them.

The private ownership and the joint stock company gave rise to exploitation of labour and of the consumers. This gave idea of state ownership. The former system of ownership neglected the well-being of workers and the welfare of the community as a whole.

Government either starts or nationalises (acquires) certain industries to prevent the economic unbalance in the nation. It serves as a means to obstruct the monopolistic tendencies. It helps for the betterment of the community and for the welfare of the people.

The railways, post and telegraph are completely state owned. Ship-building, steel industry, electricity generation, fertiliser production, railway engine manufacture etc. are owned by the government and also by joint stock companies.

Main drawbacks in above mentioned state ownership is that they cannot be handled like private enterprises. In private enterprises, the employees are believed and certain confidence is placed in them, therefore, they try to achieve the maximum benefit for the undertaking. The employers do not tolerate any bad workmanship or inefficiency or indiscipline, etc.

Forms of Public Sector Organisations

1. Departmental Organisations.
2. Public Corporations.
3. Government Companies.

1.4.1. Government Departmental Organisations

The organisations are organised like any other Government departments. These are managed in two ways :

(*i*) *Management through the concerned ministry*. It is managed by the officials of the government under the charge of the secretary of the ministry concerned. The examples are Posts and Telegraphs, Railways, Defence, Industries, Broadcasting etc.

(*ii*) *Management by Inter-department Committee or Board*. In certain organisations co-operation is required from several ministries. Therefore, a board or committee of representatives from concerning ministries is formed so that co-operation, consultation and quick decisions may be taken. Bhakra Control Board, Hirakund Control Board, Chambal Control Board, All India Handloom Board are few examples of organisations managed by interdepartmental committee or board.

All the governmental organisations have following essential characteristics :

(*a*) Financed out of government budget.

(*b*) Revenue go to public exchequer.

(*c*) All the rules and regulations of government are applicable.

(*d*) Direct control of the concerned ministry.

(*e*) Employees are government servants.

Merits

1. Because of the government control, it is easy to achieve its economical, political, and social objectives.
2. Such organisations are suitable for public utility services and defence industries.
3. Because of the government control, complete secrecy is possible like in ordinance factories etc.

Demerits

1. Because of bureaucratic control, generally timely decisions are not taken.
2. Government officials prefer to work according to certain rules and regulations and thus it becomes difficult to bring about major modifications and innovation etc.
3. Because of red-tapism, officers are discouraged from taking quick and independent decisions.
4. Lack of initiative because promotions are seniority based rather than merit based.

1.4.2. Public Corporations

A Public Corporation is wholly owned by the Government—Centre or State. It is established usually by a Special Act of the Parliament with internal autonomy. Special statute also prescribes its management pattern, powers, duties and jurisdictions. Though the total capital is provided by the Government, they have separate entity and enjoy independence in matters related to appointments, promotions etc. These corporations have no profit motive and work for maximisation of social welfare.

Merits

1. These are supposed to be better managed. These are expected to provide better working conditions to the employees and cheaper and better products to the consumers.
2. Quick decisions can be possible, because of absence of red- tapism and bureaucratic control.
3. More flexibility as compared to departmental organisations.
4. Because of the absence of profit motive, these are most suitable for managing public utilities at a reasonable cost to the people.
5. Since the management is in the hands of experienced and capable directors and managers, these are managed more efficiently than that of government departments.

Demerits

1. Any alteration in the power and constitution of corporation requires an amendment in the particular Act, which is difficult and time consuming.
2. The autonomy of the corporations are only on papers whereas in reality, there are lot of interference by the political leaders and government officers. Therefore, they do not enjoy real freedom in their working.
3. Public corporations possess monopoly and in the absence of competition, these are not interested in adopting new techniques and in making improvement in their working.

1.4.3. Government Companies

A state enterprise can also be organised in the form of a Joint Stock Company under Companies Act. A government company, according to Indian Companies Act 1956, is any company in which not less than 51% of the share capital is held by the central government, or by any state government or governments or partly by the central government and partly by one or more state governments. This form of organisation is becoming very popular in recent times. It is created by an executive and not a legislative decision and is managed by nominated board of directors which may include private individuals. These are accountable for its working to the concerned ministry or department and its annual report is required to be placed every year on the table of the Parliament or state legislature alongwith comments of the government or concerned department. Auditors are appointed on the recommendations of the comptroller and Auditor General of India. The employees, excluding deputationists are not civil servants. In its day-to-day working it is free from government interference, however, Bureau of Public Enterprises can issue guidance and directions.

