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COOPERATIVE SOCIETIES AND JOINT STOCK COMPANIES

In the previous chapter, we learnt about sole proprietorship, partnership as different forms of business organization. But there are other organizations which undertake business activities whose prime objective is not only to earn profit but also to provide services. Although some amount of profit is essential to survive in the market, their main intention is not to generate profit and grow. We all have heard about Tata Steel, Reliance Industries, Coal India, Reliance Power, DLF, Ranbaxy etc. But some questions have come in our mind who owns them? What they do? What is the size of the company? What is the volume of financial transaction of these companies? Let us know more about them.

OBJECTIVES

After studying this lesson, you will be able to:

- explain the meaning of Co-operative Societies;
- state the characteristics of Co-operative Societies;
- identify different types of Co-operative Societies;
- discuss the advantages and disadvantages of Co-operative Societies;
- define Joint Stock Company;
- explain the salient features of Joint Stock Companies;
- identify the different types of Joint Stock Companies;
- discuss the Advantages and Limitations of Joint Stock Companies;
- suggest the suitability of Joint Stock Company as a form of Business organization; and
- meaning of Multinational Company

4.1 MEANING OF CO-OPERATIVE SOCIETY

The Cooperative moment has been the outcome of the economic and social imbalances caused by the Industrial Revolution, Cooperative Societies have acquired significance in both capitalist countries as the US and Japan, as well as in socialist countries.

The term co-operation is derived from the Latin word co-operari, where the word *co* means 'with' and *operari* means 'to work'. Thus, co-operation means working together. It means those who want to work together with some common economic objective can form a society which is termed as "co-operative society". It is a voluntary association of persons who work together to promote their economic interest. It works on the principle of self-help as well as mutual help. Nobody joins a cooperative society to earn profit. People come forward as a group, pool their individual resources, utilize them in the best possible manner, and derive some common benefit out of it.

Picture of Cooperative Society

"Cooperation is a form of organization wherein persons voluntarily associate together as human beings, on a basis of equality, for the promotion of economic interests of themselves".

For example , if the students of a particular locality join hands to provide books of different standard and thus, form a co-operative society. Now they can buy books directly from the publishers and sell them to students at a cheaper price. Because they buy books directly from the publishers and thereby the middlemen's profit is eliminated. Do you think it would have been possible on the part of a single consumer to buy books directly from the publishers. Of course, not, this could only be possible through mutual cooperation only.

4.2 CHARACTERISTICS OF CO-OPERATIVE SOCIETIES

A co-operative society is a special type of business organization different from other forms of business organization you have learnt earlier. Let us discuss its characteristics.

1. ***Voluntary Association***: A Cooperative Society is a voluntary association of persons. A member can join the society as and when he likes, continue for as long as he likes, and leave the society at will.
2. ***Open Membership***: The membership of a Co-operative Society is open to all those who have a common interest. Membership is not restricted on the basis of caste, sex, colour or religion, but may be limited to the employees of a particular organisation.
3. ***Separate Legal Entity***: A cooperative undertaking must seek registration under the Cooperative Societies Act, 1912, or under the relevant

Cooperative Societies Act of the State Government. A cooperative society, has a separate legal existence, distinct from its members.

4. ***Source of Finance***: The capital of a cooperative society is raised from among its members in the form of share capital. However, it can easily raise loans and secure grants from government after its registration.
5. ***Service Motive***: The primary aim of a cooperative society is service to its members, though it may also in the process happen to earn reasonable profits for itself.
6. ***Voting Power***: Each member has only one vote, irrespective of the number of shares held by him or her.

4.3 TYPES OF CO-OPERATIVE SOCIETIES

Co-operatives socities may be classified on the basis of the nature of services rendered by them. The following are the main types of cooperatives societies.

1. ***Consumer's Co-operative Societies***: These societies are formed to protect the interest of general consumers by making consumer goods available at a reasonable price. They purchase goods directly from the producers, this eliminate the middlemen in the process of distribution. Kendriya Bhandar, Apana Bazar and Super Bazar are examples of consumers' co-operative societies.
2. ***Producers Co-operative Societies***: These societies are formed to protect the interest of producers who are basically small in size, by making available items of their needs for production like raw materials, tools and equipments and machinery, etc. Handloom societies like APPCO, Bayanika, Haryana Handloom, etc., are examples of producers' co-operative societies.
3. ***Marketing Cooperative Societies***: These are cooperatives societies of small producers and manufactures who find it difficult to sell their products individually. These societies collect the products from the individual members and takes the responsibility of selling those products in the market. Gujarat Co-operative Milk Marketing Federation that sells AMUL milk products is an example of marketing co-operative society.
4. ***Thrift and Credit Cooperative Societies***: These societies are formed to provide financial support to the members. They accept deposits from members and grant them loans at reasonable rates of interest in times of need. Village Service Co-operative Society and Urban Cooperative Banks are examples of co-operative credit society.
5. ***Cooperative Group Housing Societies***: These are residential societies which are formed to provide residential houses to members. They

purchase land and construct houses or flats and allot the same to members.

