

## UNIT – III

### INTRODUCTIN TO MARKETS AND PRICING POLICIES

- ◆ Introduction
- ◆ Definition
- ◆ Market structures
- ◆ Types of competition
- ◆ Features of perfect competitions
- ◆ Monopoly
- ◆ Monopolistic competition
- ◆ Price-output determination under perfect competition
- ◆ Price-output determination under monopoly
- ◆ Methods of pricing

**INTRODUCTION:-** Markets constitute an important phase in the economic activity. All the goods and services that are produced need to be sold to the consumer for a price. Markets facilitate this process.

We cannot imagine a society without markets even for a while. Markets primarily provide possession utility for the goods and services. In other words the seller sells the goods to the buyer and thus transfers ownership of the goods.

**DEFINATION:-** Market is defined as a place or point at which buyers and sellers negotiate their exchange of well defined products or services.

Earlier market refers to a place where goods are produced and sold communication facilities helps us today to purchase and sell without going to the market.

All the objectives of purchasing and selling wherever they take place are now called as a market.

### MARKET STRUCTURE OR CLASSIFICATION OF MARKETS

There are three important factors in classification of markets

1. The number of buyers and sellers.
2. The area coverage
3. Time periods.

#### **I. Competition based Markets:**

1. **Perfect competition:-** It is a market with a very large number of buyers and sellers market conditions are favorable to promote competition such market is called as perfect competition.
2. **Imperfect competition:-** Market with a limited number of buyers and sellers come under imperfect competition. Based on the number of producers, monopolistic competition and oligopoly.

## **II. Area Based Market:**

Market based on area broadly classified into local, national, international market. It depends on size of the market.

1 **.Local market:-** sometimes a particular commodity is exchanged in the locality where it is produced. Then the commodity is said to have a local market.

**Ex:-** Vegetables, flowers, fruits may be produced and marketed in the same area.

2. **National market:-** A commodity will have national market if it is demanded and supplied by people in different parts of the country.

**Ex:-** wheat, sugar, cotton etc.

3. **International market:-**If a commodity is sold and purchases in different countries it is said to have international market.

**Ex:-** gold, silver, cotton.

## **III. Time based Market:**

1 **.Market period or very short period:-**A producer cannot make any changes in the supply of a good during this period. As we know, supply can be a changed by market changes in the inputs. Inputs cannot be changed in the very short period.

**Ex:-** A farmer on a particular day supplies whatever vegetables gets from the field.

2. **Short period:-** It is a period in which supply can be changed to same extent. This is possible by changing certain inputs.

**Ex:-** in a period of two to three weeks a farmer may use more fertilizer, water to increase his supply.

3. **Long period:-** A producer makes changes in all inputs depending upon the demand in the long period. It is possible to make adjustments in supply in this period.

## TYPES OF COMPETITION

1. Perfect competition
2. Imperfect competition

### PERFECT COMPETITION

Among different markets, markets based on competition are important. Perfect competition is a market with a large number of sellers and buyers. The conditions under it promote competition among producers. There will be a single price throughout the market.

Features of perfect competition: The following are features of perfect competition

- 1. Large number of buyers and sellers:-** There should be significantly large number of buyers and sellers in the market. The number should be so large that it should not make any difference in terms of price or quantity supplied even if one enters that market or one leave the market.
- 2. Homogeneous product or services:-** The product and services of each seller should be homogeneous. They cannot be differentiated from that of one another. It makes no difference to the buyer whether he buys from firm x or firm z. The price is one and the same in every firm. There are no concessions or discounts.
- 3. Freedom to enter on exist the market:-** There should not be any restrictions on the part of the buyers and sellers to enter the market or leave the market. There should not be any barriers. The buyers can enter market whenever they want.
- 4. Perfect information available to the buyers and sellers:-** Each buyers and seller has total knowledge of the prices prevailing in the market at every given point of time, quantity supplied, costs, demand, nature of product, and other relevant information. There is no need for any advertisement expenditure as the buyers and sellers are fully informed.
- 5. perfect mobility of factors of production:-** There should not be any restrictions on the utilization of factor of production such as land, labor, and capital and so on.
- 6. Each firm is a price taker:-** An individual firm can alter its rate of production or sales without significantly affecting the price of the product. A firm in a perfect market cannot influence the market through its own individual actions. It has no alternative other than selling its products at the price prevailing in the market. It cannot sell as much as it wants at its own set price.

Under such market, no single buyer or seller can play a significant role in determining the price. In other words, the price is determined by the industry as a whole, which comprises both buyers and sellers.

## **PRICE-OUT PUT DETERMINATION UNDER PERFECT COMPETITION**

Perfect competition is a market where sellers are large in number. They sell goods at the perfect competition is a market where sellers can sell any quantity of output at the market price. In such a market the nature of revenues are explained with the help of the following table.

All the units of output are sold at the same price Rs.10.0 output multiplied with price is the total revenue. Total revenue is increased in equal amounts every time. One important aspect is that average and marginal revenue are same. These are equal to price of the goods. Therefore, in this market, price average and marginal revenue are one and the same.

$$\text{Price} = \text{AR} = \text{MR}$$

In the below figure average cost (AC) and marginal cost (MC) are the firms average and marginal cost curves. Graph.....

## **IMPERFECT COMPETITION**

1. MONOPOLY
2. MONOPOLISTIC COMPETITION
3. OLIGOPOLY

### **MONOPOLY**

Monopoly refers to a situation where a single firm is in a position to control either supply or price of a particular product or service. It cannot control or determine both price and supply, as it cannot control demand. If it decides on the price, it can determine the quantity supplied at the given price, or if the quantity is decided, the price can be determined

If the firm sets the price higher it may have to lose sales, and such it can either fix the output or price not both. What it can decide depends on the demand and costs.

Monopoly exists where there are certain restrictions on the entry of other firms in to business or where there are no close substitutes for a given product or service. These factors determine the degree of hold for the monopolist on the market in terms of influencing the price and ability to earn super normal profits.

#### **Features of monopoly:-**

1. There is a single firm dealing in a particular a service.
2. There are no close substitute and no competitors.
3. The monopolist can decide the price or quantity, not both.
4. Firm and industry are the same.
5. Producer is a price maker.

### **PRICE OUTPUT DETERMINATION UNDER MONOPOLY**

Under monopoly, the average revenue curve for a firm is a downward sloping one. It is because, if the monopolist reduces the price of his product, the quantity demanded increases and vice versa. In monopoly, marginal and revenue is less than the average revenue. In other words, the marginal revenue curve lies below the average revenue curve.

The monopolist always wants to maximize his profits. To achieve maximum profits, it is necessary that the marginal revenue should be more than the marginal cost.

The monopolist can continue to sell long as the marginal revenue exceeds marginal cost. At the point 'F' where  $MR=MC$ , Profit will be maximized. Profit will diminish if the production is continued beyond this point.

From the above figure it can be seen that the demand curve or average revenue by AR, marginal revenue curve by MR, average cost by AC, and marginal cost by MC. OQ is the equilibrium output, OA is the equilibrium price, QC is the average cost, and BC is the average profit  $AR-AC = \text{Average profit}$ .

Up to OQ output, MR is greater than MC and beyond OQ, MR is less than MC. Therefore, the monopolist will be in equilibrium at output OQ where  $MR=MC$  and profits are maximum. OA is the corresponding price to the output level of OQ. The rectangle ABCD represents the profits earned by the monopolist in the equilibrium position in the short-run.

Graph.....