Merits

1. It is easy to form.
2. The directors of a government company are free to take decisions and are not bound by certain rigid rules and regulations.
3. They always try to satisfy their customers because otherwise they might loose to their competitors.
4. More efficiency.

Demerits

1. Misuse of excessive freedom cannot be ruled out.
2. Inadequate accountability.
3. The directors are appointed by the government, so they spend more time in pleasing their political masters and top government officials, which results in inefficient management.

Some Problems

1. *Price Policy*. As the state undertakings have a monopoly it may charge a price higher than what would have been under competition. Of course, it may be for covering the inefficiency of the management and not to make the profit.

2. *Excessive centralization*. Because of the nationalisation of the industries, each of the organisation is bigger than the biggest organisation in the private sector. Practical results show that it results in poor management, poor labour relations and higher inefficiency.

1.5. THE JOINT SECTOR MANAGEMENT

It is a known fact that today in government organisations whether it is a public limited company or state enterprise, management is a big headache. This is one of the main causes of today's unrest high rise in prices, strikes and lock-outs etc. To overcome this great trouble, recently in political and governmental circles considerable stress is being given to the future growth of industry on the line of joint sector.

Concept of the Joint Sector

Joint sector means participation by the government and private industry in the share capital and the general management of the unit be set up. It aims at achieving the task of social justice through efficient use of resources. The government finances and private enterprise maintains the efficient working of the industry. In our country a large number of industrial units have come up under this concept. Examples are : The Indian Oil : the Cochin Refineries ; The Madras Refineries, the Madras Fertilizers Limited etc.

Contribution

In regard to the individual ventures already functioning under the joint sector principle the participation has not generally been on an equal footing and it has been ensured that the government would be the senior partner. With the exception of the Indian Oil, in which share participation is on a 50 : 50 basis, the contribution to the share capital is usually in the ratio of 51 : 49 and in all cases the government hold 51% of the shares.

Participation

In this set-up chairman is a government nominee but managing director is nominated by the collaborating private industry. The government also has a large representation in the board of directors. On account of this and the large share holding, its view is more likely to prevail on matters of importance. The salaries and other service conditions of both officers and workers in these are higher than those enjoyed by their counterparts in the public sector plants and in conservative enterprises.

Advantages

1. Promotion of social objectives.
2. Mobilisation of resources.
3. Controlling the business malpractices.
4. Antidose to monopoly and concentration of economic power.
5. Acceleration of industrial growth.
6. Making nationalisation unnecessary.

Limitations

1. Lack of confidence between two sectors.
2. Managerial autonomy.
3. Joint sector is facing the problems of (*a*) pattern of management and powers of the management (*b*) salary structure (*c*) account ability (*d*) performance appraisal etc.

1.6. LIABILITIES

Liability of a business means what it owns to others. Loans taken in the form of cash or in the form of credit purchases are known as liabilities. Payments due for services like electricity, water supply, insurance premium and salary of staff are also considered as liabilities of a business. Owners of the busines are legally responsible for the payment of these liabilities.

Liabilities on owners are of two types :

1. Unlimited Liability, and
2. Limited Liability.

1.6.1. Unlimited Liability

In this system, there is no maximum limit of capital which can be collected from debtors in the case of failure of business. The creditors may collect money even from the personal property of the owner. Because of the risk involved in this system is very high, it provides a most serious limitation for those business in which unlimited liabilities are involved.

Therefore, if unluckily the business runs into heavy loss or fails, the owner and his family will suffer seriously and even may be reduced to poverty.

Effect of unlimited liability on :

(*a*) **Sole Trade Organisation.** In this type of organisation if the business goes into loss, the whole amount has to be paid by a single person (owner) upto the last paisa of his personal property. Therefore, due to the risk of heavy losses to be borne by the individual, this type of organisation is confined to small scale manufacturing or works of small nature.

