5

COMPANY FORM OF BUSINESS ORGANISATION

You must be aware that during the second five-year plan period five steel plants were established in India's underdeveloped areas to give a boost to the industrialization of the country. Do you know who owns these steel plants? It is the Government of India. It has set up a Joint Stock Company known as Steel Authority of India Limited (SAIL) for this purpose. You must have also heard the names of State Bank of India (SBI), National Thermal Power Corporation (NTPC), Grasim Industries Limited (GIL), Reliance Industries Limited (RIL) and Tata Steel Limited. These are all big business units and organised in the form of Joint Stock Companies. In this lesson we shall learn in detail about the Joint Stock Company; its merits and limitations; and also discuss the factors that influence the choice of form of business organisation.

LEARNING OUTCOMES

- discusses government's role in promoting planned economic development;
- describes the objectives of public and private sector enterprises.

5.1 JOINT STOCK COMPANY

In the previous lesson, you learnt in detail about four different forms of business organisation viz., Sole Proprietorship, Partnership, Joint Hindu Family Business and Cooperative Society. You know that these forms are considered suitable for small and medium sized business.

You are now very much aware about the limitations of partnership form of business like unlimited liability of partner, limited resources of arranging funds and restrictions on number of partners, so you can't think to set-up a capital intensive industry like Iron

& Steel industry in partnership because it requires huge amounts of investments in capital assets and also for the operations of the business, which can't be financed by limited number of partners and all other limited sources.

You also know that society have very small savings and even if it is large amount in totality of savings it has no productive use. The amount of Small saver is very meager and they can't participate in partnership firm in which a significant amount of investment is needed. Hence, to mobilize the small savings of the society, the company form of business came into existence in which small savers can be shareholders by investing their savings, say even by investing of Rs. 1000 only (since the face value of one share is Rs10, he can purchase 100 shares and become the owner). In this way, to set-up an Iron and Steel Industry, Joint Stock Company may be the obvious choice where you can arrange large amount of capital from the members of the society whether they are small saver or huge amount savers.

A Joint Stock Company or simply a company is a voluntary association of persons, with a large and fluctuating membership, requires a more elaborate organisation, which ideally should confer corporate personality on the association, that is, should recognize that it constitutes a distinct legal position, subject to legal duties and legal rights separate from those of its members. This form of organization can be obtained easily and cheaply by registering an association as a company under the Companies Act 2013 after complying with some legal formalities. In India, the joint stock companies are governed by the Companies Act, 2013.

Meaning and definition of Company : Section 2 (20) of the Companies Act 2013 defines a "Company" as a company incorporated under this Act or under any previous company law. This definition does not clearly point out the meaning of a company. To understand the meaning of a company, let us see the following well known definition given by Prof. L.H. Haney as "an artificial person created by law, having separate entity, with a perpetual succession and common seal."

5.2 CHARACTERISTIC FEATURES OF A COMPANY

The salient features of a company are discussed below:

(a) **Incorporated association:** A company must be incorporated under the Companies Act. The minimum number of members required for this purpose is seven in the case of a 'public company' and two in the case of a 'private company'. Section 3 of the Companies Act allows formation of 'One Person Company' also.

(b) **Legal entity distinct from its members:** Unlike partnership, the company is distinct from its members. Hence, it is capable of enjoying rights and of being subjected to duties which are not the same as those enjoyed or borne by its members. A company can own property and deal with it the way it pleases. No member can either individually or jointly claim any ownership rights in the assets of the company during its existence or on its winding-up. A company, as a person separate is from its members and may even sue its own members for libel.

(c) **Artificial Person:** The company though a juristic person, does not possess the body of a natural being. It exists only in contemplation of law. Being an artificial person, it has to depend upon natural persons, namely, the directors, officers, shareholders etc., for getting its various jobs done. However, these individuals only represent the company and accordingly whatever they do within the scope of the authority conferred upon them and in the name and on behalf of the company, they bind the company and not themselves.

(d) **Perpetual Succession:** Company being an artificial person cannot be incapacitated by illness and it does not have an allotted span of life. Members may come and go but the company can go on forever. If continues even if all its human members are dead, insolvent or have left the membership.

(e) **Common Seal:** A company being an artificial person is not bestowed with a body of a natural being. Therefore, it does not have a mind or limbs of a human being. It has to work through the agency of human beings, namely, directors and officers and employees. Hence, all agreement executed on behalf of company should bear the seal of the company whether agreement is valid or not would depend upon facts of each case. The common seal is a seal used by a corporation as the symbol of its incorporation.

(f) **Limited Liability:** The members of the company are only liable to contribute towards payment of its debts to a limited extent. If the company is limited by shares, the shareholder's liability to contribute is measured by the nominal value of the shares he holds plus any premium agreed on when the shares were issued. In case of companies limited by guarantee, the liability of each member shall be determined by the guarantee amount. If the guarantee company also has share capital, the liability of each member shall be determined in terms of not only the amount guaranteed but also the amount remaining unpaid on the shares held by a member. A company may be formed with unlimited liability of members, thus the members shall continue to be liable till each paisa has been paid off.

(g) **Transferability of Shares:** One of the reasons for the popularity of public company has been that their shares are capable of being easily transferred without any consent of other members if the share of company is listed in any Stock Exchange. However, the article of association of a private company puts restrictions on transferability of its shares.

(i) **Distinct pattern of management:** You know that people from different walks of life and areas subscribe to the company by purchasing its shares. So, it is not possible for them to look after the day-to-day control and management of the company. The company law provides for the management of companies through the elected representatives of the members known as directors or board of directors.

INTEXT QUESTIONS 5.1

1. If all the members of a joint stock company die in a road accident, then the company will be closed down. Do you agree with this statement? Give reasons in support of your answer.

2. Name the following with reference to a joint stock company.

   a. The smallest unit into which the capital of company is divided.

   b. The Act that governs the companies in India.

   c. The sum total of the money contributed by the members of a joint stock company.

   d. The official signature of a joint stock company.

   e. The elected representatives of the members who manage the day to day affairs of the joint stock company.

   f. Members may come and go but the company can go on for ever.

5.3 KINDS OF COMPANIES

The companies Act provides for a variety of companies that may be promoted and registered under the Act. Let us discuss two common types of companies which are:

1. **Private Companies:**

   (i) One person Company

   (ii) Small Company

2. Public Companies

(1) Private Company

As per section 2 (68)," Private company" means a company having a minimum paid-up share capital of one lakh rupees or such paid-up capital as may be prescribed, and which by its articles,

(a) Restricts the right to transfer its share, if any;

(b) limits the number of its members to 200, not including

(i) Persons who are in the employment of the company; and

(ii) Persons who, having been formerly in the employment of the company, were members of the company while in that employment and have continued to be members after the employment ceased, and where two or more persons hold one or more shares in a company jointly, they shall for the purposes of membership, be treated as a single member.

(c) Prohibits invitation to the public to subscribe for any securities of the company.

Ownership of these companies is confined only to well-known selected persons. It requires minimum of two persons to start a private limited company and write the word "Private Limited" at the end of its name. Usually, whenever partnership firms are in need of more money to expand their business, they convert themselves into private Companies. It may be noted that private companies are exempted from various regulations of the Companies Act.

Private companies may be of following two types:

(i) One Person Company: Section 3(1)(c) of the Companies Act 2013 defines, 'One Person Company' as "a company with only one person as its member." In other words, one person company can be formed if a private company by subscribing his name to a memorandum and complying with the requirements of the Act in respect of registration. It may be registered as 'limited by shares' or 'limited by guarantee." The words "One Person Company" shall be mentioned in brackets below the name of such company, wherever its name is printed, affixed or engraved. In India, only adult natural person who is an Indian citizen and resident in India shall be eligible to incorporate a One Person Company (OPC).

There are lots of relaxations available under the Act, some of them are as under:

a) There is no need to prepare a cash flow statement.

b) There is no necessity for Annual General Meeting to be held.

c) The annual return can be signed by the Director and not necessarily a Company Secretary.

d) An OPC need to hold only one meeting of the Board of Directors in each half of a calendar year and the gap between two meetings should not be less than 90 days.

(ii) Small Company: Section 2(85) of the Companies Act 2013 defines it as, "small company means a company other than a public company " with :-

- o Paid-up share capital not exceeding Rs.50 lakh; and
- o Turnover as per its last profit and loss account does not exceed Rs. 2 crores.