**PRICE DISCRIMINATION:** When a firm sells its product to its customers of different profile at different prices with no corresponding increase in cost, price discrimination is also called as differential pricing. Customers may differ in their profile in terms of other education, knowledge about the prevailing prices, quality of the competitive products, income groups, quality of life by charging different prices to different customer the firm tries to increase its profit by reducing the surplus.

Through price discrimination they can take advantages of a situation where in some customers may be prepared to pay more.

**1. The Basis of price Discrimination:-** The following are the factors that determine the degree of price discrimination

2. **Purchasing power:-** The firm is likely to charge a high price from a customer who has the ability to pay a higher price. Urgency quality consciousness, high quality living and so forth are some of the factors that compel the rich customers to pay a high price.

3. **Quality bought:-** A customer buying large number of units is relatively charged a lower rate per unit.

4. **Customer from different market conditions:-** If the goods are brought for further processing or resale, the buyer maybe charged a lower price. If the goods are bought for ultimate consumption, the buyer may be charged relatively higher.

### **Comparison between perfect competition and monopoly:**

#### **Perfect competition**

1.  $AR=MR$
2. Normal profit in long run
3. Large number of sellers
4. Free entry and exist as there are no barriers
5. The seller is only the price taker
6. Perfect elastic
7. Each firm is a part of industry

#### **Monopoly**

1.  $AR > MR$
2. Supernormal profits in long run also
3. Single seller.
4. There are strong barriers.
5. Monopolists are the price maker.
6. Inelastic
7. Firm and industry are one and the same.

## **MONOPOLISTIC COMPETITION**

The common experience for all of us is most of the commodities are produced by several firms. But each firm produces the commodity with small differences.

Monopolistic competition is a market with many sellers for a product but the products are different in certain respects.

### **The main features of monopolistic competition**

1. Considerable number of producers but no one controls the price.
2. Product differentiation.
3. Entry and exit are free
4. Selling cost is more to increase the sales by total firm because of all are Substitutes.
5. Imperfect knowledge about all products.

**6. Price decision:-** Each firm produces a commodity with small differences, due to this reason that a firm will decide the price for its product.

A small reduction in price will cause more demand for the commodity. An increase in price leads to a greater fall in the demand.

## **Oligopoly**

A market with a small number of producers is called oligopoly. The product may be homogenous or there may be differences. Since producers are a few, each firm produces a large portion of the output. It is a market with competition among the few.

It is difficult for new firms to enter because of huge investments required for it.

Ex:- Automobiles, Electricals etc.

### **Features of oligopoly**

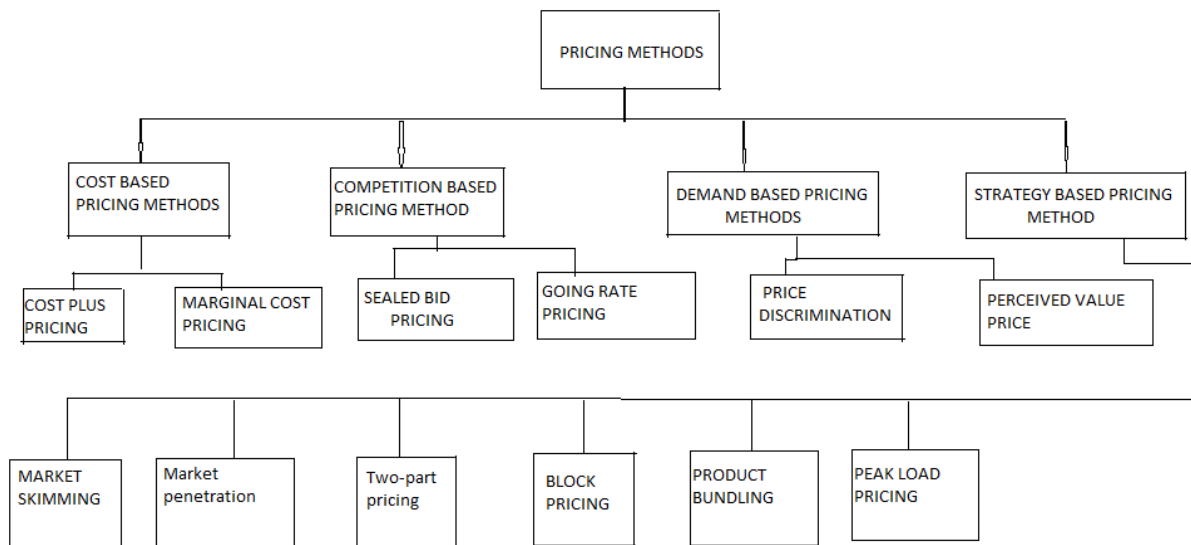
1. Less number of firms
2. Interdependence
3. Selling cost.
4. Uncertainty in pertaining to demand.



## PRICING OBJECTIVES

1. To maximize profits
2. To increase the sale
3. To increase the market share
4. To satisfy customers
5. To meet the competition

## PRICING METHODS



### I. COST BASED PRICING METHODS

**1. Cost plus pricing:** This is also called “full cost or mark up” pricing. Hence the average cost at normal capacity of output is ascertained and then a conventional margin of profit is added to the cost to arrive at the price in other words find out the product units total cost and add a percentage of profit to arrive at the selling price.

**2. Marginal cost pricing:-** In marginal cost pricing selling price is fixed in such a way that it covers fully the variable or marginal cost and contributes towards recovery at fixed costs or partly depending upon the market situations.

## II. COMPETITION –ORIENTED PRICING

**1. Sealed bid pricing:** This method is more popular in tenders and contract, each contracting firm quotes its price in a sealed cover called “tender” All the tenders are opened on a schedule in date and the person who quotes the lowest price other things remaining the same is awarded the contract.

**2. Going rate price:-** Here the price charge by the firm is in tune with the price charged in the industry as whole. In other words the prevailing market price at a given point of time is the guiding factor. When one wants to buy or sell gold, the prevailing market rate at given point of time is taken as the basis to determine the price.

## III. DEMAND ORIENTED PRICE

**1. Price discrimination:-** It refers to the practice of charging different prices to the customers for the same good. The firm uses its discretion to charge differently to different customers it is also called as “differential pricing”.

**2. Perceived value pricing:-** it refers to where the price is fixed on the basis of the perception of the buyers of the value of the product.

## IV. STRATEGY-BASED PRICING

**1. Market skimming:-** When the product is introduced for the first time in the market, the company follows this method. Under this method the company fixes a very high price for the product. The main idea is to charge the customer maximum possible. This strategy is most found in case of technology products. When Sony

Introduces a particular TV model, it fixes a very high price. When new series of Pentium is released in to market, it is priced very high. Initially all cannot afford except a very few. As the time passed by the price comes down and more people cannot to buy.

**2. Market penetration:-** This is exactly opposite to the market skimming method. Here the price of the product is fixed so low that the company can increase its market share. The company attains profits with increasing volumes and increase in the market share. More often, the companies believe that it is necessary to dominate the market in the long run than marketing profits in the short run. This method is more suitable where market is highly price sensitive.

**3. Two part pricing:-** The firms with market power can enhance profits by the strategy of two part pricing. Under this strategy, a firm charges a fixed fee for the right to purchase its goods, plus a per unit charge for each unit purchased. Entertainment houses such as country clubs, athletic clubs and health clubs usually adopt this strategy.

**4. Block pricing:-** Block pricing is another way a firm with market power can enhance its profit. We see block pricing in our day to day life very frequently. Six lox soaps in a single pack illustrate this pricing method. By selling certain number of units of a product as one package, the firm earns more than by selling unit wise. The block pricing is a profit maximization price on each package.