(*b*) **Partnership Organisation.** In this type of organisation all the partners have unlimited liability. This means that if property of the firm is insufficient to clear the debts of the firm, then the creditor can collect the money from the personal property of the individual partner. In this way, as risk involved in this system is less than that of the sole trade organisation, the partners will not hesitate even to start medium size concerns.

1.6.2. Limited Liability

In case of limited liability the maximum limit of amount that can be collected from an owner or share holder is upto the capital invested by him in the industry. Thus the risk involved is limited to the amount of shares only and their private property cannot be sold.

Effect of limited liability on :

(*a*) **Joint Stock Company.** In this system liability of a member is limited to the face value of the shares he purchases. Thus shareholder is responsible to the extent of amount of shares purchased by him. This type of organisation has unique feature in this respect, therefore, now-a-days big industries are being run with this form of organisation.

(*b*) **Co-operative Society.** In this system also shareholder is responsible upto the extent of the face value of the shares purchased by him. As regards liability is concerned it is similar to those of Joint Stock Company as explained earlier.

1.7. JOINT STOCK COMPANY v/s PARTNERSHIP ORGANISATION

A joint stock company and partnership form of organisations can be compared as under :

Joint Stock Company	*Partnership*
1. It has a separate legal entity, having its existence separate from its shareholders.,	1. It has no separate legal existence apart from its partners.
2. It may consist of any number of members.	2. It may consist of maximum 20 members for nonbanking and 10 for banking business.
3. Shares can be transferred to others without the consent of any body.	3. Shares cannot be transferred on sweet will without the consent of other partners.
4. It invests according to memorandum and can't do any other business activities.	4. It can do any business activities on the sweet will of partners.
5. Liability is limited.	5. Generally unlimited liability.
6. The property of the firm is the property of the company.	6. The property is that of the individual partners.
7. Management is done by directors which are elected by shareholders.	7. Every partner is entitled to perform managerial activities.
8. It has got certain obligations such as maintenance of accounts, preparing balance sheets, returns, registers and other informations desired by the government, and on failure to do so are penalised.	8. No such obligations in this form of organisation.
9. Death or retirement of any of the shareholders do not affect the business.	9. Business may suffer and sometimes may come to standstill.
10. Large capital can be collected.	10. Large capital can't be collected.
11. Management is smooth and efficient.	11. Here control is divided between different partners and there may be difficulty and disagreement in management.

1.8. SOLE PROPRIETORSHIP v/s PARTNERSHIP

Basis of Distinction	*Sole Proprietorship*	*Partnership*
1. Membership	One man's business	Minimum.........2 Maximum.........20
2. Agreement	No agreement	An agreement is required
3. Capital	Fully by the owner	Contributed by the partners
4. Registration	No provision	Required under the Partnership Act 1932
5. Risk	Entire risk	Joint risk
6. Management	Owner is supreme	Division of work subject to agreement
7. Secrecy	Ensured	Known to all partners, difficult to maintain.

1.9. PRIVATE COMPANY V/S PUBLIC COMPANY

Basis of Distinction	*Private Company*	*Public Company*
1. Minimum number of members	Two	Seven
2. Maximum number of members	Fifty	Unlimited
3. Invitation of public for capital	No	Yes
4. Transferability of shares	Restricted to members	Free
5. Secrecy	Possible	Not possible
6. Prospectus	Not necessary	Yes, necessary
7. Minimum number of Directors	Two	Three
8. Exemption from legal restrictions	Yes	No
9. Quick decisions	Possible	Not possible
10. Credit and Resources	Small	Large
11. Protection to members	Less	More

1.10. CO-OPERATIVE SOCIETY V/S JOINT STOCK COMPANY

Basis of Distinction	*Co-operative Society*	*Joint Stock Company*
1. Basic object	Service	Profiteering
2. Membership	Limited to a particular group	Open to all
3. Minimum number of members	Ten	2 for Private company and 7 for Public company

