Skills of a Manager.

Following are the managerial skills:

(i) Technical skill:

It is knowledge and proficiency in activities involving methods, processes and procedures. Thus, it involves working with tools and specific techniques. For example, mechanics work with tools and their supervisor should have the ability to teach them how to use these tools. Similarly, accountants apply specific techniques in doing their job.

(ii) Human skill:

It is the ability to work with people, it is cooperative efforts; it is teamwork; it is the creation of an environment in which feel secure and free to express their opinions.

(iii) Conceptual skill:

It is the ability to see the "big picture" to recognize significant elements in a situation, and to understand the relationships among the elements.

(iv) Design skill:

It is the ability to solve problems in ways that will benefit the enterprise. To be effective, particularly at upper organizational levels, managers must be able to do more than seeing a problem. They must have, in addition, the skill of a good design engineer in working out a practical solution to a problem.

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If managers merely see the problem and become "problem watchers", they will fail. Managers must also have the valuable skill of being ~~to~~ able to design a workable solution to the problem in the light of the realities they face.

The relative importance of these skills may differ at various levels in the organizational hierarchy. Technical skills are of greatest importance at the supervisory level. Human skills are also helpful in the frequent interactions with subordinates. Conceptual skills, on the other hand, are usually not critical for lower-level supervisors.

At the middle level management, the need for technical skills decreases, human skill is still essential, the conceptual skills gain in importance.

At the top management level, conceptual and design abilities and human skills are especially valuable, but there is relatively little need for technical abilities. It is assumed, especially in large companies, that chief executives can utilize the technical abilities of their subordinates. In smaller firms, however, technical experience may still be quite important.

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(2) Classical school of Management thought

(a) Scientific Management and F.W. Taylor:

Scientific management, according to an early definition, refers to "that kind of management" which conducts a business or affairs by standards established by facts or truths gained through systematic observation, experiment or reasoning". Advocates of this school of thought attempted to raise labor efficiency primarily by managing the work of employees on the shop floor.

Frederick Winslow Taylor, who is generally acknowledged as "the father of scientific management" believed that organizations should study tasks and prepare precise procedures. His varied experience gave him ample opportunity to have first-hand knowledge and intimate insight into the problems and attitude of workers and to explore great possibilities for improving the quality of management in the workplace.

Formulating his theory based on first-hand experience, Taylor's theory focused on ways to increase the efficiency of employees by moulding their thoughts and scientific management.

(b) Henry Gnatt, an associate of Taylor, developed the Gnatt Chart, a bar graph that measures planned and completed work along with each stage of production. This visual display chart has been a widely used control and planning tool since its development in 1910.

(c) Frank Gilbreth and his wife Lillian Moller Gilbreth further improvised on Taylor's time studies, devising "motion studies" by photographing the individual movements of each worker. They carefully analyzed the motions and eliminated unneccessary ones. These motion studies were preceded by timing each task, so the studies were called "time and motion studies".

Applying time and motion studies to bricklaying, the Gilbreths devised a way for workers to lay bricks that eliminated the wasted motions and raised their productivity from 1000 bricks per day to 2700 bricks per day.

The Basic Principles of Scientific Management

→ Developing new standard method of doing each job

→ Selecting training and developing workers instead of allowing them to self-train and choose their own tasks.

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→ Develop cooperation between workers and management.

→ Division of work on the basis of the group that is best fitted to do the job.

(d) Henry Fayol's Universal Process theory:

One of the most popular and the oldest approaches, Henry Fayol's theory holds that administration of all organizations - whether public or private, large or small - requires the same rational process or functions. This school of thought is based on two assumptions:

→ Although the objective of an organization may differ (for example, business, government, education or religion), yet there is a core management process that remains the same for all institutions.

→ Successful managers, therefore, are interchangeable among organizations of differing purposes.

The universal management process can be reduced to a set of separate functions and related principles.

Fayol identifies 14 universal principles of management, which are aimed at showing managers how to carry out their functional duties.