You should note that One Person Company or small company cannot be formed as a non-profit association.

(2) Public Company [Section 2 (71)]

As per section 2(71), a public company means a company which-

(a) is not a private company;

(b) has a minimum paid-up share capital, as may be prescribed or such higher amount as may be prescribed which shall not be more than Rs. 5 crores.

Features of a public company are:

(i) It can invite the public to subscribe to its shares and debentures by open invitation.

(ii) A minimum of seven members are required to establish a public company. There is no limit on the maximum number of its members.

(iii) There is no restriction on the transfer of shares i.e., the shareholders are free to sell their shares to the public.

(iv) The public company must have a minimum paid up capital of five lakhs rupees.

(v) It must write the word "Limited" after its name.

Reliance Industries Limited, Bajaj Auto Limited, Hindustan lever Limited, Steel Authority of India Limited are examples of public companies.

Table showing Some key points of differences in applicability of various provisions of the Companies Act, 2013 between a Public Limited Company and a Private Limited Company:

Sr. No.	Section	Brief Description	Private Limited Company	Public Limited Company
1	2	Meaning	Minimum Capital : Rs. 100000 Right to transfer the shares: Restricted	Minimum Capital : Rs. 500000 Subsidiary of a Public Co. is deemed to be a Public Co.
2	3	No. of members Required	Min:2 (Two), Maximum 200 (Two Hundred)	Min;7 (Seven) Max: no limit
3	4	Name of the Company	"Private Limited" as Last Word	"Public Limited" as Last Word
4	23	Issue of Securities	By way of Right Issue or Bonus Issue Through Private Placement	To Public through Prospectus ("Public Offer")By way of Right Issue or Bonus Issue Through Private Placement
5	149	No. of Directors and Independent Directors	2 (Two); Not required to appoint independent director	3 (Three); and In case of Listed Companies, at least One-Third as independent directors

Note:

1. As per the Companies Amendment Act 2015, the clause related to minimum paid-up capital has been removed ,thereby necessitating no minimum capital requirement for starting a private and public limited company.

2. As per the Companies Amendment Act 2015, both private & public limited company can start business activities immediately after receiving certificate of incorporation

5.4 MERITS OF JOINT STOCK COMPANY

A company form of business organisation is very popular for undertaking big business. It has the following merits -

(a) **Large Resources:** A joint stock company can raise large financial resources because of its large number of members and it can raise funds through shares, debentures, public deposits, loans from financial institutions without much difficulty.

(b) **Limited Liability:** In a joint stock company the liability of its members is limited to the extent of shares held by them. This attracts a large number of small investors to invest in the company. It helps the company to raise huge capital. Because of its limited liability, a company is also able to take larger risks. This helps in making investment decisions easily.

(c) **Continuity of Existence:** A company is an artificial person created by law and possesses independent legal status. It is not affected by the death, insolvency etc. of its members. Thus, it has a perpetual existence.

(d) **Benefits of Large-scale Operation:** The joint stock company is the only form of business organisation which can provide capital for large-scale operations. It results in large-scale production consequently leading to increase in efficiency and reduction in the cost of operation. It further opens the scope for expansion.

(e) **Liquidity:** The transferability of shares acts as an added incentive to investors as the shares of a public company can be traded easily in the stock exchange such as NSE and BSE. The public can buy shares when they have money to invest and convert shares into cash when they need money. For this, they have to open a DMAT Account.

(f) **Professional Management:** Companies, because of the complex nature of their activities and large volume of business, require professional managers at every level of organisation. Because of the size of their business and the financial strength they can afford to appoint such managers. This leads to efficiency in management of their affairs.

(g) **Research and Development:** A company generally invests a lot of money on research and development for improved processes of production, designing and innovating new products, improving quality of products, new ways of training to its staff, etc.

(h) Tax Benefits: Although the companies are required to pay tax at a high rate, in effect their tax burden is low as they enjoy many tax exemptions under the Income Tax Act.

5.5 LIMITATIONS OF JOINT STOCK COMPANY

In spite of several merits of a joint stock company as discussed above, this form of business organisation also suffers from many limitations. The important limitations are given below:

(a) Difficult to Form: The formation of a company involves compliance with a number of legal formalities under the Companies Act and compliance with several other rules and regulations framed by the government from time to time.

(b) Control by a Group: Theoretically a company is supposed to be managed by trained and experienced Directors. But practically this is not so in many cases. Most of the companies are managed by the Directors belonging to the same family. Since most of the shareholders are widely dispersed, they have indifferent attitude towards the management of the company. The shareholders holding majority of the shares take all decisions on behalf of the company. Thus, the democratic virtues of a company do not really exist in practice.

(c) Excessive Government Control: A company is expected to comply with the provisions of several Acts. Non-compliance with these, invites heavy penalty. This affects the smooth functioning of the companies.

(d) Delay in Decision Making: A company has to fulfill certain procedural formalities before making certain decisions, as they require the approval of the Board of Directors and /or the General Body of shareholders. Such formalities are time consuming and therefore, some important decisions may be delayed.

(e) Lack of Secrecy: It is difficult to maintain secrecy in many matters as they may require approval of board of directors and/or general body whose proceedings are usually open to public.

(f) Social abuses: A joint stock company is a large-scale business organisation having huge resources. This provides a lot of power to them. Any misuse of such power creates unhealthy conditions in the society e.g. having monopoly of a particular business, industry or product; influencing politicians and government for getting their work done; exploiting workers, consumers and investors, etc.

INTEXT QUESTION 5.2

1. Mr. Mohit has invested Rs.2 lakhs in shares of a public limited company. After one year he noticed that the company does not perform well, and the market value of its shares is going down. He thinks, if this situation continues, he will lose his Rs.2 lakhs and if required his house will be sold out to discharge his liabilities of the company. Is he thinking in the right direction? Give reasons in support of you answer.

2. Below are given certain characteristics of Joint Stock Company. Identify which of the following characteristics is of public limited company and which one of private limited company:

   (a) There can be maximum of 200 members.

   (b) It can be started with minimum of seven members.

   (c) The shareholders cannot transfer their shares.

   (d) It can invite the public to subscribe to its shares.

3. Below are given certain statement. Write 'M' at the end of the sentence, if it is the merit and 'L' if it is the limitation of a Joint Stock Company.

   (a) The liability of the members of Joint Stock Company is limited.

   (b) The shares of the public limited company can be traded easily in the stock exchange.

   (c) A number of legal formalities have to be complied with in the formation of a Joint Stock Company.

   (d) The shareholders holding majority of shares take all decisions of the company.

   (e) A company can spend a lot of money on research and development for improved process of production, designing and innovating new products.

5.6 SUITABILITY OF JOINT STOCK COMPANY

A joint stock company is suitable where the volume of business is large, the area of operation is widespread, the risk involved is high and there is a need for huge financial resources and manpower. It is also preferred when there is need for professional management in its operations. In certain businesses like banking and insurance, joint

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stock company form is the most suitable. Now-a-days, it is a preferred form for most areas of business because of the preference for operating on a large scale.

5.7 CHOOSING THE RIGHT FORM OF BUSINESS

You have already learnt about different forms of business ownership, i.e., Sole Proprietorship, Partnership, Joint Hindu Family Business, Company and Cooperative

Society. You must have noticed that no particular form of business organisation can meet all our requirements. Some may require more financial and managerial resources while others involve large risk. That is the reason why we find different forms of business organisations prevailing in our economy. So while selecting a form of business organisation, we analyse different factors and try to choose the most suitable form according to our financial and managerial capabilities. We will now study those factors which may help us in selecting the right form of business organisation.

(a) **Ease of formation:** A sole trader can commence and withdraw from business at any time at his own wish. In partnership, mutual trust and faith is very much required. Company requires many legal formalities for its formation. Sole proprietorship is therefore the easiest to form.

(b) **Availability of Large Resources:** One-man business is the best in the world if the owner has enough resources and ability to manage. This statement shows that a single person is unable to undertake big business mainly because of limited resources and managerial ability. In partnership also, the financial resources of partners are limited. Therefore, only a company can raise enough capital and hire expert knowledge required for the management of a big business.