INTEXT QUESTIONS 4.1

Fill in the blanks with suitable word(s) in the following statements:

i. A co-operative society is a _______ association of individuals who come together to achieve common _______ objectives.

ii. The motive of cooperative society is to provide ________ to the members.

iii. A cooperative society have separate ________ from the members.

iv. A co-operative society works on the principle of self-help as well as _____.

v. Consumers' co-operative societies help to eliminate _______ in the process of distribution goods.

vi. Apna Bazar and Kendriya Bhandar are example of _____ co-operative societies.

4.4 ADVANTAGES OF CO-OPERATIVE SOCIETY

A Co-operative form of business organization has the following advantages:

1. ***Voluntary Organization***: It is a voluntary organization that can flourish under both the capitalist and socialist economic systems.
2. ***Democratic Control***: A Co-operative Society is controlled in a democratic manner. The management is democratic, based on the one man, one vote concept.
3. ***Open Membership***: Those persons who have common interest can form a co-operative society. Any competent person can become a member at any time he/she likes and can leave the society at will.
4. ***Elimination of Middlemen's Profit***: Generally the profit of middlemen is eliminated because through cooperatives the members control their own supply of goods, which were purchased by them directly from different manufacturers.
5. ***Limited Liability***: The liability of members in case of co-operative society is limited to the extent of capital contributed by them. Unlike sole proprietorship and partnership the properties of members of the co-operative societies are free from any kind of risk because of business liability.
6. ***Stable Life***: A co-operative society has a fairly stable life and it continues to exist for a long period of time. Its existence is not affected by the death, insolvency, lunacy or resignation of any of its members.

4.5 LIMITATIONS OF CO-OPERATIVE SOCIETY

Besides the above advantages, the co-operative form of business organization also suffers from various litimitions. Let us know these limitations.

1. ***Lack of Motive***: The members do not work with full zeal and devotion as there is no profit motive.
2. ***Limited Capital***: The amount of capital that a cooperative society can raise from its member is very limited because the membership is generally confined to a particular section of the society.
3. ***Problems in Management***: The management of a cooperative may not be particularly competent, because a cooperative generally offers only low scales of remuneration to the staff employed.
4. ***Lack of Commitment*****:** The success of a cooperative depends on the loyalty of its members, something that is neither assured nor can be enforced.
5 ***Lack of Co-operation***: The co-operative societies are established with the objective of mutual co-operation. But it is generally seen that there is a lot of friction between the members because of personality differences, ego clash, etc. The selfish attitude of members may sometimes being an end to the society.

INTEXT QUESTIONS 4.2

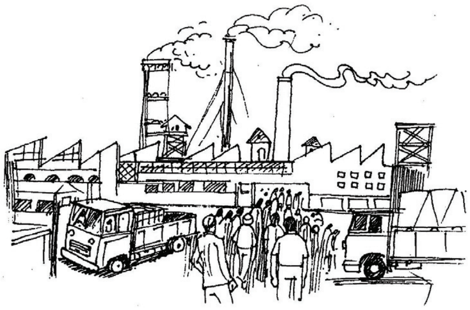
Which of the following statements about co-operative societies are true or false?

i. Any competent person can become a member of a cooperative society, at any time.
ii. The liability of the members is limited.
iii. It can exist for a long time due to a legal entity separate from its members.
iv. The society is managed by one person only.
v. The Co-operative Societies are formed to provide service rather than maximizing profit.
vi. Co-operative Societies are formed to provide service rather than maximizing profit.
vii. Professional managers do not prefer to work in co-operative societies because they do not get adequate remuneration.
viii. The success of a cooperative society depends on the loyalty of its members, something that is neither assured nor can be enforced.

Notes

4.6 MEANING OF JOINT STOCK COMPANY

The companies in India are governed by the Indian Companies Act, 1956. According to the Act 'a company means a company formed and registered under this act'



Picture of a Joint Stock Company

It is an artificial person created by law, having a separate legal entity, with perpetual succession and a common seal.