S/No.	Universal Principles of Management	Managers' functional Duties
1	Specialization of Labor	This improves the efficiency of labor through specialization, reducing labor time and increasing skill development
2	Authority	This is the right to give orders which always carries responsibility commensurate with its privileges
3	Discipline	It relies on respect for the rules, policies and agreements that govern an organization. Fayol ordains that discipline requires good superiors at all levels
4	Unity of Command	This means that subordinates should receive orders from one superior only, thus avoiding confusion and conflict.
5	Unity of Direction	This means that there should be unity in the directions given by a boss to his subordinates. There should not be any conflict in the directions given by a boss

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Sl.No.	Universal Principles of Management	Managers' Functional Duties
6	Subordination of individual interest to common good	According to this principle, the needs of individuals and groups within an organization should not take precedence over the needs of the organization as a whole
7	Remuneration	Wages should be equitable and satisfactry to employees and superiors.
8	Centralization	Levels at which decisions are to be made should depend on the specific situation, no level of centralization or decentralization is ideal for all situations
9	Scale of chain	The relationship among all levels in the organizational hierarchy and exact lines of authority should be unmistakably clear & usually followed at all times,

Sl No.	Universal principles of Management	Manager's ~~functions~~ functional Duties
9	Scale of chain	excepting special circumstances when some departure might be necessary
10	Order	There should be a place for everything and everything should be in its place. This is essentially a principle of organization in the arrangement of things and people
11	Equity	Employees should be treated equitably in order to elicit loyalty and devotion from personnel
12	personal tenure	Views unnecessary turnover to be both the cause and the effect of bad management; fayol points out its danger and costs.
13	Initiative	subordinates should be encouraged to conceive and carry out ideas

Sl No.	Universal Principles of Management	Manager's functional Duties
14	Esprit de corps	Team-work, a sense of unity and togetherness, should be fostered and maintained.

3. Pre-scientific Management Theories.

If we look at recorded history, a number of monumental examples of management can be traced. The Sumerian civilization, Egyptian, Chinese, Greek and Roman civilizations represent significant practices in management. They ~~helped in~~ represent management concepts that helped in smooth administration of these civilizations. Though famous even today, they do not provide significant information about the way these civilizations were managed. These concepts did not provide important insight into management of business (or economic) institutions. No important techniques were available to solve organizational problems until the end of 15th century. It was in 1494 that the techniques of double entry book-keeping was introduced to maintain

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financial records of the business. In 1800s, management theories developed as a systematic field of knowledge. Until formal management theories developed, pre-scientific management theories contributed to the management thought.

Contributions made by some of the management thinkers is as follows:

1. Charles Babbage:

One of the early British thinkers on management, Babbage, was the forerunner of scientific management. His work was closely related to that of Adam Smith (an economist), as he emphasized on work measurement, cost determination, bonus plans and profit-sharing specializations (dividing the work into various jobs) to increase managerial efficiency. His findings are also reflected in Taylor's scientific management. He introduced methods like work measurement, cost determination, bonus plans and profit sharing to improve industrial productivity.

2. James Montgomery.

He was a textile owner-manager in Scotland. He focused on planning, organizing and controlling of business and wrote management texts for their efficient working.

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3. Robert Owen

He was a textile entrepreneur and is known as the father of Personnel Management. His emphasis was not on the process of industrialisation or division of labor but on development of people. He advocated that workers should be treated as human beings and their values and beliefs should be respected. If working conditions and needs of the workers are satisfied, they work to achieve the organizational goals.

He advocated improving living conditions (both factory and domestic condition) of employees by upgrading the streets, houses, sanitation facilities, etc. He also brought social and educational reforms for the employees.

He believed that higher wages for workers, participation in managerial decision-making and positive motivation can increase productivity. His ideas on management to coordinate economic performance with human relations are found in Hawthorne Experiments also.

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4. Andrew Ure

He was an English industrialist and focused on educating managers through training and moral education to make them contribute to organizational goals.

5. Charles Dupin

He was an industrial educator in France. According to him, besides technical knowledge for contributing to organizational output, managers also needed broader management skills to maximize industrial output. He emphasized more on ~~t~~ management education than technical education.