**5. Commodity bundling:-** commodity bundling refers to the practice of bundling two or more different product together and selling them at a single 'bundle price' commodity bundling is a viable price strategy to enhance profits when consumers differ with respect to the amounts they are willing to pay for multiple products sold by a firm.

**6. Peak-load pricing:-** During seasonal period when demand is likely to be higher a firm may enhance profit by peak load pricing. The firms philosophy is to charge a higher price during peak times than is charged during off peak times. That the business is not lost to the competitors. The firm following such a strategy covers the likely losses during the off peak times from the likely profits from the peak times.

## **BUSINESS ORGANISATIONS AND NEW ECONOMIC ENVIRONMENT**

- Characteristic features of business
- Features and evaluation of sole proprietorship
- Partnership
- Joint stock company
- Public enterprises and their types
- Changing business environment in post liberalization scenario

## **INTRODUCTION:-**

Imagine you want to do business. Which business are you interested in? FOR example, you want to get into InfoTech industry. What can you do in this industry? WHICH one do you choose? The following are the alternative you have on hand.

- You can buy and sell.
- You can set up a small/medium/large industry to manufacture.
- You can set up a workshop to repair.
- You can develop software.
- You can design hardware.
- You can be a consultant/trouble shooter.

If you choose any one or more of the above, you have chosen the line of activity. The next step for you is to decide whether.

- 1) You want to be the only owner.
- 2) You want to take some more professionals as co-owners along with you.
- 3) You want to be a global player by mobilizing large resources across the country/world.
- 4) You want to bring all like-minded people to share the benefits of the common enterprise.
- 5) You want to involve government in the IT business.

## **FACTORS AFFECTING THE CHOICE OF FORM OF BUSINESS ORGANISATION**

Before we choose a particular form of business organization, let us study what factors affect such a choice? The following are the factors affecting the choice of a business organization.

- 1) **EASY TO START AND EASY TO CLOSE:-**The form of business organization should be such that it should be easy to start and easy to close. There should not be hassles or long procedures in the process of setting up business or closing the same.
- 2) **DIVISION OF LAB OUR: -** There should be possibility to divide the work among the available owners. The idea is to pool the expertise of all the people in business and run the business.
- 3) **LARGE AMOUNT OF RESOURCES:-**Large volume of business requires large volume of resources. Some forms of business organizations do not permit to raise larger resources. Select the one which permits to mobilize the large resources.
- 4) **LIABILITY: -** The liability of the owners should be limited to the extent of money invested in business. It is better if their personal properties are not brought into business to make up the losses of the business.
- 5) **SECRECY: -** The form of business organization you select should be such that it should permit to take care of the business secrets.
- 6) **TRANSFER OF OWNERSHIP: -** There should be simple procedures to transfer the ownership to the next legal heir.
- 7) **OWNERSHIP, MANAGEMENT AND CONTROL: -** If ownership, management and control are in the hands of one or small group of persons, communication will be effective and co-ordination will be easier. Where ownership, management and control are widely distributed, it calls for a high degree of professional skills to monitor the performance of the business.
- 8) **CONTINUITY: -** The business should continue forever and ever irrespective of the uncertainties in future.
- 9) **QUICK DECISION MAKING:-**Select such a form of business organization which permits you to take decisions quickly and promptly.
- 10) **PERSONAL CONTACT WITH CUSTOMERS: -** Most of the times, customers give us clues to improve business. So choose such a form which keeps you close to the customers.

**11) FLEXIBILITY:-**In times of rough weather, there should be enough flexibility to shift from one business to the other. The lesser the funds committed in a particular business the better it is.

**12) TAXATION: -** More profit means more tax. Choose such a form which permits to pay low tax.

## **FORMS OF BUSINESS ORGANISATION**

- a) Sole trader (or) proprietorship.
- b) Partnership.
- c) Joint stock company.
- d) Co-operative society.
- e) Public enterprises.

### **SOLE TRADER (OR) PROPRIETORSHIP**

The sole trader is the simplest, oldest and natural form of business organization. 'Sole' means one. 'Sole trader' implies that there is only one trader who is the owner of the business.

It is one-man form of organization where the trader assumes all the risk of ownership carrying out the business with his own capital, skills and intelligence. He is the boss for himself. He is responsible for himself. This form of organization is popular all over the world.

**Example:** Restaurants, supermarkets, medical shops etc.

### **FEATURES:-**

- 1) It is easy to start and easy to close.
- 2) He introduced his own capital, sometimes he may borrow.
- 3) He enjoys all the profits and in case of loss, he alone suffers.
- 4) As he is alone, he has to look after himself all the activities related to purchase, sale, cash etc.
- 5) Business secrets can be guarded well.
- 6) There is no continuity. The business comes to a close with the death, illness or insanity of the sole trader.
- 7) He has total operational freedom. He is the owner, manager and controller.
- 8) He can be directly in touch with customers.
- 9) He can take decisions very fast and implement them promptly.
- 10) Rate of tax for example, income tax and so on are comparatively very low.

## **ADVANTAGES:-**

- 1) **Easy to start and easy to close:** - Formation of a sole trader form of organization is relatively easy. Even closing the business is easy.
- 2) **Personal contact with customers directly:** - Based on the tastes and preferences of the customers, the stocks can be maintained.
- 3) **Prompt decision making:** - To improve the quality of services to the customers, he can take any decision and implement the same promptly. He is The boss and he is responsible for his business. Decisions relating to growth or expansion can be made promptly.
- 4) **High degree of flexibility:-**  
Based on the profitability, the trader can decide to continue or change the business, if need be.
- 5) **. Secrecy:-**  
Business secrets can well be maintained because there is only one trader.
- 6) **Low rate of taxation:-**  
The rate of income tax for sale traders is relatively very low.
- 7) **Direct motivation:-**

If there are profits, all the profits belong to the trader himself. In other words, if he

Works max hard, he will get more profits. This is the direct motivation factor. At the same time, if he does not take active interest. He may stand to lose badly also.

### **8. Total control:-**

The ownership, management and control are in the hands of the sole trader and hence it is easy to maintain the hold on business.

### **9. Minimum interface by government:-**

Except in matters relating to public interest. Government does not interfere in the business matters of the sale trader, The sale trader is free to fix price for his products/services if he enjoys monopoly market.

### **10. Transferability:-**

The legal heirs of the sole trader may take the possession of the business.

## **DISADVANTAGES:**

### **1. Unlimited liability:-**

The liability of the sole trader is unlimited, it means that the sole trader has to bring his personal property to clear off the loans of his business. From the legal point of view he is not different from his business.

### **2. Limited amounts of capital:-**

The resources a sole trader can mobilize cannot be very large and hence this naturally sets a limit for the sale of operations.

### **3. No divisions of labour:-**

All the works related to different such as marketing, production, finance, labour and so on has to be taken care of by the sole trader himself. There is nobody else to take his burden. Family members and relatives cannot share as much interest as the trader takes.

### **4. Uncertainty:-**

There is no continuity in the duration of the business on the death, insanity or insolvency the business may come to an end.

### **5. Inadequate for growth and expansion:-**

This form is suitable for only small size, one man show type of organizations. This may not really work out for growing and expanding organizations

### **6. Lack of specialization:-**

The services at specialists such as accountants, market researchers, consultants and so on, are not within the reach of most of the sole traders.

### **7. More competition:-**

Because it is easy to set up a small business, there is a high degree of competition among the small business men and a few who are good in taking care of customer requirements alone can survive.

**8.Low bargaining power:-**The sole trader is in the receiving end in terms of loans or supply of raw materials. He may have to compromise many times regarding the terms and conditions of purchase of materials or borrowing loans from the finance houses or banks.