The capital of a company is divided into a number of shares of equal value. Members of the company holding one or more shares, are called the company's shareholders

4.7 CHARACTERISTICS OF A JOINT STOCK COMPANY

1. ***Artificial legal Person***: A company is an artificial person created by law and existing only in contemplation of law. A human being who takes birth, grows, enters into relationships and dies, whereas a joint stock company also takes birth, grows, enters into relationship and dies. However, it is called an artificial person as its birth, existence and death are regulated by law.
2. ***Separate Legal Entity***: A company has a separate legal entity distinct from its members. It can own property and enter into contracts in its own name. It can sue and be sued in its own name.
3. ***Perpetual Succession***: A company enjoys a perpetual succession and its life is not affected by the death, insolvency, lunacy, etc. of its members or directors.
4. ***Limited Liability***: Liability of the members of a limited company is limited to the value of the shares subscribed by them or to the amount of guarantee given by them.
5. ***Common Seal***: A company has a common seal because being an artificial person it cannot sign for itself.
6. ***Transferability of Shares***: The shares of a public limited company are freely transferable. They can be purchased and sold through the Stock Exchange.
7. ***Separation of Ownership and Management***: The number of members of a public company is generally very large so all of them or most of them cannot take part in the day to day management of the company. The company is managed by Board of Directors who are elected by the members, hence the ownership of a company is seprated from its managements.

INTEXT QUESTIONS 4.3

Which of the following statement is True and which is False?

i. Legal formality is required to form a Joint Stock Company.

ii. The shares of a public limited company are freely transferable.

iii. The shareholders of a Joint Stock Company have unlimited liability.

iv A Joint Stock Company cannot own property on its own name.

4.8 TYPES OF COMPANIES

On the basis of ownership companies can be of four different types - Private Limited Company, Public Limited Company and Government Company and Multinational company.

Private Company

According to Indian Companies Act 1956 , Private Company means a company which has a minimum paid-up capital of one lakh rupees or such higher paid up capital, as may be prescribed, and by its articles. It has following features :

(a) Restricts the right of its members to transfer their shares.

(b) Limits the number of its members to fifty only.

(c) Prohibits any invitation to the public to subscribe for any shares or debentures of the company; and

(d) Prohibits any invitation or acceptance of deposits from persons other than its members, directors or their relatives.

Public Company

According to Indian Companies Act 1956, Public Company is defined as a company which is not a Private Company. It has following features :

(a) Its shares can be transferred freely.

(b) Has a minimum paid up capital of five lakh rupees or such higher paid up capital, as may be prescribed.

(c) Whose members have limited liability.

(d) The number of shareholders can be up to the number of issued and subscribed shares or even more but the minimum number should not be less than seven.

4.9 DIFFERENCE BETWEEN PRIVATE LIMITED AND PUBLIC LIMITED COMPANIES

1. In the case of a private company minimum number of persons required to form a company is two, while it is seven in the case of a public company.

2. A private company has to have a minimum paid up capital of Rs. 1 lakh, whereas a public company has to have a minimum paid up capital of Rs. 5 lakh.
3. In case of a private company the maximum number of members must not exceed fifty whereas there is no such restriction on the maximum number of members in case of a public company.
4. In private company the right to transfer shares is restricted, whereas in case of public company the shares are freely transferable.
5. A private company cannot issue a prospectus, while a public company may invite the general public to subscribe for its Shares or Debentures.
6. A private company must have at least two Directors, whereas a public company must have at least three Directors.
7. A private company can commence business immediately after receiving the certificate of incorporation, while a public company can commence business only when it receives a certificate to commence business from the Registrar of Companies.
8. A private company need not hold a statutory meeting but a pubic company must hold a statutory meeting and file a statutory report with the Registrar.
9. Two members personally present form the quorum in a private company but in a public company this number is five members.

INTEXT QUESTIONS 4.4

Fill in the blanks with suitable word(s) in the following statements:

1. There should be at least ________________ members in a Private Limited Company.
2. Freely transfer of shares from one member to another is not possible in case of ____________ Limited Company.
3. Hindustan Machine Tools is ______________ Company.
4. Minimum amount of capital required to start a private limited company is Rs ____________.

4.10 ADVANTAGES OF JOINT STOCK COMPANIES

There are many advantages which the company form of business organization enjoys over other form of business organizations some of them are as follows:

1. ***Limited Liability***: Shareholders of a company are liable only to the extent of the face value of shares held by them.
2. ***Large Financial Resources***: Company form of ownership enables the collection of huge financial resources. The capital of a company is

divided into shares of small denominations so that people with small means can also buy the shares of a company.