(c) **Liability or Risk:** We know that liability of members is unlimited both in sole proprietorship and partnership firm and limited in case of a company and cooperative societies. Since members hesitate to undertake big risk, they prefer to invest in a company.

(d) **Stability:** Stability is essential for the success of any business. The existence of a company and cooperative society does not depend on the health and wealth of its members. Sole proprietorship and partnership forms are dissolved but company form of an organisation continues irrespective of the death or insolvency of any of its members.

(e) **Flexibility:** An ideal form of business must have flexibility in operations. Decisions must be taken quickly and implemented promptly for its functioning. Any rigidity in its functioning will not be beneficial for the survival and growth of a business.

A company enjoys better flexibility whenever more finances are required. It can raise more capital and include more members whenever needed. In a partnership, the number of members at any time cannot exceed 50. In sole proprietorship there is only one owner and availability of finances is also limited.

But flexibility in operations is maximum in sole proprietorship. The owner does not require approval of other members as in partnership or compliance with the provisions of the Act as in a company. Hence, change in the nature of business or its operations is easiest in the case of sole proprietorship.

(f) **Secrecy:** The sole trader is the master of his entire business. He does not need to share his secrets with anyone. Partnership is organised on the basis of mutual agency and therefore all the partners have the right to know everything about the business. A company is required to file a number of documents and publish its annual reports. Therefore, secrecy is the least in case of a company.

(g) **Extent of State Control:** While it is not possible altogether to avoid compliance with governmental regulations the entrepreneur will always like to choose that form of business organisation which has minimum government interference. A company has to fulfill many legal formalities before it can commence its business. Even after the formation, it has to comply with various legal provisions. In sole proprietorship and partnership, the government control is comparatively less.

INTEXT QUESTIONS 5.3

1. A Joint Stock Company is suitable where the volume of business is large, the area of operation is widespread and the risk involved is high. What are the other conditions under which a Joint Stock Company is more suitable? Write any two such conditions.

2. There are a number of factors that determine the choice of a particular form of business organisation. Name the form of organisation i.e., either sole proprietorship or joint stock company which may be preferred keeping in mind the following factors:

(a) It can raise huge capital and hire expert knowledge to manage a big business.

(b) Maximum secrecy can be maintained.

(c) The government control is very limited.

(d) Death or insolvency of a member does not affect its existence.

(e) There is maximum flexibility in operations.

5.8 FORMATION OF A COMPANY

The Company formation is the process of registering a business as a limited company as per the Companies Act. The formation of a company is a procedure of incorporation of a company. It includes various factors and legal documents for the purpose of incorporation. For convenience the whole process of formation of a company may be divided into FOUR stages, namely:

(i) Promotion stage

(ii) Registration/Incorporation stage

(iii) Capital Subscription stage

(iv) Commencement of Business stage

Let us discuss each stage of formation of company:

5.8.1 PROMOTION STAGE

A company form of business does not come into existence on its own, since it an artificial person, as a result of the efforts of an individual or group of people or an institution. That is, it is promoted by some person or persons. The persons who assumes the task of promotion are called promoters. This stage includes the following:

(i) **Discovery of an Idea:** The process of promotion begins with the conceiving of an idea and ends when that idea is translated into action.

(ii) **Take action:** Mere conceiving an idea is not important but it should be translated into action. For which it requires a detailed investigation for which collection of particular data from the right sources in the market is necessary. Thereafter, there is a need of the time to assemble the resources of the company and keep it in a safe place and prepare it for your company's formation.

(a) **Who is a promoter?**

The person who is concerned with the promotion of business is known as promoter. He conceives the idea of starting a business and takes all the measures required for bringing the enterprise into existence. For example; Dhirubhai Ambani is the promoter of Reliance Industries.

Section 2(69) of the Companies Act, 2013 defines the term promoter as a person-

i. Who has been named as such in a prospectus or is identified by the company in the annual return referred to in section 92; or

ii. Who has control over the affairs of the company, directly or indirectly whether as a shareholder; director or otherwise, or

iii. In accordance with whose advice, directions or instructions the Board of Directors of the company is accustomed to act.

The promoter finds out the ways to collect money, investigate business ideas, arrange for finance, assemble resources and establishes a functioning concern. The Company Law has not given any legal status to promoters. He stands in a fiduciary position.

5.8.2 REGISTRATION STAGE

It is registration that brings a company into existence. A company is properly formed only when it is duly registered under the Companies Act.

Procedure for registration: In order to get the company registered, the important documents required to be filed with the Registrar of Companies are as follows:

(a) **Memorandum of Association:** It is to be signed by a minimum of 7 people for a public company and by 2 in case of private company. It must be properly stamped.

(b) **Article of Association:** This document is signed by all those persons who have signed the Memorandum of Association.

(c) **List of Directors:** A list of directors with their names, addresses and occupations is to be prepared and filed with the Registrar of Companies.

(d) **Written consent of the Directors:** A written consent of the directors that they have agreed to act as directors has to be filed with the Registrar along with a written undertaking to the effect that they will take qualification shares and will pay for them.

(e) **Notice of the Address of the Registered Office:** It is also customary to file the notice of the address of the company's registered office at the time of incorporation. It is to be given within 30 days after the date of incorporation.

(f) **Statutory Declaration:** A statutory declaration to the effect that all the requirements of this Act and the rules made there under in respect of registration and matter precedent or incident thereto have been complied with; is also to be filed . The statutory declaration is to be signed by:

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i. Any advocate of the Supreme Court, or

ii. Any advocate of a High Court, or

iii. An attorney or pleader entitled to appear before a High Court, or

iv. A practicing Chartered Accountant in India, who engages in the company formation, or

v. A person indicated in the article as director, managing director, secretary or a manager of the company, mentioning that the requisites of the Act and the rules there under have been complied with. It is to be filed with the Registrar of Companies.

When the required documents have been filed with the Registrar along with the prescribed fee, the Registrar scrutinizes the documents. If the Registrar is satisfied, the name of the company is entered in the register. Then the Registrar issues a certificate known as Certificate of Incorporation.

5.8.3 CERTIFICATE OF INCORPORATION

After scrutinising the documents filed and on being satisfied that they are in order, that the requisite fee has been paid and that all other legal requirements have been duly complied with, the Registrar will enter the name of the company in the Register of Companies and shall certify under his hand that the company is incorporated and, in the case of a limited company that the company is limited.

He would then issue a Certificate in the prescribed form under his signature, certifying that the company is incorporated. The certificate contains:

i. The name of company,

ii. The date of issue, and

iii. The signature of the Registrar with his seal.

The Certificate of Incorporation constitutes the company's birth certificate and the company becomes a body corporate. The company comes into existence on the date given in the Certificate of Incorporation.

Allotment of Corporate Identity Number (CIN): The Registrar shall allot to the company a CIN, which shall be a distinct identity for the company and which shall also be included in the certificate.

The Ministry of Corporate Affairs has allowed issue of Certificate of Incorporation electronically under digital signature of the Registrar.

5.8.4 CERTIFICATE OF COMMENCEMENT OF BUSINESS

Section 11 of the Companies Act 2013 has been omitted by the Companies (Amendment) Act, 2015, thereby permitting all companies, whether private or public, to commence business immediately after obtaining Certificate of Incorporation.

5.9 MULTINATIONAL COMPANY

In our day-to-day, life we use different goods of India as well as from foreign countries. The foreign goods are either imported to our country or these goods are produced in our country by the foreign companies. You must be thinking why foreign companies are coming to our country. Actually, they came to India to produce goods and services and/ or to sell their products. Similarly, Indian Companies are also extending their business operations across the boundaries of our country. This is called globalization, which means extension of economic activities across the boundaries of a country in search of worldwide markets.

5.9.1 MEANING AND FEATURES OF MULTINATIONAL CORPORATION

Simply speaking, a multinational corporation (also termed as multinational company is one which is registered as a company in one country but carries on business in a number of other countries by setting up factories, branches or subsidiary units. Such a company may produce goods or arrange services in one or more countries and sell these in the same or other countries. You might have heard about many Multinational Corporations (MNCs) running business in India, like Hyundai Motor Company, Coca Cola Company, Sony Corporation, McDonald's Corporation, Citi Bank, etc.

All these corporations generally have production, marketing and other facilities in several countries. Their volume of sales, profits earned, and also the value of assets held by them is generally very large. They have set up their branches and subsidiary units in our country and also in other countries. They are controlled from the headquarters of these companies in the home country, which lay down broad policies to be pursued.