Evaluation of Pre-Scientific Management Theories:

These theories were primarily related to the organizational environments. They focused on specific organizational problems in specific way. As each manager had his own way of viewing the organization, some emphasized on production and others on human relations.

There was no single universally accepted management theory that could apply to all organizations at all times. It was by the end of the 19th century that management became a systematic field of study. The early contributions include those made by

Taylor in the early 20th century as Scientific management.

4. Modern Management School of Thought:

With increasing complexities of organizations, modern management theory developed as a synthesis of quantitative theory, systems theory, contingency theory and operational theory of management.

The modern management thought is characterized by the following features:

i) Management is responsive to environmental changes. Successful organizations adapt to environmental changes as part of the management practices.

ii) Business organizations are dynamic institutions composed of inter-related divisions and sub-divisions.

iii) Firms have multiple objectives. Managers balance economic and non-economic objectives and maximize the interests of diverse groups of stakeholders like shareholders, customers, suppliers, etc.

iv) Management is multi-disciplinary in nature. It draws knowledge from various disciplines and synthesizes it to solve managerial problems.

v) Management is future-oriented. It

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forecasts environment through scientific techniques and discounts it to make decisions in the present. Effective forecasts reduce risk and increase organization's adaptability to changing environmental variables.

(a) Quantitative theory:

It became an acceptable theory during World War II when Britain had to solve the problems of war (Researchers wanted to increase the efficiency of bombing and find procedures for detecting enemy supplies). The problems was that the radar system did not perform well at field sites as it performed at the testing stations. On-site scientific observation was, thus, called during actual operation. The problem was studied by P.M.S. Blackett, a Nobel laureate of the University of Manchester. To examine several perspectives of the problem and solve complex problems of war, Blackett assembled a team of people from different streams like Mathematics, Physics, Statistics, Engineering and Economics.

(b) Global:

The recent emergence of a truly global economy is affecting every manager in the world. In today's environment, success in the long-run demands that the manager think globally even if he can still limit his actions to local market.

iii) Theory Z :

These firms are those which are highly successful American firms that use many of the Japanese management practices. The type Z firm features long-term employment with a moderately specialized career path and slow evaluation and promotion. Lifetime employment would not be especially attractive to America's mobile workforce and the slow evaluation and promotion processes would not meet the high expectations of American workers.

iv) McKinsey 7-S :

The 7-S factors are as follows :

(a) Strategy - The plans that determine the allocation of an organization's scarce resources and commit the organization to a specified course of action.

(b) Structure - The design of the organization that determines the number of levels in its hierarchy and the location of the organization's authority.

(c) Systems - The organizational processes and proceduralized reports and routines.

(d) Staff - The key human resource groups within an organization, described demographically

(e) Style - The manner in which manager behave in pursuit of organizational goals.

(f) Skills - The distinct abilities of the organization's personnel.

(g) Superordinate Goals (shared values) - The significant meanings or guiding concepts that an organization instill in its members

(v) Excellence :

The firms that qualified as excellent companies shared the following characteristics :

(a) A successful firm makes things happen.

(b) Successful firms make it a point to know their customers and their needs.

(c) Autonomy and entrepreneurship is valued in each employee

(d) Productivity through people is based on trust.

(e) Hands on, value-driven management is mandatory.

(f) A firm must always deal with strength.

(g) A firm leads to cost-effective works team.

(h) A firm can decentralize many decisions while returning tight controls, usually through the function of finance.

(vi) Quality and Productivity :

In today's dynamic workplace, consumers are encouraged to buy a product that demonstrates the highest level of quality at the optimum price. This requires a dedicated and skilled workforce that places utmost importance on quality workmanship.

Behavioral School of Thought in Management

As management research continued in the 20th century, questions began to come up regarding the interactions and motivations of individuals within organizations. Management principles developed during the classical period were simply not useful in dealing with many management situations and could not explain the behavior of individual employees. In short, classical theory ignored employee motivation and behavior. As a result, the behavioral school was a natural outgrowth of this revolutionary management experiment.

The behavioral management theory is often called the human relations movement because it addresses the human dimension of work. Behavioral theorists believed that a better understanding of human behavior at work, such as motivation, conflict, expectations and group dynamics improved productivity.