3. ***Continuity***: A company enjoys uninterrupted business life. As a body corporate, it will continue to exist even if all of its members die or desert it.
4. ***Transferability of Shares***: The shares of a pubic limited company can be freely transferred by the members without the consent of other members.
5. ***Diffused Risk***: The risk of loss in a company is spread over a large number of members.
6. ***Social Benefits***: The company organization helps to mobilize savings of the community and invest them in industry.

4.11 LIMITATIONS OF JOINT STOCK COMPANIES

1. ***Difficulty of Formation***: It is a very difficult and expensive to form a company. A number of documents have to be prepared and filed with the Registrar of companies.
2. ***Excessive Government Control***: A company is subject to elaborate statutory regulations in its day-to-day operations. Periodical reports. Audit and Publications of accounts is obligatory.
3. ***Oligarchic Management***: The management of a company is supposed to be democratic but in practice company becomes an Oligarchy (rule by few).
4. ***Delay in Decision***: Too many levels of management create problems in taking decisions. A lot of time is wasted in calling and holding meetings and in passing resolutions.
5. ***Lack of Secrecy***: Under the Companies Act, 1956 a company is required to disclose to the public a variety of information on its working. This results in lack of secrecy.

4.12 SUITABILITY OF JOINT STOCK COMPANY

The company form of organization is suitable for large business concerns. It has made it possible to accumulate large amounts of capital required for large scale operations. Machine manufacturing, information technology, iron and steel, aluminum, fertilizers, and pharmaceutical etc., are generally organized in the form of Joint Stock Company.

4.13 GOVERNMENT COMPANY

A Government Company has been defined by the Indian Companies Act 1956 as one of which not less than 51 per cent of the paid-up share capital is held by the Government (Union or State) and includes subsidiaries of such companies. The audit of Government companies is done at the instance of the Comptroller and Auditor General of India (CAGI) and the reports presented before the Parliament.

A Government Company

Instances of prominent Government companies in India would include Hindustan Machine Tools (HMT), Coal India, SAIL,NTPC, MTNL, ONGC etc.

Other particular characteristic of a Government company may be listed as follows:

1. It has a separate legal existence.
2. Either the whole or at least 51 per cent of the total paid up share capital is held by the Government.
3. All the Directors or a majority of them are appointed by the company.
4. Its employees are not civil servants.

INTEXT QUESTIONS 4.5

Fill in the blanks with suitable word(s) in the following statements:

i. The liability of members of a joint stock company is limited to the extent of the ____________.

ii. A joint stock company form of business organization is managed by ____________.

iii. The cost of formation of a company is very ____________.

iv. Indian Oil Corporation and ONGC are the example of ____________.

v. The risk of loss in a company is spread over a large number of ____________

4.14 MEANING OF MULTINATIONAL COMPANIES

It is a company which carries on business not only in the country of its incorporation but also in one or more other countries. 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 Companies (MNCs) running business in

Multinational Company

India, like Philips, LG, Hyundai, General Motors, Coca Cola, Nestle, Sony, McDonald's City Bank, Pepsi Foods, Cadbury, etc.

The Multinational Companies enjoy several advantages by way of huge earnings due to large-scale production and distribution activities across national borders.

4.15 ADVANTAGES OF MULTINATIONAL COMPANIES

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

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

(iii) **Use of Advanced Technology:** With substantial resources Multinational Companies 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.

(iv) **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 Companies.

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

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

4.16 LIMITATIONS OF MULTINATIONAL COMPANIES

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

i. **Least concern for priorities of host countries:** Multinational Companies 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.

ii. **Adverse effect on domestic enterprises:** Due to large-scale operation and technological skills, Multinational Companies 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.

iii. **Change in tradition:** Consumer goods, which are introduced by Multinational Companies in the host countries, do not generally conform to the local cultural norms. Thus, consumption habits of people as regards food and dress tend to change away from their own cultural heritage.

INTEXT QUESTIONS 4.6

I. Given below are some statements about Multinational Company. State which of them are true and which are false :

(i) Multinational Companies slow down the economic development of the under developed countries.

(ii) Multinational Companies help to earn foreign exchange for the host countries.

(iii) Domestic producers improve their performance because of Multinational Companies.

(iv) Generally Multinational Companies invest money in profitable industries.

(v) Multinational Companies never dominate the markets of the host countries.

II. Multiple Choice Questions

i. Cooperative societies do not have the following characteristics

(a) Open Membership (b) Separate legal entity

(c) Profit Motive (d) Voting Power

ii. Which of the following is not an example of consumer cooperative society?