Features of Global Enterprises (MNCs)

The main features of a multinational company are the following:

1. **Centralised Management:** A multinational company has its headquarter in the home country. It expands its business in host countries by opening branches and subsidiary companies in other countries. The management of the business being carried out in other countries is in the hands of the head office. All the branches and subsidiaries have to work according to the policies laid down by the head office.

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2. **Worldwide Spread of Business:** The business of the multinational company is spread in many countries. This company fully exploits the local conditions prevailing in the host countries. This includes the availability of cheap labour and the use of raw material.

3. **Better Quality Products:** A multinational company has to compete on the world level, it has, therefore, to pay special attention to the quality of its products.

4. **Large Size:** A multinational company has huge assets. The value of the assets of IBM is approximately 8 billion dollars. Similarly, another company ITT has 800 branches in 70 countries.

5. **Access to International Market:** A multinational company easily establishes its identity in the international market because of its many products, good quality, research on a large scale, good marketing facilities, etc.

6. **Special Attention to Advertisement:** A multinational company pays special attention to advertisement. That is the secret of its success.

5.9.2 ADVANTAGES OF MULTINATIONAL CORPORATION

The Multinational Corporations enjoy several advantages by way of huge earnings due to large-scale production and distribution activities across national borders. Besides, the host countries in which the Multinational Corporations operate also derive a number of advantages. These are:

(a) **Investment of Foreign Capital:** Direct investment of capital by multinational corporation helps under-developed countries to speed up their economic development.

(b) **Generation of Employment:** Expansion of industrial and trading activities by multinational corporation leads to creation of employment opportunities and raising the standard of living in host countries.

(c) **Use of Advanced Technology:** With substantial resources multinational corporations undertake Research and Development activities which contribute to improved methods and processes of production and thus, increase the quality of products. Gradually, other countries also acquire these technologies.

(d) **Growth of Ancillary Units:** Suppliers of materials and services and ancillary industries often grow in host countries as a result of the operation of multinational corporations.

(e) **Increase in Exports and Inflow of Foreign Exchange:** Goods produced in the host countries are sometimes exported by multinational corporation. Foreign exchange thus earned contributes to the foreign exchange reserves of host countries.

(f) **Healthy Competition:** Efficient production of quality goods by multinational corporations prompt the domestic producers to improve their performance in order to survive in the market.

5.9.3 LIMITATIONS OF MULTINATIONAL CORPORATION

The advantages discussed above are no doubt beneficial to host countries. But there are several limitations of multinational corporations, which we should take note of:

(a) **Least Concern for Priorities of Host Countries:** Multinational corporations generally invest capital in the most profitable industries and do not take into account the priorities of developing basic industries and services in backward regions of the host country.

(b) **Adverse Effect on Domestic Enterprises:** Due to large-scale operations and technological skills, multinational corporations are often able to dominate the markets in host countries and tend to acquire monopoly power. Thus, many local enterprises are compelled to close down.

(c) **Change in Culture:** Consumer goods, which are introduced by multinational corporations in the host countries, do not generally conform to the local cultural norms. Thus, consumption habits of people regarding food and dress tend to change away from their own cultural heritage.

5.10 JOINT VENTURES

Joint venture is a form of business, where two or more independent firms contribute capital and participate in business operations, these two organisations may be private or government organisations or a foreign company. In joint venture, business concerns join together for a specified purpose. It facilitates pooling funds, technical knowhow & managerial skills. The rewards and risks will be shared by the concerns in joint venture. e.g. Maruti Ltd. of India and Suzuki Ltd. of Japan joined hands to form Maruti Suzuki India Ltd. which is a joint venture concern.

Features of Joint Venture

1. **Access to advanced Technology:** When two or more companies join together, there can be access to latest techniques of production. This will lead to cost

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reduction and improvement in quality and increased production.

2. **Optimum Use of Capital:** Joint Venture helps in the optimum utilisation of capital. There will be least wastage of capital and other resources.

3. **Pooling of Resources and Expertise:** The resources of two or more companies can be effectively pooled by forming a joint venture. This helps in large scale production and can avail economies of large scale production.

4. **Innovation:** In the highly competitive market, the ideas and technology of two enterprises will help to innovative new ideas and products.

5. **Sharing of Risk and Reward:** The enterprises which join hands to form joint venture will share the reward in the form of increased profit. The partners in joint venture have to share the risk that may occur in business.

5.11 PUBLIC PRIVATE PARTNERSHIP (PPP)

Public Private Partnership means partnership between public sector and private sector in financing, designing and developing infrastructural facilities. In a PPP, the private sector may contribute money, expertise and technical knowhow. Infrastructures like power, transport, education, healthcare, waste management etc. are maintained through PPPs.

Features of Public Private Partnership

1. PPP projects are for the benefit of public.

2. Government remains actively involved throughout the life of a PPP project.

3. PPPs are mainly used in government projects of higher priority.

4. In a PPP project, the funds, expertise and experience of both the private and public sectors are combined.

5. In a PPP project, the degree of responsibility and the level of risk are shared between private and public sector.

Merits of Public Private Partnership

1. PPPs approach helps in faster implementation of projects.

2. It helps in higher quality services as there is a combined expertise of public and private sector.

3. It helps to reduce costs due to efficient management practices.

4. In PPPs the risk is divided between the government and the private sector.

5. In PPPs, the funds are invested both by the public and the private sector. So government is relieved of the botheration of borrowing money.

6. The government is accountable for the cost and quality of public services.

Demerits of Public Private Partnership

1. Private sector aims at profit maximisation, but such an approach may not be desirable for public works.

2. There is possibility of leakage of important secrets of the country.

3. Sometimes there may be delays in the completion of crucial projects because of the conflicts between the government and the private firm.

INTEXT QUESTIONS 5.4

1. State the general features of Multinational Corporation.

2. Match the Column A with Column B

(a) Minimum number of members required to form:

Column A	Column B
1. Public Compnay	i. 2
2. Private Company	ii. 7
3. Partnership (Banking business)	iii. 10

3. Which of the following is not required for the commencement of a business?

   (a) Memorandum of Association

   (b) Article of Association

   (c) Certificate of Incorporation

   (d) Commencement of Business Certificate

4. Registration of companies is also called as:

   (a) Formation of company

   (b) Establishment of company

   (c) Incorporation of company

(d) All of the above

5. The person who assume the task of promotion are called as:

   (a) Organiser

   (b) Initiator

   (c) Promoter

   (d) Board of Director

6. Which of the following documents must be duly stamped?

   (a) Prospectus

   (b) Memorandum of Association

   (c) Article of Association

   (d) Memorandum and Articles of Association.

5.12 CONCEPT OF PRIVATE AND PUBLIC ENTERPRISES

As you know that there are two paths of economic development; one via Direct Productive Activities in which government as well as private entrepreneurs take initiative of establishing industries which are not only vital but also desirable to develop a base through which other allied productive activities can also be developed. And second via Social Overhead Capital such as transport facilities, electricity facilities, water facilities, drainage facilities etc. in which a huge investment is necessary without which the development of productive activities will go slow. Hence, both the sectors have to play their role. Thus, the existence of private sector and public sector are indispensable as both the paths are interdependent. In the beginning, the government of India had chosen the path of investing in direct productive activities by establishing basic industries like five steal plants with the collaboration of a foreign country. Thereafter the development process took a speed.

You have learnt the different forms of business organisation of private sector enterprises like sole proprietorship, partnership firm and company whose primary aim is to make money and serving the society is tertiary. Private sector enterprises do not operate in areas where profit margins are very meager or low and they are not directly accountable for welfare of the general public but the Companies Act 2013 entrusted in private sector enterprises to spend at least 2% of its average profit of last three years as corporate social responsibility. Although they are contributing to the exchequer in the form of tax and in the economic growth of the country, but do not indulge in the development of social overhead capital without which the development of economy in not possible. The distribution of wealth is equitable because of that the rich get richer and the poor get poorer. Hence, the government has to play an important role as per the Directive Principles of State Policy by setting up public enterprises.

The genesis of the origin of public enterprise is governed by the Directive Principles of State Policy which provides guiding principles for governance but is not enforceable by any court. These principles provide the social and economic guidance for Indian Democracy and pave the way for the establishment of a true welfare state. It commands the State and its instrumentalities to follow certain fundamental principles while formulating and pursuing policies.