## **PARTNERSHIP**

**Introduction:-** Partnership is an improved form of sole trader in certain respects. Where there are like minded persons with resources, they can come together to do the business and share the profits/loss of the business in an agreed ratio. Person who have entered into such an agreement are individually called 'Partners' and collectively called 'firm'. The relationship among partners is called partnership.

According to Indian partnership Act 1932 partnership is relationship between two or more persons who agree to share the profits of the business carried on by all or any one of them acting for all.

## FEATURES

- 1) **Relationship:-**Partnership is a relationship among persons .It is a relationship resulting out of an agreement.
- 2) **Two or more persons: -** There should be two or more number of persons.
- 3) **There should be a business:-**  
Business should be conducted
- 4) **Agreement:-**  
Persons should agree to share the profit/losses of the business.
- 5) **Carried on by all or any one of them acting for all:-**  
The business can be carried on by all or any one of the persons acting for all this, means that the business can be carried on by one persons who is the agent for all other persons every partner is both an agent and a principal. Agent for other partners and principal for himself.
- 6) **Unlimited liability:-**  
The liability of the partners is unlimited. The partnership and partner in the eye of law, are not different but one and the same hence the partner have bring there personal assets to clear laws of the firm, if any.
- 7) **Number of partners:-**  
10 partners in case of banking business  
20 in case of non-business
- 8) **Division of labour:-** Because there are more than two persons, the work can be divided among the partners based on their aptitude.
- 9) **Personal contact with customers:-**The partners can continuously be in touch with the customers to monitor their requirements.
- 10) **Flexibility;-**All the partners are likeminded persons and hence they can take any decision relating to business.
- 11) **Transferability of share:-**
- 12) The partners cannot transfer their share/interest in partnership in the firm to others without the consent of the other partners.
- 13) **12. Dissolution:-**
- 14) The closure of partnership is called 'dissolution'. When any of the partners die, becomes insolent or insane, the partnership is to be dissolved. This means that the duration of the partnership is not certain. The remaining partners can, if they are interested, resort their business with a new name.



## **PARTNERSHIP DEED**

The written agreement among the partners is called the partnership deed'. It contains the terms and conditions governing the working of partnership. The following are the contents of the partnership deed.

1. Names and addresses of the firm and partners.
2. Nature of the business.
3. Duration.
4. Amount of capital of the partnership and the ratio for contribution by each of the partners.
5. Their profit sharing ratio.
6. Rate of interest charged on capital contributed,
7. The amount of salary or commission payable to any partner.
8. Allocation of responsibility of the partners in the firm.
9. Special rights, obligations and liability of partners.
10. Procedure for dissolution of the firm.

## **KINDS OF PARTNERS**

- 1) **Active partner:-** Active partner takes active part in the affairs of the partnership .He is also called working partner.
2. **Sleeping partner:-** Sleeping partner contributes to capital to capital but doesn'ttake part in the affairs of the partnership.
3. **Nominal partner:** Nominal partner is partner just for name sake. He neither contributes to capital nor takes part in the affairs of business normally the nominal partners are those who has good business convictions and are well placed in the society.
4. **Partners by estoppels:-** Estoppels means behavior or conduct. Partners by estoppels gives an impression to outsiders that he is the partner in the firm. In fact he neither contributes to capital nor takes any role in the affairs of partnership.
5. **Partner by holding out:-** If partners declare a particular person as partner and this person doesn't contradict even after he come to know such declarations he is called a partner by holding out and he is liable for claims of third parties.
6. **Minor partner: -** minor has a special status in the partnership. A minor can be admitted and the benefits of the firm. A minor are entitled his status of profits of the firm. The liability of a minor partner is limited to the extent of his contribution of the capital of the firm.

## **RIGHTS OF PARTNERS**

1. To take part in the management of business.
2. To express his opinion.
3. Inspect and copy any book of accounts of the firm.
4. To share equally the profits of the firm in the absence of any specific agreement.
5. To receive interest on capital, if any.

6. To receive on loans, if any.
7. To be indemnified for any loss incurred by him in the conduct of the business.

### **OBLIGATIONS AND LIABILITIES OF PARTNERS**

1. Carry on the business to the maximum advantage of the firm and all the partners.
2. Be just and faithful to one another and to the firm.
3. Give full and correct information and true accounts of the firm to one another.
4. Indemnify the firm or any partner any loss, if any.
5. Share the losses equally, unless differently agreed to.
6. Not to make any benefit or income while dealing with the firm.

### **ADVANTAGES OF PARTNERSHIP FIRM:**

- ✓ **Easy to form:** once there is a group of likeminded persons and good business proposal, it is easy to start and register a partnership.
- ✓ **Availability of larger amount of capital:** more amount of capital can be raised from more number of partners.
- ✓ **Division of labour:** the different partners come with varied backgrounds and skills. this facility division of labour.
- ✓ **Flexibility:** the partner is free to change their decisions, add or drop a particular product or start a new business or close the present one and so on.
- ✓ **Personal contact with customers:** there is scope to keep close monitoring with customers requirement by keeping one of the partner in charge of sale and marketing. Necessary changes can be initiated based on the merit of the proposals from the customers.
- ✓ **Quick decision and prompt actions:** it there is consensus among partners, it is enough to implement any decision and initiable prompt action. Sometimes it may take more time for the partner on strategic issues to reach consensus.
- ✓ **The positive impact of unlimited liability:** every partner is always alert about his impending danger of unlimited liability. Hence he tries to do his best to bring profit for the partnership firm by making good use of all his contacts.
- ✓ **Tax rate:** when compared to company form, the tax rate is low.

### **DISADVANTAGES OF PARTNERSHIP:**

- ✓ **Formation of partnership is difficult:** only likeminded persons can start a partnership. it is sarcastically said “it is easy to find a life partner but not a business partner”.
- ✓ **Liability:** the partner has point and several liabilities besides unlimited liability. Joint and several liability puts additional burden on the partner, which means that even the personal properties of the partner or partners can be attached. Even when all but one partner become insolvents the solvent partner has to bear the entire burden of business loss.
- ✓ **Lack of cohesiveness:** it is likely that partner may not, most often work as a group with cohesiveness. This result in mutual conflicts. lack of harmony or cohesiveness result in delay in decision and paralysis the entire operation.

- ✓ **Limited growth:** the resource when compared to sole trader, a partnership may rise little more. But when compared to the other forms such as a company, resources raised in this form of organization are limited. Added to this, there restriction on the maximum number of partners.
- ✓ **Instability:** the partner form known for its instability. The firm may dissolve on death, insolvency or insanity of the partners.
- ✓ **Lack of public confidence:** public even the financial institutions look at the unregistered firms with a suspicious eye. Though registration of the firm under the Indian partnership act is a solution for such problems, this cannot revive public confidence into this form of organization overnight. The partnership can create confidence in other only with their performance.
- ✓ **Implied authority misused:** where there is no periodic monitoring, there is a possibility that the active partner may misuse his implied authority.
- ✓ **High tax rate:** when compared to the sole trader the tax rate is higher

## **JOINT STOCK COMPANY**

“According to lord justice the joint stock company forms of organization as an association of many persons who contribute money or monkeys worth to a common stock and employ it for a common purpose. The common stock refers to the share capital of the company. The persons who contributed it on to whom it belongs are members. The proportion of capital to which each member is entitle is his share. Shares are always transferable. Although the right to transfer is often more or less restricted”.

“Company is an artificial person created by law with perpetual succession and common seal”. According to company act 1956.