The theorists who contributed to this school viewed employees as individuals, resources and assets to be developed and worked with - not as machines, as in the past. Several individuals and experiments contributed to this theory.

Elton Mayo's contributions came as part of the Hawthorne studies, a series of experiments that rigorously applied classical management theory only to reveal its shortcomings. The Hawthorne experiments consisted of two studies conducted at the Hawthorne Works of the Western Electric Company in Chicago from 1924 to 1932. The first study was conducted by a group of engineers seeking to determine the relationship of lighting levels to worker productivity. Surprisingly enough, they discovered that worker productivity increased as the lighting levels decreased - that is, until the employees were unable to see what they were doing, after which performance naturally declined.

A few years later, a second group of experiments began. Harvard researchers Mayo and F.J. Roethlisberger

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supervised a group of five women in a bank wiring room. They gave the women special privileges, such as the right to leave their workstations without permission, take rest periods, enjoy free lunches and have variations in pay levels and workdays. This experiment also resulted in significantly increased rates of productivity.

In this case, Mayo and Roethlisberger concluded that the increase in productivity resulted from the supervisory arrangement rather than the changes in lighting or other associated worker benefits. Because the experimenters became the primary supervisors of the employees, the intense interest they displayed for the workers was the basis for the increased motivation and resulting productivity. Essentially, the experimenters became a part of the study and influenced its outcome. This is the origin of the term "Hawthorne effect", which describes the special attention researchers give to a study's subjects and the impact that attentions has on the study's findings.

The general conclusion from the Hawthorne studies was that human relations and the social needs of workers are crucial aspects of business management. This principle of human motivation helped revolutionize theories and practices of management.

Abraham Maslow, a practicing psychologist developed one of the most widely recognized need theories, a theory of motivation based upon a consideration of human needs. His theory of human needs had three assumptions:

- Human needs are never completely satisfied.
- Human behavior is purposeful and is motivated by the need for satisfaction.
- Needs can be classified according to a hierarchical structure of importance from the lowest to highest.

Maslow broke down the needs hierarchy into 5 specific areas:

a) Physiological ~~or~~ needs

Maslow grouped all physical needs necessary for maintaining basic human well-being, such as food and drink, into this category. After the need is satisfied, however, it is no longer a motivator.

b) Safety needs:

These needs include the need for basic security, stability, protection and freedom from fear. A normal state exists for an individual to have all these needs generally satisfied. Otherwise, they become primary motivators.

(c) Belonging and love needs:

After the physical and safety needs are satisfied and are no longer motivators, the need for belonging and love emerges as a primary motivator. The individual strives to establish meaningful relationships significantly with others.

(d) Esteem needs:

An individual must develop self-confidence and wants to achieve status, reputation, fame and glory.

(e) Self-actualization needs:

Assuming that all the previous needs in the hierarchy are satisfied, an individual feels a need to find himself.

Maslow's hierarchy of needs theory helped managers visualize employee motivation.

Douglas McGregor was heavily influenced by both the Hawthorne studies and Maslow. He believed that two basic kinds of managers exist. One type, the Theory X managers, has a negative view of employees and assumes that they are lazy, untrustworthy and incapable of assuming responsibility. On the other hand, the theory Y manager assumes that employees are not only trustworthy and capable of assuming responsibility, but also have high levels of motivation.

An important aspect of McGregor's idea was his belief that managers who hold either set of assumptions can create self-fulfilling prophecies - that through their behavior, these managers create situations where subordinates act in ways that confirm the manager's original expectations. As a group, these theorists developed that people worked for inner satisfaction and not materialistic rewards, shifting the focus to the role of individuals in an organization's performance.

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Introduction to Development of Management Thought

Management has developed since the time when the world came into existence. Whenever group efforts are necessary to achieve anything, there is a need for management. In ancient days, two or more persons collectively did the work which were common to all. These persons were directed and controlled by an individual. This individual had managerial efficiency. The inherent features of managerial efficiency were not known to our ancestors.