The Directive Principles envision for all citizens the equality of opportunity and adequate means of livelihood, avoiding concentration of wealth in few hands. In other words, it envisages equality, liberty and freedom.

The Industrial Policy Resolution, 1956, set the mood and tone for the future. While reserving the key and basic industries for the public sector, it made it clear its intention to follow the socialistic pattern of governance that the private enterprise and initiative were to be provided all possible opportunities and incentive for growth within the parameters by planned economic development.

5.12.1 PRIVATE SECTOR ENTERPRISE

In the mixed economy of India, private sector plays a complementary role to the public sector. The private enterprises are the businesses that are owned by a private group or an individual. Different types of businesses under private enterprises are a sole proprietorship, partnership, cooperative and company. It consists of business activity owned and run by private individuals. The goals of private enterprise are to make profits.

Its main characteristics are:

a) Private ownership

b) Private management

c) Private finance

d) Profit objective

e) Private accountability

Note

Advantages and disadvantages of private enterprise

	Advantages	Disadvantages
1.	Private services are owned by private enterprise and therefore are seen to be cheaper to run	If the public enterprise does not make profit then it might have to backed by public tax payer
2.	Private enterprise have more control in terms of wages and costing of the service.	If private enterprise is running in debt, then they were backed by the government so that people can use the services.
3.	They can use their companies to invest for the future to improve sustainability.	Prices can be increased for services according to the economy.

5.12.2 MEANING OF PUBLIC ENTERPRISE

The term PSU or PSU Companies represents the group of Companies in India owned by the union government of India, or one of the many state or territorial governments, or both. In a PSU Company, the majority of the shares (51% or more) are owned by Central or State Government. Currently there are just three sectors left reserved only for the government i.e., Railway, Atomic energy and explosive material. Private sectors/ players are not allowed to operate in these sectors.

In India, public enterprises have been assigned the task of realising the objectives laid down in the Directive Principles of State Policy which aims to prevent concentration of economic power and growth of private monopoly and helps the government to enforce social control on trade and industry for ensuring equitable distribution of goods and services.

5.12.3 CHARACTERISTICS OF PUBLIC ENTERPRISE

(a) **State ownership and control:** The public enterprises are established by the special act of Parliament, or Company Act or other acts. It is owned, and managed by the central or state government or by the local authority and controlled through a public authority. The government may either wholly own the public enterprises or the ownership may partly be with the government and partly with the private industrialists and the public. In any case, the control, management and ownership remain primarily with the government. For example, National Thermal Power Corporation (NTPC) is an industrial organisation established by the Central Government and part of its share capital is provided by the public.

(b) **State financing:** The public enterprises get their capital from Government funds ranging from more than 50% to 100% and the government has to make provision for their capital in its general budget.

(c) **Socio-economic objectives:** The Public enterprises are not guided by a profit motive but have a social welfare motive. Their major focus is on providing the service or commodity to public at a reasonable price. They also generate profit and pay tax and dividend to the government. Take the case of Indian Oil Corporation or GAIL India Limited. They provide petroleum and gas at subsidized prices to the public.

(d) **Public accountability:** They are accountable to the parliament for their performance. CAG reports the performance to the parliament.

(e) **Excessive Formalities:** The government rules and regulations force the public enterprises to observe excessive formalities in their operations. This makes the task of management very sensitive and cumbersome.

(f) **Autonomy:** Public enterprises enjoy autonomy or semi-autonomy in operations. The government does not interfere in their day-to-day functioning.

5.12.4 OBJECTIVES OF PUBLIC ENTERPRISES CAN BE SUMMARIZED AS UNDER

The public sector aims at achieving the following objectives:

a) To promote rapid economic development through creation and expansion of infrastructure.

b) To generate financial resources for development

c) To promote redistribution of income and wealth

d) To create employment opportunities

e) To promote balanced regional growth

f) To encourage the development of small-scale and ancillary industries, and

g) To accelerate export promotion and import substitution.

5.12.5 ADVANTAGES AND DISADVANTAGES OF PUBLIC ENTERPRISE

	Advantages	Disadvantages
1.	The Public controlled the services. Therefore profit margins are kept low.	All the money that is used comes from the pocket of taxpayer. Therefore would not get the best value for money.
2.	The cost of public services are covered from the taxpayer, therefore cannot go too much into debt.	There is less competition from private enterprises, therefore not allowing private enterprise to grow.
3.	They are directly controlled by the government and therefore cannot be used inappropriately.	Some organizations are very expensive to run and could cause a lot of money being used from taxpayer.
4.	All the essential services will be free or subsidized and won't / little charge the public to use them. (such as school and hospital)	Autonomy on papers only.

5.12.6 DIFFERENCE BETWEEN PUBLIC ENTERPRISE AND PRIVATE ENTERPRISE

S.No	Basis of difference	Public Enterprise	Private Enterprise
1.	Objective	Maximisation of profit.	Maximise social welfare economic and ensure balanced development.
2.	Ownership	Owned by individuals or group of individuals	Owned by Government.
3.	Management	Managed by owner and professional managers.	Managed by Government.
4.	Capital	Raised by owners through loans, private sources and public issues.	Raised from Government funds and sometimes through public issues.
5.	Area of operation	Operates in all areas with adequate return	Operates in basic and public utility sectors. on investment.

INTEXT QUESTIONS 5.5

1. What is meant by public sector Enterprise?
2. State whether the following statements are **TRUE** or **FALSE** and correct the statements if needed.
   (a) The objective of private sector enterprises is welfare of the customers.
   (b) The public sector enterprises are managed by professional managers.
   (c) The private sector enterprises concentrate on area of public utility services.
   (d) The private sector enterprises are owned and managed by private individuals.
   (e) The public enterprises are totally funded by the public.

5.13 FORM OF PUBLIC SECTOR ENTERPRISES

Public enterprises are operated into three forms which are (1) Departmental Undertaking; (2) Statutory (or Public) Corporation, and (3) Government Company

5.13.1 DEPARTMENTAL UNDERTAKING

Departmental Undertakings are that form of organisation which is run as a department of the government and each such department is headed by a minister who is responsible to the Parliament and lays down the general policy for such department. All policy matters and other decisions are taken by the controlling ministry and primarily used for provision of essential services such as railways, post and telegraph services, broadcasting, munitions factories etc. Such organisations function under the overall control of a ministry of the Government and are financed through general budget and controlled in the same way as any other government department. This form is considered suitable for activities where the government desires to have control over them in view of the public interest.

Fig. : 5.1 Rail ways- Departmental Undertaking

Note

Features of Departmental Undertaking:

The main features of departmental undertakings are as follows:

i. It is established by the government and its overall control rests with the minister of such department.

ii. It is a part of the government and is managed like any other government department.

iii. It is financed through government funds.

iv. It is subject to budgetary accounting and audit control.

v. Its policy is laid down by the government and it is accountable to the legislature.

Merits of Departmental Undertakings:

The following are the merits of departmental undertakings:

(a) Fulfillment of Social Objectives: The government has full control over these undertakings. As such it can fulfill its social and economic objectives. For example, opening of post offices in far off places, broadcasting and telecasting programmes, which may lead to the social, economic and intellectual development of the people, are the social objectives that the departmental undertakings try to fulfill.

(b) Responsible to Legislature: Questions may be raised about the working of departmental undertaking in the parliament and the concerned minister has to satisfy the public with his replies. As such they cannot take any step, which may harm the interest of any particular group of public. These undertakings are responsible to the public through the parliament.

(c) Control over Economic Activities: It helps the government to exercise control over the specialised economic activities and can act as an instrument in making social and economic policy.

(d) Contribution to Government Revenue: The surplus (earnings), if any, of the departmental undertakings belongs to the government treasury. This leads to increase in government income. Similarly, if there is deficiency, it is to be met by the government and resulting in the more tax burden on the public.

(e) Little Scope for Misuse of Funds: Since such undertakings are subject to budgetary accounting and audit control, the possibilities of misuse of their funds are considerably reduced.