### **FEATURES:**

**This definition brings out the following features of the company:**

- ✓ **Artificial person:** the company has no form or shape. It is artificial person created by law. It is intangible Invisible and existing only in the eyes of law.
- ✓ **Separate legal existence:** it has an independent existence. It is separate from its members. It can acquire the assets. It cans borrow for the company. It can sue others if they are in default in payment of dues, breach of contract with it, if any. Similarly, it can be sued by outsiders for any claim. A shareholder is not liable for the act of company. Similarly, the shareholders cannot bind the company by their acts.
- ✓ **Voluntary association of persons:** the company is an association of voluntary to the face value of the shares held by him. In other words, the liability of a shareholder is restricted to the extent of his contribution to the share capital of the company. The shareholder need not pay anything, even in times of loss for the company, other than his contribution to the share capital.

- ✓ **Capital is divided into shares:** the total capital is divided into a certain number of units. Each unit is called as a share. The price of each share is priced so low that every investor would like to invest in the company. The companies promoted by the promoter of good standing (i.e., known for their reputation in terms of reliability character and dynamism) are likely to attract huge resources.
- ✓ **Transferability of shares:** in the company form of organization, shares can be transferred from one person to other. A shareholder of a public company can sell his holding of shares as his will. However, the shares of a private company cannot be transferred. A private company restricts the transferability of the share.
- ✓ **Common seal:** as the company is an artificial person created by the law has no physical form, it cannot sign its name on the paper. So, it has a common seal on which its name is engraved. Every document or contract should be affixed by the common seal, otherwise the company is not bound by such a document or contract.
- ✓ **Perpetual succession:** 'members may come and members may go, but the company continues for ever and ever'. A company has uninterrupted existence of the right given to the shareholders to transfer the shares.
- ✓ **Ownership and management separated:** the shareholder is spread over the length and breadth of the country, and sometimes, they are from different parts of the world. To facilitate administration, the shareholders elect some amount themselves or the promoters of the company as directors to a board, which looks after the management of the business. The board recruits the managers and employees at different levels in the management. Thus the management is separated from the owner.
- ✓ **Winding up:** winding up refers to the putting an end to the company. Because law creates it, only law can put an end to it in special circumstances such as representation from the creditors or financial institutions, or shareholders against the company that their interest are not safeguarded. The company is not affected by the death or insolvency of any of its members.
- ✓ **The name of the company ends with 'limited':** it is necessary that the name of the company ends with limited (ltd.) to give an indication to the outsiders that they are dealing with the company.

## **KINDS OF COMPANIES**

### **KINDS OF COMPANIES BASED ON INCORPORATION**

- ✓ **Chartered Company:** a chartered company is created by the royal charter of the state. The charter contains the rights, privileges, and power to be used by the chartered company, for example: British East India Company.
- ✓ **Statutory Corporation:** a statutory corporation is created by an act of the state legislature or parliament. The objective, scope, powers, responsibilities are clearly defined in this act.

Ex: reserve bank of India, IDBI, and APSATC.

✓ **Registered company:** a registered company is one that is registered under Indian companies act, 1956.

## **KINDS OF COMPANY BASED ON PUBIC INTEREST**

**1. Private Limited company:** according to companies act 1956,a private company means that has a minimum paid up capital of one lakh rupees(1,00,000).

### **Features:**

- ❖ Restrict the right of transfer its shares.
- ❖ Maximum number of employees 50.
- ❖ Prohibit any invitation to the public for capital
- ❖ The name of a private company should necessarily end with the worlds 'private limited' (pvt.ltd.).

### **2. Public company:**

This means a company that:

- ❖ It is not a private company.
- ❖ It has minimum paid up capital of five

Lakh rupees (5, 00,000) such higher paid up capital as may be prescribed.

It allows transfer of its shares.

minimum 7 maximum unlimited.

It can issue the prospectus to raise the capital.

The name of the public company ends with the word 'limited' (LTD).

**3) Government Company:** - According to companies Act 1956 the government company as "any company in which not less than 51% of the paid up share capital is held by central government or by any state government or partly by central government and partly by one or more state governments is a government company.

EX: - (NTPC) National Thermal Power Corporation (BHEL) Bharat Heavy Electrical Ltd etc.

## **KINDS OF COMPANIES BASED ON LIABILITY:-**

**1) Unlimited Company:** - An unlimited company is a company in which the liability of every member is unlimited. This implies that the personal property of every member is also liable for the debt of the company.

2) **Limited company:** - A company is said to be limited company where the liability of its members is limited by the unpaid amount on the shares respectively held by them. Generally the companies incorporated under Indian companies Act are limited liability companies only.

3) **Companies limited by guarantee:-**A company is said to be limited by guarantee where the liability of the members is limited to such an amount as they agreed upon to contribute to the assets of the company in the event of being wound up.

### **KINDS OF COMPANIES BASED ON NATIONALITY:-**

1) **Foreign company:** - foreign company is a company incorporated outside India but established a place of business within India.

2) **India company:-** A company incorporated in India under the Indian companies Act 1956.

### **FORMATION OF A JOINT STOCK COMPANY**

There are two stages in the formation of a joint stock company. They are:

- a) To obtain certificate of Incorporation
- b) To obtain certificate of commencement of Business.

The certificate of Incorporation is just like a 'date of birth' certificate. It certifies that a company with such and such a name is born on a particular day. Certificate of commencement of Business authorizes a public company to start its commercial operations officially.

A public company has to comply with certain requirements to obtain certificate of commencement of Business. A private company need obtain the certificate of commencement of business. It can start its commercial operations immediately after obtaining the certificate of Incorporation.

The persons who conceive the idea of starting a company and who organize the necessary initial resources are called 'promoters'. The vision of the promoters forms the backbone for the company in the future to reckon with.

The promoters have to file the following documents, along with necessary fee, with the register of joint stock companies to obtain certificate of Incorporation.

### **For Certificate of Incorporation**

1) **Memorandum of Association:-** The memorandum of Association is also called the charter of the company. It outlines the relations of the company with the outsiders. IT furnishes all its details in six clauses such as

- A. name clause
- B. situation clause
- C. objects clause
- D. capital clause
- E. liability clause
- F. subscription clause

**2) Articles of Association:-** Articles of Association furnishes the bye-laws or internal rules governing the internal conduct of the company.

**3)Details about directors:-** The list of names and addresses of the proposed directors and their willingness in writing to act such in case of registration of a public company.

**4) Statutory declaration: -** A statutory declaration that all the legal requirements have been fulfilled. The declaration has to be duly signed by any one of the following : company secretary in whole time practice, the proposed director, chartered accountant or advocate of high court.

The Registrar of joint stock companies per uses and verifies whether all these documents are in order or not. If he is satisfied with the information furnished, he will register the documents and then issue a certificate of Incorporation. If it is private company, it can start its business operations immediately after obtaining certificate of Incorporation.

If it is a public company the following formalities are to be completed further:

### **For the Certificate of commencement of Business**

**1) Seek permission from SEBI:-** The promoters have to make an application furnishing the details of certificate of Incorporation to securities Exchange Board of INDIA, seeking permission to issue prospects. Prospectors are a notice, letter or circular noting the general public to subscribe to the share capital of the company.

**2) File prospectus with Registrar: -** After seeking permission from SEBI, file the prospectors with the Registrar of joint stock companies.

**3) Collecting minimum subscription:-** Minimum subscription refers to the minimum amount of capital required to start the business operations such as acquiring fixed assets, working capital, payment of share issue expenses such as brokerage, underwriting commission and soon.