(a) Apna Bazar (b) Kendriya Bhandar,

(c) Super Bazar (d) Narain Group Housing Society.

iii. Liability of the members of a cooperative society is

(a) Limited (b) Unlimited

(c) Joint (d) Joint & Several.

iv. The success of a cooperative society depends on

(a) Loyalty of its members (b) Central Government

(c) State Government (d) Local Self Government

v. In a Private Limited Company, capital is contributed by:

(a) Central Government (b) Public and Government only

(c) Its own members only (d) Issue of shares to Public only.

WHAT YOU HAVE LEARNT

- A Cooperative Society is a voluntary association of individuals having common needs who join hands for the achievement of common economic interest of the poorer sections of society through mutual help.
- Characteristics of a Cooperative societies :
  1. Voluntary Association
  2. Open Membership
  3. Separate Legal Entity
  4. Source of Finance
  5. Service Motive
  6. Voting Power:
- A cooperative society can be formed under the Indian Cooperative Societies Act, 1912, with a minimum of ten members. For registration, an application along with bye laws of the society has to be submitted to the Registrar of co-operative societies.
- **Types of Cooperatives Societies :** Consumer's Co-operative Societies, Producers Co-operative Societies, Marketing Cooperatives Societies, Thrift and Credit Societies, Cooperative Group Housing Societies.
- **Advantages of Co-operative Societies :** Voluntary Organization, Democratic Control, Open Membership, Elimination of Middlemen's Profit, Limited Liability, Stable Life.
- **Limitations of Co-operative Societies :** Lack of Motive, Limited Capital, Problems in Management, Lack of Commitment, Lack of Co-operation.
- A Joint stock company is an artificial person created by law, having separate legal entity, with perpetual succession and a common seal. The companies are governed by the Indian Companies Act , 1956.
- **Characteristics of Joint Stock Company :** Artificial legal person, Separate legal entity, Perpetual Succession, Limited Liability of members, Common Seal, Transferability of Shares, Seperation of Ownership and Management.
- **Types of Companies :** Private limited Companies, Public Limited Companies, Government Companies, Multinational Companies.
- **Advantages of Joint Stock Company :** Limited Liability, Large Financial Resources, Continuity, Transferability of Shares, Diffused

Risk, Social Benefits.

- **Limitations of Joint Stock Companies :** Difficulty of Formation, Excessive Government Control, Oligarchic Management, Delay in Decision, Lack of Secrecy.
- **Government Company:** A company in which at least 51 percent shares are held by Central or State Government(s).
- **Multinational Company:** It is a company which carries on business not only in the country of its incorporation but also in one or more other countries

TERMINAL EXERCISE

1. What is the meaning of cooperative society ?
2. What are the activities undertaken by a Consumer's Co-operative Society?
3. Give two examples each of consumer's cooperative societies and producers cooperative societies.
4. What is meant by Thrift and Credit Society ?
5. What are the causes of conflict and lack of motivation among members of a cooperative society.?
6. Give the difference between ' Producers co-operative society' and 'Marketing cooperative society'.
7. What is meant by Joint Stock Company.?
8. State the advantages of Joint Stock Company.
9. State the meaning of Multinational Company
10. Describe any four characteristics of Joint Stock Company.
11. What are the features of Private Limited Company ? How does it differ from Public Limited Company. ?
12. Distinguish Between Private Limited and Public Limited Company.
13. Enumerate the advantages of Joint Stock Company.
14. State the limitations of Joint Stock Company.
15. Give five examples of Multinational Companies.

ANSWER TO INTEXT QUESTIONS

4.1 (i) Voluntary , Economic (ii) Services (iii) Legal entity
(iv) mutual help (v) middlemen (vi) Consumer

4.2 (i) true (ii) true (iii) true (iv) false
(v) true (vi) true (vii) true (viii) true

4.3 (i) true, (ii) true (iii) false (iv) false

4.4 (i) two (ii) private (iii) Government (iv) one lakh

4.5 (i) face value of shares held by them
(ii) Board of directors
(iii) high
(iv) Indian multinational companies
(v) members.

4.6 I. (i) False, (ii) True, (iii) True, (iv) True, (v) False
II. (i) c, (ii) d, (iii) a, (iv) a, (v) c

ACTIVITIES FOR YOU

- Search any cooperative society in your locality. Try to find out
  a) Activities of the society
  b) Number of members of the society
  c) Any problem faced by the society.

- Search any one company whether it is private, public, government or multinational and try to gather information regarding its incorporation and the operation of their business.