Limitations of Departmental Undertakings

Departmental undertakings suffer from the following limitations:

(a) **The Influence of Bureaucracy:** On account of government control, a departmental undertaking suffers from all the ills of bureaucratic functioning. For instance, government permission is required for each expenditure, observance of government decisions regarding appointment and promotion of the employees and so on. Because of these reasons important decisions get delayed due to red-tapism and the organisation is not capitalising on new opportunities. On account of these reasons some difficulties come in the way of working of departmental undertakings.

(b) **Excessive Parliamentary Control:** On account of the excessive Parliamentary scrutiny, government audits etc. stifle creativity and increase amount of paper work and records maintenance comes in the way of day-to-day administration. This is also because questions are repeatedly asked in the parliament about the working of the undertaking.

(c) **Lack of Professional Expertise:** The administrative officers are civil servants who manage the affairs but do not possess knowledge and experience or expertise of the business in which undertaking is involved. Hence, these undertakings are not managed in a professional manner resulting poor and late decision-making causing deficiency leading to excessive drainage of public funds.

(d) **Lack of Flexibility:** Flexibility means autonomy in correction in policy and operations as per need of the hour which lacks in departmental undertaking due to centralisation of control.

(e) **Inefficient Functioning:** Such organisations suffer from inefficiency on account of incompetent staff and lack of adequate incentives to improve efficiency of the employees.

INTEXT QUESTIONS 5.6

1. List any three services that are being taken care of by Departmental Undertakings.
2. Identify the following and categorise them into Departmental Undertakings, Statutory Corporations and Government Companies.

   (a) Business Organisation established by the government and controlled by the Ministry concerned.

   (b) Organisations incorporated under a special Act of Parliament or state legislature.

   (c) It is managed by the government and is subject to budgetary accounting and audit control.

(d) Organisation established by the government and registered under the companies Act.

3. Identify the Merits and Limitations of the departmental undertakings. Put their number in the boxes given below.

(a) The organisation fulfills the social and economic objectives of the government.

(b) Lack of flexibility, hence cannot take quick decision.

(c) The possibility of misuse of funds is limited.

(d) The organisation suffers due to inefficient and incompetent staff.

(e) The organisation is responsible to the public through the parliament.

5.13.2 STATUTORY (PUBLIC) CORPORATION

The Statutory Corporation (or Public Corporation) refers to such organisations which are incorporated under the special Acts of the Parliament/State Legislative Assemblies. Its management pattern, its powers and functions, the area of activity, rules and regulations for its employees and its relationship with government departments, etc. are specified in the concerned Act. Examples of statutory corporations are State Bank of India, Life Insurance Corporation of India, Industrial Finance Corporation of India, etc. It may be noted that more than one corporation can also be established under the same Act. State Electricity Boards and State Financial Corporations fall in this category.

SBI

LIC

भारतीय जीवन बीमा निगम

LIFE INSURANCE CORPORATION OF INDIA

Fig. : 5.2

Statutory Corporation

Features of Statutory Corporations

The main features of Statutory Corporations are as follows:

(a) It is incorporated under a special Act of Parliament or State Legislative Assembly.

(b) It is an autonomous body and is free from government control in respect of its internal management. However, it is accountable to parliament and state legislature.

(c) It has a separate legal existence. Its capital is wholly provided by the government.

(d) It is managed by the Board of Directors, which is composed of individuals who are trained and experienced in business management. The members of the Board of Directors are nominated by the government.

(e) It is supposed to be self-sufficient in financial matters. However, in case of necessity it may take loan and/or seek assistance from the government.

(f) The employees of these enterprises are recruited, remunerated and governed as per their own requirement under the terms and conditions of recruitment decided by the Board.

Merits of Statutory Corporations

Statutory Corporation as a form of organisation for public enterprises has certain advantages that can be summarised as follows:

(a) Professional Management: It has the advantages of both the departmental and private undertakings. These enterprises are run on business principles under the guidance of expert and experienced Board of Directors consisting of business experts and representatives of wide and various experience and expert groups.

(b) Internal Autonomy: Government has no direct interference in the day-to-day management of these corporations. Decisions can be taken promptly without any hindrance as there are less formalities to be completed before taking any decisions.

(c) Responsible to Parliament: Statutory organisations are responsible to Parliament. Their activities are watched by the press and the public. As such they have to maintain a high level of efficiency and accountability.

(d) Flexibility: As these are independent in matters of management and finance, they enjoy adequate flexibility in their operations. This helps in ensuring good performance and operational results.

(e) Promotion of National Interests: Statutory Corporations protect and promote national interests. The government is authorised to give policy directions to the statutory corporations under the provisions of the Acts governing them.

(f) Easy to Raise Capital: The goodwill of such organisation is as government owned statutory bodies; they can easily raise required capital by floating bonds at a low rate of interest because of the safety factor.

Limitations of Statutory Corporations

Having studied the merits of statutory corporations we may now look to its limitations also. The following limitations are observed in statutory corporations.

(a) Government Interference: It is true that the greatest advantage of statutory corporation is its independence and flexibility, but it is found only on paper for name's sake. In reality, there is excessive government interference in most of the matters.

(b) **Rigidity:** The amendments to their activities and rights can be made only by the Parliament which is a time-consuming and complicated task. This results in several impediments in business of the corporations to respond to the changing conditions and taking bold decisions.

(c) **Ignoring Commercial Approach:** The statutory corporations usually face little competition and lack motivation for good performance. Hence, they suffer from ignorance of commercial principles in managing their affairs.

INTEXT QUESTIONS 5.7

1. State the features of statutory corporation mentioning its

    (a) Incorporation (b) Management

2. Rectify the errors (if any) in the following sentences and write the correct sentence in the specified space.

    (a) Statutory Corporations are autonomous organisations.

    (b) Statutory Corporations are registered under the Companies Act.

    (c) Statutory Corporations are motivated by profit.

    (d) The internal management of the Statutory Corporations is controlled by the Government.

    (e) The capital of Statutory Corporation is provided by private industrialists

5.13.3 GOVERNMENT UNDERTAKING or COMPANY

Section 2(45) of the companies Act 2013 defines a Government Undertaking as "any company in which not less than 51% of the paid-up share capital is held by the central government, or by any State government or government, or partly by central government and partly by one or more state government and includes a company which is subsidiary company of such a government."

Fig.: 5.3 Government

These companies are registered under Companies Act, 2013 and follow all those rules and regulations as are applicable for any other registered company. The Government of India has organised and registered a number of its undertakings as government companies for ensuring managerial autonomy, operational efficiency and provides competition to private sector.

Features of Government Companies

The main features of Government companies are as follows:

i. It is registered under the Companies Act 2013.

ii. It has a separate legal entity. It can sue and be sued, and can acquire property in its own name.

iii. The annual reports of the government companies are required to be presented in the parliament.

iv. The capital is wholly or partially provided by the government. In case of partially owned company the capital is provided both by the government and private investors. But in such a case the central or state government must own at least 51% shares of the company.

v. It is managed by the Board of Directors. All the Directors or the majority of Directors are appointed by the government, depending upon the extent of private participation.

vi. Its accounting and audit practices are more like those of private enterprises and its auditors are Chartered Accountants appointed by the government.

vii. Its employees are not civil servants. It regulates its personnel policies according to its articles of associations.

Merits of Government Companies

The merits of government company form of organising a public enterprise are as follows:

(a) Simple Procedure of Establishment: A government company, as compared to other public enterprises, can be easily formed by as there is no need to get a bill passed by the parliament or state legislature. It can be formed simply by following the procedure laid down by the Companies Act just by an executive decision of the government.

(b) Efficient Working on Business Lines: The government company can be run on business principles. It is fully independent in financial and administrative matters. Its Board of Directors usually consists of some professionals and independent persons of repute.

(c) Efficient Management: As the Annual Report of the government company is placed before both the houses of Parliament for discussion, its management is cautious in carrying out its activities and ensures efficiency in managing the business.

(d) Healthy Competition: These companies usually offer a healthy competition to

Note

private sector and thus, ensure availability of goods and services at reasonable prices without compromising on the quality.

Limitations of Government Companies

The government companies suffer from the following limitations:

(a) **Lack of Initiative:** The management of government companies always have the fear of public accountability. As a result, they lack initiative in taking right decisions at the right time. Moreover, some directors may not take real interest in business for fear of public criticism.

(b) **Lack of Business Experience:** In practice, the management of these companies is generally put into the hands of administrative service officers who often lack experience in managing the business organisation on professional lines. So, in most cases, they fail to achieve the required efficiency levels.