It is necessary that the amount of minimum subscription is raised within 70 days from the date of issue of prospectors. If the company fails to raise the minimum subscription within the said time limit, the company is bound to refund entire share application money.

**4) Allotting shares:** - Normally shares are allotted as applied for. In case of over subscription, the basis of allotment is finalized in consultation with the stock exchange under which it is proposed to be listed and the allotment is made on lottery basis. In case of unsuccessful applicants, the money received with the share application will be refunded within a specified time, failing which the company is bound to pay with interest and also liable for legal action.

**5) Apply To the Registrar for the certificate of commencement of Business:-**

After raising minimum subscription, the company has to make an application again with the following declaration that:

- a) Minimum subscription as stated in the prospectus has been collected,
- b) All the legal formalities has been fulfilled.

The registrar will once again verify the exactness of the details of the above declarations. If he is satisfied, he will then issue certificate of commencement of business.

A public company can start its operations immediately from the date of obtaining the certificate of commencement of Business.

## **MAIN DOCUMENTS IN COMPANY FORMATION**

The main documents in company formation are

1. Memorandum of association
2. Articles of association
3. Prospectus

While drafting the contents of these documents the promoters should take a special care to fit their vision into the contents of these documents. Otherwise, it will be difficult to change its contents at a later date.

**1. MEMORANDUM OF ASSOCIATION:** Memorandum of association is also called the charter or constitution for the company. It is because it lays down in precise and clear terms. The objectives of the company, defines the scope of its operations and its relations with the



investors and outside world. The company has to necessarily conduct its operations within the limits set by the memorandum of association. It is a public document and hence it should be printed and made available to the public for a price. The contents of memorandum of association are classified into six clauses. They are

- (a) **Name clause** This clause deals with the name particulars of the company. It is necessary that the name of a private company should end with the words 'private limited' and that of a public company should end with 'limited'.
- (b) **Registered or situation clause** This clause deals with the particulars of state in which registered office is proposed to be situated.
- (c) **Objects clause** The objectives of the company, in the short run and long run, are furnished here. The promoters should take special care to draft the objects clause in particular. The objects should be drafted in such a way that they provide high degree of operational freedom.
- (d) **Liability clause** This clause specifies that the liability in respect of shares issued by the company is limited to the face value of the shares.
- (e) **Capital clause** It specifies the details of authorized capital with which it plans to get registered. This clause explains the particulars of the amounts of equity and preference share of capital to be issued by the company.
- (f) **Subscription clause** Here a declaration has to be made that 'the persons signing this Clauses have interest to form this company and they have taken the number of shares as indicated against their names. The declaration is to be signed by two members in case of a private company and seven members in case of a public company and duly witnessed.

**2. ARTICLES OF ASSOCIATION:** Articles of the association contains the rules of procedure for the internal management and control of affairs of the company. The memorandum defines the relationship of the company with the outside world, while the Articles of association refer to the rules of procedure in the internal management and control of the affairs of the company. The main contents of articles of association are as follows

- i. Amount of share capital and different types of capital.
- ii. Methods to increase or decrease capital.
- iii. Different types of shares, their respective rights.
- iv. Procedure in respect to transfer of shares.
- v. Procedure to conduct board meetings and general body meeting.
- vi. Powers, rights and duties of directors in the board.
- vii. Procedure in appointment and removal of a director.
- viii. Remuneration of directions.
- ix. Matters relating to accounts and audit.
- x. Procedure for amending the contents of memorandum of association.
- xi. Procedure for distribution of dividend.
- xii. Procedure for winding up.

xiii. Rules regarding common seal of the company.

**3. PROSPECTUS:** A prospectus is defined as a ‘notice, circular, advertisement or any other document inviting offers from the public for the subscription or purchase of any shares in or debentures of the body corporate.

Prospectus is the first and basic document that supports the structure of the company. An investor will go through prospectus to assess the feasibility of his investment in the company.

**Concepts of prospectus:**

The following are the contents of the Prospectus:

- a) The name of the company and address of its registered office.
- b) The nature and business of the company.
- c) The main objectives of the company.
- d) The number and types of shares and debentures issued in the past.
- e) The list of promoters with their names, addresses and their past record.
- f) The list of directors with their names, addresses and occupations.
- g) The list of signatories to the memorandum of association and their names, addresses.
- h) Details of the brokers, underwriters, merchant bankers, bankers to the public.
- i) Rights and restrictions as applicable to each class of share or debenture.
- j) Amount of minimum subscription to be received before the allotment of shares.
- k) Opening date and closing date of public offer.
- l) Minimum number of shares to be applied and how much is to be paid per share on application.
- m) Preliminary expenses incurred.
- n) Property purchase or proposed to be purchased.
- o) Amount of reserve fund and how it is to be utilized.
- p) The names of auditors, bankers and solicitors.

Prospectus is a sensitive document of the company. It is so because for any mistake in the prospectus, the promoters and directors responsible for issue of prospectus will personally be liable, for any misstatement in prospectus, civil and criminal proceedings can be initiated against them as per the provisions of the companies Act. Most of the companies, for this reason, restrict their liability by announcing the prospectus given in the newspapers as a ‘Statement but not a prospectus’. For the exact information, the public is directed to see the official document issued by the company.

## **ADVANTAGES:**

The following are the advantages of a Joint Stock Company:

1. **Mobilization of larger resources:** A Joint Stock Company provides opportunity for the investors to invest, even small sums, in the capital of large companies. This facilitates rising of larger resources.
2. **Separate legal entity:** The Company has separate legal entity. It is registered under Indian companies Act, 1956.
3. **Limited liability:** The share holder has limited liability in respect of the shares held by him. In no case, does his liability exceed more than the face value of the shares allotted to him.
4. **Transferability of shares:** The shares can be transferred to others. However, the private company shares cannot be transferred.
5. **Liquidity of investments:** By providing the transferability of shares, shares can be converted into cash.
6. **Inculcates the habit of savings and investments:** Because the share face value is very low, this promotes the habit of savings among the common man and mobilizes the same towards investments in the company.
7. **Democracy in management:** The directors are elected by the shareholders in a democratic way in the general body meeting. The shareholders are free to make any proposals, question the practices of the management, suggest the possible remedial measures as they perceive. The directors respond to the issues raised by the shareholders and have to justify their actions.
8. **Economies of large scale production:** Since the production is in the large scale with large funds at its disposal, the company can enjoy the internal economies of large scale production.
9. **Continued existence:** The Company has perpetual succession. It has no natural end. It continues forever and ever unless law puts an end to it.
10. **Institutional confidence:** Financial institutions prefer to deal with companies in view of their professionalism and financial strengths.
11. **Professional management:** With the large funds at its disposal, the board of directors recruits competent and professional managers to handle the affairs of the company in a professional manner
12. **Growth and expansion:** With large resources and professional management, the company can earn good returns on its operations, build good amount of reserves and further consider the proposals for growth and expansion.

All that shines is not gold. The company form of organizations not without any disadvantages. The following are the disadvantages of joint stock companies.

## **DISADVANTAGES:**

1. **Formation of company is a long drawn procedure:** Promoting a joint stock company involves a long drawn procedure. It is expensive and involves large number of legal formalities.
2. **High degree of government interface:** The government brings out a number of rules and regulations governing the internal conduct of the operations of a company such as meetings, voting, audit and so on, and any violation of these rules results into statutory lapses, punishable under the Companies Act.
3. **Inordinate delays in decision making:** As the size of the organization grows, the number of levels in the organization also increases in the name of specialization. The more the number of levels, the more is the delay in decision making. Sometimes, so called professionals do not respond to the urgencies as required. It promotes delay in administration which is referred to 'red tape and bureaucracy'. With all these, the company form of organization tends to be an inflexible organization.
4. **Oligarchy in management:** Though it looks like the affairs are conducted in a democratic way, a detailed insight into the functioning of the general body meetings

reveal that very few shareholders who hold majority of shareholding try to dominate the scene. With the result, the control is in the hands of a very few shareholders who have vested interests. The voting powers are in proportion to the number of shares one holds. If the shares held are more in number, the voting rights are also more. Those who have large number of shares always dominate.