4. Transferability of shares	No	Free
5. Voting right	One man one vote	One share one vote
6. Privileges	Exemption under stamp, duty, taxes, cheaper finance	No such benefits
7. Disposal of profit	Fixed return on capital, surplus distributed either as bonus or spent for the welfare of the members	Divided without any limit

1.11. PRIVATE LIMITED V/S PUBLIC LIMITED JOINT STOCK COMPANIES

S.No.	*Particulars*	*Private Limited*	*Public Limited Joint Stock Company*
1.	Membership	Membership is confined to the close friends and relatives of the promoters. Cannot invite public to share capital	Membership is open to the general public. Any person can contribute and become share holder.
2.	Limits to Membership	Minimum members-2. Maximum members-50	Minimum members - 7 Maximum members - No Limit
3.	Election of Directors	No need for holding statutory meeting	Shareholders elect the directors in the statuatory meeting.
4.	Resale of shares	Shares cannot be resold or transferred without the consent of the company	Shares can be resold or transferred without the consent of the company.
5.	Audit of accounts	No legal provision of the audit	Audit of accounts is mandatory and circulated among the members of the company.
6.	Name	The words "Private Limited" are used at the end of its name	The word "Limited" is used at the end of its name.
7.	Number of directors	Minimum two directors	Minimum 3 directors
8.	Legal controls	Less legal controls	Strict legal controls

QUESTIONS

1. Define the terms: Business; Industry; and Trade
2. How will you classify business? Describe various business characteristics.
3. Explain various factors, you would like to consider, for deciding the form of organisation.
4. Explain various objectives of a business.
5. What factors should be considered before deciding about the form of organisation to

be started ?

6. What are the different types of ownership ?
7. How partnership organisation differs with sole trade organisation. Explain.
8. What are the advantages of a co-operative enterprise over a joint stock company.
9. Distinguish between Public Limited and Private Limited types of companies.
10. What is state ownership ? What are its advantages ?
11. Discuss the term "liability". Explain the different types of liabilities with example.
12. Explain different types of partners.
13. Write short note on :
    (*i*) Partnership, (*ii*) Debenture,
    (*iii*) Capital turnover, (*iv*) Debenture and bonds,
    (*v*) Share and debenture.
14. (*i*) What is a government company ? (*ii*) Many government companies have, during recent years, been formed as joint stock companies. Why? (*iii*) Describe how capital shares are raised by a public limited company.
15. Discuss the characteristics of the joint stock company responsible for making it the most important type of ownership of industrial organisations.
16. Discuss the merits and demerits of raising capital by : (*a*) Preference shares ; (*b*) Debentures and (*c*) Bank.
17. Name the different types of ownership of industrial organisation and indicate the significance features of each.
18. Detail the steps which a joint stock company has to follow in raising capital shares. Indicate the significance of each step and the considerations necessary to follow it properly.
19. How capital is raised in different types of owership of industrial organisation ? What types of ownership do you prefer ? Give reasons and state advantages and disadvantages.
20. Enumerate the various sources of financing for large scale industry in India. Discuss their relative importance.
21. What is a joint stock company ? Trace the history of Industrial Organisation from individual development to combinations and pools in the modern system.
22. (*a*) Show the important difference between state ownership and private ownership of industrial enterprises. (*b*) Why is it that one thinks of co-operative societies for smaller organisations and not for large ones?
23. Differentiate between private ownership and state ownership. Indicate with justification, their special fields of application with reference to Indian background.
24. (*i*) Distinguish between "Policies", "Procedures" and "Methods". (*ii*) Explain clearly the necessity of well defined policies for a business organisation.
25. (*a*) What are the different types of co-operative societies in India? Explain how they differ from joint stock enterprises. (*b*) State the main objective for consumer co-opera-

tive societies, and enumerate their advantages and limitations as compared to those of the others.,

26. (*i*) What is meant by a joint stock company ? Describe briefly how it is formed ? (*ii*) Explain why the promoters prefer to incorporate limited liability in joint stock company.
27. (*i*) What is a partnership organisation ? What are its limitations? (*ii*) Describe how a Public utility company is formed under state ownership. How does such a company differ from a joint stock company ?
28. Enumerate the sources from which a small-sized industrial enterprise can raise its fixed capital and working capital. State the merits of each source.