(c) **Change in Policies and Management:** The policies and management of these companies generally keep on changing with the change of government. Frequent change of rules, policies and procedures leads to an unhealthy situation of the business enterprises.

INTEXT QUESTIONS 5.8

1. The main objectives of establishing a government company are to ensure :

   a. Managerial Autonomy.

   b. ....

   c. ....

2. Classify the following statements as merit (M) or limitation (L) of Government Companies and put the respective numbers in the boxes given below:

   (a) Its formation is simple and it is governed by Companies Act, 1956.

   (b) It creates healthy competition in private sector.

   (c) The Government Companies make delay in taking timely decisions.

   (d) A change in Government leads to change in rules, policies and procedures of the Government Company.

   (e) It has financial and administrative autonomy.

5.14 COMPARATIVE VIEW OF DIFFERENT PUBLIC SECTOR UNDERTAKINGS

Basis	Departmental Undertaking	Public corporation	Government Company
Establishment	By a Ministry	By the Parliament under a special Act	By a Ministry with or without private participation
Legal Status	No separate entity distinct from the Government	Separate entity to sue and be sued	Separate corporate existence
Capital	Provided out of budgetary appropriation	Provided wholly by the Government	Part of it may be provided by private entrepreneurs
Management	Government official from the Ministry concerned	Board of Directors	Board of Directors may include private Participation
Control and Accountability	Control rests with the Minister and the Ministry concerned	Parliament	individuals Government (Ministry concerned)
Autonomy	No autonomy. Works as a part and parcel of government	No governmental interference in day-to-day affairs	Some freedom from governmental interference
Suitability	Defence, public utilities	Heavy industries and service providing enterprises with long gestation period.	All types of industrial and commercial enterprises

5.15 THE ROLE OF PUBLIC SECTOR UNDERTAKING

You know that Indian economy is a mixed one in which the private sector as well as the public sector contribute to the development. However, there are only some selected areas in which the government establishes its enterprises for the balanced development of the economy and promote public welfare. There are several areas where huge investment of capital is necessary but the margin of profit is either meager or it takes long period of time to generate surplus as in case of generation and supply of electricity, machine building, construction of dams, etc. The entrepreneurs of private sectors hesitate to establish their enterprises in these areas but the very few entrepreneurs dare like Jamshed ji TaTa to invest to serve the country in public interest. As such these enterprises are established and run by the government. Similarly, the public enterprises also help in balanced regional development by promoting industries in every part of the country. For example, with the establishment of Bhilai Steel Plant in Madhya Pradesh, several new small industries have come up in that state.

Industrial progress is of utmost importance for the development of the country and for this, it is necessary that some basic industries like oil, coal, gas, iron, steel, production of heavy electrical goods, etc., are to be fully developed. Public enterprises give impetus to the development of these basic industries and also help in the development of the private sector with their products and services. There are some industries which require heavy capital investment on account of technical reasons. Electricity, power, production of gas, heavy machinery tools, production of telephones etc., are such industries.

The development of public enterprises also prevents concentration of economic power in the hands of an individual, or a group of individuals. Not only that, in our country economic inequalities are increasing. Poor are becoming poorer and the rich more rich. The public enterprises can help in reducing inequalities with the help of various policies like utilising the earned profits in public welfare activities and by selling raw material to the small scale industries at lower prices.

It is also necessary for the economic progress of the country that industries which can decrease imports and increase exports are duly promoted. Public enterprises also ensure promotion of such industries.

There is an old belief that the benefits derived from the nature should be made available to all without any distinction. The public enterprises ensure that land, oil, coal, gas, water, electricity and other necessary resources are made available to all at fair prices.

The security of the country is supreme. There should be no compromise in ensuring

Note

this. The production of fighter aeroplanes, arms and ammunition etc, connected with the security of the country is put under the domain of Public Enterprises for this purpose. Thus, public welfare planned economic development of the country, regional balance, import substitution and checking concentration of economic powers are the major goals achieved through public enterprises.

INTEXT QUESTIONS 5.9

1. Enumerate the major goals achieved through public sector enterprises.

   (a) ______________________________

   (b) ______________________________

   (c) ______________________________

   (d) ______________________________

   (e) ______________________________

2. (a) Expand the following:

(i)	BHEL	(ii) BPCL	(iii) GAIL
(iv)	HPCL	(v) IOC	(vi) MTNL
(vii)	NTPC	(viii) ONGC	(ix) SAIL

TERMINAL EXERCISE

Very Short Answer Type Questions

1. In a Joint Stock Company what is meant by the term 'share'?
2. State the meaning of the term 'Company' as per the Companies Act 2013.
3. What is meant by multinational corporation?
4. State the difference between a public company and a private company as far as the commencement of business is concerned.
5. How do you identify a public company and a private company just by seeing their names?
6. What is meant by Public Private Partnership?
7. Name a form of organisation that is formed by combined efforts of two or more independent firms?

Note

8. Define Public Sector Enterprise.
9. What is meant by Public Corporation?
10. State the meaning of Departmental Undertaking.
11. What is a Government Company?
12. Name any two important goals to be achieved through public enterprises.

Short Answer Type Questions

1. State how the company is as artificial person.
2. Enumerate the features of a public company.
3. Distinguish between private company and public company on the basis of members and paid up capital.
4. State the suitability of joint stock company form of business organisation.
5. What conditions are required to be fulfilled by a private company?
6. Give any four features of Departmental Undertakings.
7. Distinguish between private sector and public sector enterprises (by giving any two points of distinction).
8. Explain (a) Fulfillment of social objectives and (b) Control over economic activities as merits of Departmental Undertakings.
9. How do public enterprises help in reducing the economic inequalities in the country?
10. Explain any two limitations of Statutory Corporations.
11. What is meant by 'Joint Venture'? State any two of its features.

Long Answer Type Questions

1. Explain, why the joint stock company form of business organisation is advisable to undertake huge and risky projects.
2. Describe any five characteristics of a Joint Stock Company.
3. You were running your business in partnership, but now you have formed a joint stock company. What difference did you notice in respect of

   (a) legal status (b) liability, and (c) finance
4. Explain any five advantages of a Multinational Corporation for the host country.
5. State any five factors required to be considered while choosing the right form of

business organisation.

6. What is meant by public sector enterprises? State in brief its features.

7. How are the public sector enterprises helping in the balanced development of the Indian Economy and promoting public welfare in the country?

8. What is a Government Company? How is it different from Statutory Corporation? Give any five such distinctions.

9. You have heard about various types of Public Sector Enterprises such as Departmental Undertakings, Public Corporations and Government Companies. Taking an example of all three give at least one name and two features of each.

10. You are appearing as a candidate in an interview in a Public Ltd. Co. One of the members of the interview board asks you the difference between a Public Company and a Private Company. Express your views to satisfy the interview board with the help of any five points.

ANSWER TO INTEXT QUESTION

5.1

1. No, since the company has perpetual existence. It can continue working with new members.

2. (a) Share (b) Companies Act 2013
   (c) Share capital (d) Common seal
   (e) Directors

5.2

1 No. The liabilities of the shareholders are limited. Again, he has the option to transfer or sell the shares to avoid further loss.

2 Private limited company (a) (c)and ; Public limited company (b) (d)

3 (a) M (b) M
  (c) L (d) L (e) M

5.3

1. (a) Need for professional management
   (b) Huge financial requirement
   (c) More manpower requirement

Note

2. (a) Joint stock company (b) Sole proprietorship

   (c) Sole proprietorship (d) Joint stock company

   (e) Sole proprietorship.

5.4

1. (a) International Operation (b) Large size

   (c) Centralised control

2 (a) (i) 2 - Partnership (ii) 7 - Public limited company

   (iii) 10 - cooperative society

3 (d) 4. (c) 5. (c) 6. (d)

5.5

1. It refers to economic and social activities undertaken by public authorities.

2. a. False-The objective of public sector enterprises is welfare of the customer.

   b. False- The public sector enterprises are managed by the Government

   c. False - The public sector enterprises concentrate on area of public utility service

   d. True

   e. False - The public enterprises are financed from government funds and sometimes through pubic issues

5.6

1. (a) Railways (b) Postal Services (c) Broadcasting

2. (a) Departmental undertaking (b) Statutory corporation

   (c) Government company (d) Government company

3. Merits - (a), (c), (e) Limitations - (b), (d)

5.7

1. (a) It is incorporated under a special Act of Parliament or State Legislature.