Further, it shows that the majority of the shareholders who do not have significant shareholding have effective voice in the management of the affairs of the company. Often the reports presented in the meeting are window dressed and they mislead the shareholders. The cases where some of the shareholders create groups of common interest and consolidate their hold on the company by manipulation of voting power. Finally, it looks as though the shareholders at large tend to be mere pawns in the hands of the board of directors.

5. **Lack of initiative:** In most of the cases, the employees of the company at different levels show slack in their personal initiative with the result, the opportunities once missed do not recur and the company loses the revenue.
6. **Lack of responsibility and commitment:** In some cases, the managers at different levels are afraid to take risk and more worried about their jobs rather than the huge funds invested in the capital of the company. Where managers do not show up willingness to take responsibility, they cannot be considered as committed. They will not be able to handle the business risks.
7. **Conflicting interest:** The Company has divergent groups of people associated with it. The shareholders want maximum dividends. The company wants to maintain good amount of reserves. It is not possible to pay larger dividends, and yet, to maintain good amount of

reserves. It is necessary to reconcile such conflicting interests. The board of directors usually justifies their actions of declaring low or high rate of dividend.

## **CO-OPERATIVE SOCIETY**

The industrial revolution created several imbalances in the society. The working class and weaker sections suffered so badly that they were compelled to think of an organized action for mutual help in order to better their economic conditions.

A co-operative society is a society registered under the co-operative society act. A co-operative society is an association of the weak who come together to uplift themselves from weakness to strength through organized efforts.

**The FEATURES of co-operative society can be described as follows:**

1. **It is a voluntary association:** people join the society on their own. They have a common interest of improving their economic status through joint efforts. they are free to leave the society after giving the notice.
2. **Separate legal entity:** the society is to be registered under the co-operative society act .it has separate legal existence. It can sue and be sued. It can buy and sell all the assets.
3. **Compulsory registration:** every co-operative society has to be registered under the co-operative society act.
4. **Membership:** membership is open. usually, membership is available to all irrespective of their background in terms of caste, religion, political affiliation & so forth.
5. **Finances:** A co-operative society raises its finances through the sale of shares to its members. each member cannot subscribe to more than 10% of the total share capital of Rs.1000 whichever is higher. Finances are also raised by way of loans from the govt. and apex co-operative institutions.
6. **Set –up is democratic:** the executive members are elected in a democratic way .any member can be contest for the executive committee.
7. **One member one vote:** irrespective of the no. of shares held, each member is given only one vote. all members are equal here.
8. **Service objective :** the main objective of the members is not to make profit but to improve their own economic well-being.
9. **Restricted reward to capital :** the contribution to capital will be yield a minimum rate of interest only.
10. **Non-transferability of shares:** shares in co-operative cannot be transferred.
11. **Equitable Distribution of surplus:-** There are clear cut guidelines regarding uses such as distribution of surplus among members in various types of cooperative

societies, transfer of surplus to reserves, payment of bonus, utilization of a portion of surplus for the welfare of the locality. The main objective is to utilize the surplus for the welfare of the member and that of the society.

**ADVANTAGES:-**

1. **Voluntary Organization:-** A cooperative society is viewed as a synthesis of personal liberty and social justice. People join a society to improve their economic conditions.
2. **Equal voting rights:-** 'One man, one vote' principle prevents domination by a few members
3. **Economic justice:-** Profits are distributed among the members on the basis of their individual contribution to the profits of the society.
4. **Limited liability:** The members of the cooperative society have liability limited by the face value of the share.
5. **Continuous existence:** The society has separate legal existence.
6. **Zero speculation:** The shares of the cooperative society are always available to the new members. No need to pay higher price on the share than its face value.
7. **Each for all and all for each:** This is the main slogan of the cooperation movement. All will be helpful for one and one is helpful for all.
8. **Self government:** The society trains its members in different fields of business to make them proficient in their activities. With the help of the training they receive, they can monitor activities better.
9. **Larger identity of interests:** The cooperative society operates in a limited geographical area or economic group; there is larger identity of interests among the members. Members can work for a healthier work environment manage their activities more effectively.
10. **Government support:-** The government extends all support to the cooperative societies in terms of loans at low rate of interest and taxes, subsidies, providing tool kits, and so on.
11. **Exploitation eliminated:-** The members are free from the clutches of the middlemen and hence they can reach their customers directly. Even this reduces the costs of operations also.
12. **Taxation:-** There are special rates of taxation applicable to cooperative societies. They are relatively low.

**DISADVANTAGES:-**

1. **Shortage of funds:-** There is restricted reward on the capital provided to the society. Therefore finding necessary resources may be a constant problem.
2. **Inefficient management:-** The executive committee members may not observe the principle of business and with the result the society may collapse.

3. **Many legal formalities:-** The society is registered under the societies Act. The formations, administration, Conducting meetings, liquidation and so on are subject to the procedures laid in the Act. These are time- consuming and tedious.
4. **Shifting loyalties among members:-** Sometimes, the members of one society shift to another to get higher benefits.
5. **Misuse of funds for sectional interests:-** The financial discipline is the secret of the success of many of the cooperative societies. Where this is lacking, funds are misused and mismanaged.
6. **Recurring losses:-** Due to inefficient handling of affairs, the societies continue to get losses. This leads to loss of interest and faith in the system.

## **PUBLIC ENTERPRISES**

Public enterprises occupy an important position in the Indian economy. Today public enterprises provide the substance and heart of the economy. Its investment of over Rs 10, 000 crore is in heavy and basic industry, and infrastructure like power, transport and communications.

### **Forms of public Enterprises:-**

- A. Departmental undertaking
- B. Public corporation.
- C. Government Company.

### **DEPARTMENTAL UNDERTAKING**

Under this form the affairs of the public enterprises are carried out under the overall control of one of the departments of the government. The government department appoints a managing director for the departmental undertaking. He will be given the executive authority to take necessary decisions. The departmental undertaking does not have a budget of its own. As and when it wants it draws money from the government exchequer and when it has surplus money, it deposits it in the government exchequer. However it is subject to budget accounting and audit controls.

### **FEATURES:-**

#### **1. under the control of a government department:-**

The departmental undertaking is not an independent organization. It has no separate existence. It is designed to work under close control of a government department. It is subject to direct ministerial control.

**2. More financial freedom:-** The departmental undertaking can draw funds from government account as per the needs and deposit back when convenient.

**3. Like any other government department:-** The departmental undertaking is almost similar to any other government Department.

**4. Budget, accounting and audit controls:-** The departmental undertaking has to follow guidelines (As applicable to the other government departments) underlying the budget preparation, maintenance of accounts, and getting the accounts audited internally and by external auditors.

**5. More a government organization, Less a business organization:-** The set up of a departmental undertaking is more rigid, less flexible, slow in responding to market needs.

**ADVANTAGES:-**

**1. Effective control:-** Control is likely to be effective because it is directly under the Ministry.

**2. Responsible executive:-** Normal the administration is entrusted to a senior civil servant. The administration will be organized and effective.