2. (a) No Change

   (a) It is managed by a Board of Directors which is composed of individuals who are trained and experienced.

(b) Statutory corporations are incorporated under special Act of Parliament or state assemblies.

(c) Statutory Corporation are not motivated by profit.

(d) The internal management of the statutory corporation is free from government control.

(e) The capital of statutory corporation is provided by the government.

5.8

1. (b) Operational efficiency (c) Competition to private sector

2. Merits - (a), (b), (e) Limitations - (c), (d)

5.9

1. (a) Public welfare

   (b) Planned economic development of the country

   (c) Regional balance

   (d) Import substitution

   (e) Checking concentration of economic power

2. (a) (i) BHEL- Bharat Heavy Electricals Limited

   (ii) BPCL- Bharat Petroleum Corporation Limited

   (iii) GAIL- Gas Authority of India Limited

   (iv) HPCL- Hindustan Petroleum Corporation Limited

   (v) IOCL- Indian Oil Corporation Limited

   (vi) MTNL- Mahanagar Telephone Nigam Limited

   (vii) NTPC- National Thermal Power Corporation

   (viii) ONGC- Oil and Natural Gas Corporation Ltd.

   (ix) SAIL- Steel Authority of India Limited

DO AND LEARN

1. Collect various information about at-least five multinational corporations and prepare a chart as given below

	1	2	3	4	5
1. Name of the company					
2. Country where its head office is located					
3. Other countries it has operations in					
4. Goods and/or services it deals in					

2. Find out from 10 residents of your locality to get information about which type of organisation they serve and categorise them in Private sector and Public Sector. Prepare a report stating the reasons for placing the respective organisations in different sectors.

ROLE PLAY

1. Sudhir and Sushil are two friends and belong to the same village. They met after a long time in a festival. Both of them used to be partners of a firm. But Sushil left the firm five year back and joined a public limited company as a director.

The following conversation took place between them.

Sudhir: Hello Sushil. How are you? How is your company going on?

Sushil: Hi Sudhir. I am fine. Our company is also doing very good business. This year our profit crossed Rs five crore .

Sudhir: That's good. But to earn such profit, your company must have invested huge amount in its activities. Isn't it? But from where did you get all this money?

Sushil: Actually in a public limited company, it is possible to collect large amount of money because the number of members is large. Another thing, they invest money without any risk because their liability is limited.

Why don't you convert you partnership business in to a joint stock company, atleast a private limited company. (Sudhir was keen to know about the features, merits, limitations and suitability of Joint Stock Company. Sushil explained to him. The conversion between both the friends was going on).

Place yourself as Sudhir and one of your friends as Sushil. Enact these roles and make your study interesting.

Note

2. You are working as a manager in an Indian Company for the last few years. You receive a call to join a Multinational Company, about which you informed to your seniors. Here's the discussion you had.

   Chief Manager: Satish, why do you want to leave our company? You are holding a good position and that too in a company of national level.

   Satish : Sir, you are absolutely right, but I am getting an opportunity in a Multinational Company. Continue the discussion of Satish with Chief Manager so as to convince him to join MNC.

3. Suresh and Ramesh are two close friends meeting each other after a long time. You are required to read the following and pick a role for yourself and the other for your friend and give suitable arguments.

   Suresh : Hey, Ramesh! How are you? I am seeing you after a very long time.

   Ramesh : Hello, Suresh! It is good to see you too.

   Suresh : What are you doing presently?

   Ramesh : I am working as an officer in Indian Railway.

   Suresh : That's good. But I am in a Government Company.

Both of them started discussing about their individual organisations.

In the light of the merits and limitations of Departmental Undertakings and Government Companies, you are required to continue the conversation with suitable arguments.

4. There was news about the good performance of Public Sector Organisations. That convinces you, as a student of Business Studies. You decide to talk to your tutor about this during the PCP classes. You are Rajan and the conversation with you tutor started as follows :

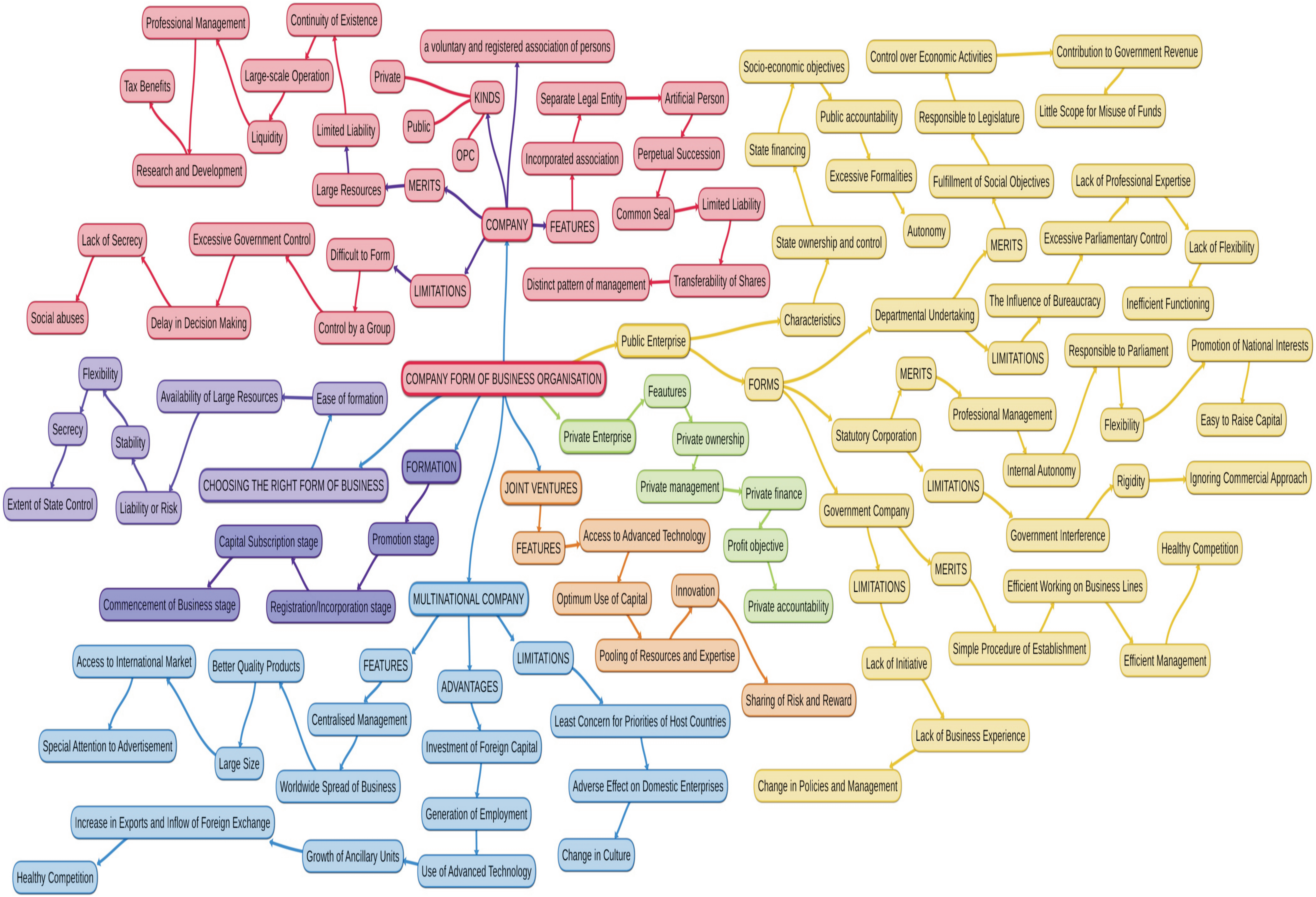
   Rajan : Sir, What is the reason that Govt. Organisations are performing well now a days in comparison to earlier years.

   Tutor : Rajan you are absolutely correct. But do you know, that there are different types of organization and all of them are not meant for earning profits.

   Rajan : Is it so sir? Can you please tell something more about these organisations.

   Tutor : Sure Rajan…….. and the discussion continues.

WHAT HAVE YOU LEARNT



WHAT HAVE YOU LEARNT