**3. less scope for misutilisation of funds:-** departmental undertaking does not draw any money more than is needed ,that too subject to ministerial sanction and other controls. So chances for misutilisation are low.

**Adds to government revenue:-** the revenue of the government is on the rise when the revenue of the department undertaking is deposited in the government account.

**Disadvantages:-**

**Decisions delayed:-** control is centralized .the results in lower degree of flexibility. officials in the lower levels cannot take initiative. Decisions cannot be fast and actions cannot be prompt.

**Slow response to market conditions:-** since there is no competition, there is no profit motive; there is no incentive to move swiftly to market needs.

**Red tapism and bureaucracy:-** The departmental undertakings are in the control of a civil servant and under the immediate supervision of a government department. Administration gets delayed substantially.

**Incidence of more taxes:-** at times, in case of losses ,these are made up by the government funds only. To make up these, there may be need for fresh taxes which is undesirable.

## **PUBLIC CORPORATION**

“A public corporation is defined as a body corporate created by an act of parliament or legislature and notified by the name in the official gazette of the central or state government . it is a corporate entity having perpetual succession and common seal with powers to acquire ,hold, dispose of property ,sue and to be sued by its name”.

**Ex:**

1. life insurance corporation of india.
2. Unit trust of india.
3. Industrial corporation of india.

**FEATURES:**



1. **A body corporate:** it has a separate legal existence. It is a separate company by itself. It can raise resources, buy and sell properties, by name sue and be sued.
2. **More freedom in day-to-day operations:** A public corporation has a high degree of operational freedom in its day to day affairs. It is relatively free from any type of political interference. It enjoys administrative autonomy.
3. **Freedom regarding personnel:** The employees of public corporation are not government civil servants. The corporation has absolute freedom to formulate its own personnel policies and procedures, and these are applicable to all the employees including directors.
4. **Perpetual succession:** A statute in parliament or state legislature creates it. It continues forever and till a statute is passed to wind it up.
5. **Financial autonomy:** Though the public corporation is a fully owned government organization, and the initial finances are provided by the government it enjoys total financial autonomy. Its income and expenditure are not shown in the annual budget of the government. However, for its freedom it is restricted regarding capital expenditure beyond the laid down limits, and raising the capital through capital market.
6. **Commercial audit:** Except in the case of banks and other financial institutions where chartered accountants are auditors, in all corporations, the audit is entrusted to the comptroller and auditor general of India.
7. **Run on commercial principles:** As far as the discharge of functions, the corporations shall act as far as possible on sound business principles

#### **ADVANTAGES:**

1. **Independence, initiative and flexibility:** The Corporation has an autonomous set up. So it is independent, take necessary initiative to realize its goals, and it can be flexible in its decisions as required.
2. **Scope for Redtapism and bureaucracy minimized:** The corporation has its own policies and procedures. If necessary they can be simplified to eliminate Redtapism and bureaucracy, if any.
3. **Public interests protected:** The corporation can protect the public interests by making its policies more public friendly. Public interests are protected because every policy of the corporation subject to ministerial directives and broad parliamentary control.
4. **Employee friendly work environment:** Corporation can design its own work culture and train its employees accordingly. It can provide better amenities and better terms of service to the employees and thereby secure greater productivity.

5. **Competitive prices:** The Corporation is a government organization and hence can afford with minimum margins of profit. It can offer its products and services at competitive prices.
6. **Economies of scale:** By increasing the size of its operations, it can achieve economies of large scale production.
7. **Public accountability:** It is accountable to the parliament or legislature. It has to submit its annual report on its working results.

#### **DISADVANTAGES:-**

1. **Continued political interference:** The autonomy is on paper only and in reality, the continued political interference disturbs the work environment of the corporations. Pressures for employment, providing facilities, operating at low margins restrict the freedom of the public corporation.
2. **Misuse of power:** In some cases, the greater autonomy leads to misuse of power. It takes time to unearth the impact of such misuse on the resources of the corporation. Cases of misuse of power defeat the very purpose of the public corporation.
3. **Burden for the government:-** Where the public corporation ignores the commercial principles and suffers losses, it is burdensome for the government to provide subsidies to make up the losses.

### **GOVERNMENT COMPANY**

“Any company in which not less than 51 percent 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 of the state governments and includes a company which is subsidiary of government company”.

#### **FEATURES:-**

The following are the features of a government company

1. **Like any other registered company:-** It is incorporated as a registered company under the Indian companies At, 1956 Like any other company, the government company has separate legal existence, common seal, perpetual succession, limited liability, and so on. The provisions of the Indian companies act apply for all matters relating to formation, administration and winding up. However, the government has a right to exempt the application of any provisions of the government companies.
2. **Share holding:-** The majority of the shares are held by the government, central or state, partly by the Central and state government(s) in the name of the president Of India. It is also common that the collaborators are allotted some shares for providing the transfer of technology.

3. **Directors are nominated:** As the government is the owner of the entire or majority of the share capital of the company, it has freedom to nominate the directors to the board. Government may consider the requirements of the company in terms of necessary specialization and appoints the directors accordingly.
4. **Administrative autonomy and financial freedom:-** A government company functions independently with full discretion and in the normal administration of the affairs of the undertaking.
5. **subject to ministerial control:** Concerned minister may act as the immediate boss. It is because; he can call for information related to the progress and affairs of the company any time.

#### **ADVANTAGES:-**

1. **Formation is easy:** There is no need for an Act in legislature or parliament to promote a government company. A government company can be promoted as per the provisions of the companies Act, which is relatively easier.
2. **separate legal entity:-** It retains the advantages of public corporation such as autonomy, legal entity.
3. **Ability to compete :-** It is free from the rigid rules and regulations. It can smoothly function with all the necessary initiative and drive necessary to compete with any other private organization. It retains its independence in respect of large.
4. **Flexibility :-** A government company is more flexible than a departmental undertaking or public corporation. Necessary changes can be initiated, within the framework of the companies Act, if found restricting the freedom of the government company. The form of Government Company is so flexible that it can be used for taking over sick units promoting strategic industries in the context of national security and interest.
5. **Quick decision and prompt actions:-** In view of the autonomy, the government company can take decisions quickly and ensure that the actions are initiated promptly.
6. **Private participation facilitated:-** Government company is the only form providing scope for private participation in the ownership. This facilitates to take the best, necessary to conduct the affairs of business, from the private sector and also from the public sector.

#### **DISADVANTAGES:-**

**1. continued political and government interference:-** Government Seldom leaves the government company to function on its own. Government is the major shareholder and it dictates its decision to the board. The board of directors' gets these approved in the general body. There were a number of cases where the operational policies were influenced by the whims fancies of the civil servants and the ministers.

**High degree of government control:-** the degree of government control is high that the government company is reduced to mere adjuncts to the ministry and are, in majority of the cases, not treated better than the subordinate organization or offices of the government.

**3. Evades constitutional responsibility:-** A government company is created by executive action of the government without the specific approval of the parliament or legislature.

**4. Poor sense of attachment or commitment:-** The members of the Board of management of government companies are from the ministerial departments in their ex-officio capacity. They lack the sense of attachment and do not reflect any degree of commitment to lead the company in a competitive environment .

**5.Dividend loyalties:-** The employees are mostly drawn from the regular government departments for a defined period. After this period, they go back to their government departments and hence their divided loyalty dilutes their interest towards their job in the government company.

**6. Flexibility only on paper:** The powers of the directors are to be approved by the concerned Ministry. Particularly the powers relating to borrowing increase in the capital, appointment of top officials, entering into contracts for large orders and restrictions on capital expenditure. The government companies are rarely allowed to exercise their flexibility and independence.