Kautilya's Artha Sastra and Saint Thiruvalluvar's Thirukural state the principles and concepts of management. These principles and concepts may be applied in our modern world and in the future also. An individual can't achieve anything single-handed. Co-operation, group efforts, direction and control are necessary to achieve the objectives or goals of an individual. In our modern world, an individual can't survive separately. He has to rely upon others. So, managerial efficiency is an essential requisite to human being.

Types of Business Organization

(A) Sole Proprietorship (Proprietorship)

A sole proprietor is the unquestioned king of his venture. He owns it. He controls it from the word 'go'. He provides the needed resources and launches the enterprise on his own. He burns up his candle of energies on everything. He brings his skills, knowledge and expertise to the table. He plans every step. He hires people. If additional hands are required, he interacts with customers and does everything possible to please them.

If the venture is successful, he will have the cake and eat it too. If the venture fails, he will lose his pant and shirt within no time. At the end of the day, it is his business and he owns it in a true sense. ~~It his~~ It is his baby and he can't afford to turn his eyes off even for a minute. He has to invest his time, money, effort, energies on a daily basis. The fruits of hard mental as well as physical labor - of course, he will enjoy.

In a sole proprietorship business, there is only one owner. There may be employees or helpers assisting and reporting to the owner, but there is only one "head" who administers and runs the show. It is a business enterprise exclusively owned, managed and controlled by a single person with all authority, responsibility and risk.

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Characteristics of Sole Proprietorship

(i) Freedom in Selection of Trade :

A sole trader is free to decide the type of business activity he wants to start. He is not supposed to consult anybody for taking such decisions.

(ii) Distribution of Profits :

A sole trader is the single owner of the business. He takes all the profits himself. He puts all his efforts into the business and takes all the fruits of his labor.

(iii) Discretionary start and end :

A sole trader can start the business as per his will and similarly can dissolve it as per his discretion.

(iv) Free from legal formalities :

A sole trader business can be started without performing any legal formalities. It does not require any formation or registration.

(v) Proprietor and Proprietorship are one :

The sole trader and his business are not legally separate entities. Loss in his business is his loss and liabilities of the business are his liabilities.

(vi) Secrecy :

All important decisions are taken by the owner himself. He keeps all the business secrets only to himself. Business secrets are very important for small business. By retaining business secrets, he avoids competitors entering the same business.

(vii) Management and Control

The proprietor manages the whole business himself. He prepares various plans and executes them under his own supervision. There may be some persons to help him but ultimate control lies with the owner.

(viii) Owners and business exist together

In sole-trade business, there is no separate existence of the business with the owner. The business and owner exist together. The business is dissolved if the owner dies, becomes insolvent or is removed from the scene.

Advantages of Sole Proprietorship:

i) Direct Motivation:

The proprietor takes keen interest in the working of the business. He tries to put heart and soul in the business so as to earn as much profits as he can. There is direct relationship between efforts and reward. In other forms of organization, the profits are shared by more than one person. So, everybody may not put in his best efforts.

ii) Promptness in Decision-making.

All important decisions are taken by one person. He can take prompt decisions. He will not let an opportunity slip away. If more then one person is involved in decision-making, then delay is bound to occur.

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(iii) Direct Accessibility to consumers :

In sole proprietorship, the scale of operations is small. The owner can have direct contact with customers and employees. He can know the relations and preferences of consumers. It enables him to make necessary changes in the quality and design of his products. It will help him to boost his sales. He can also put emphasis on consumer service.

(iv) Inexpensive Management :

The sole trader is the owner, manager and controller of the business. He does not appoint specialists for various functions. He personally supervises various activities and can avoid wastage in the business. He does not create managerial paraphernalia. In this way, managerial costs are saved to a large extent.

(v) No Legal Restrictions :

There are no legal requirements for starting a business. There are no special acts governing the work of a sole proprietor. The proprietor is not required to submit the results of his business to any authority. There is no restriction in changing the nature of business. Even dissolution of the business can easily be undertaken. The tax liability on a sole trader is also low. He is taxed as an individual and not as a business unit.

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(vi) Retention of Business Secrets:

A sole trader maintains business secrets. Being the sole proprietor, he is not expected to share his trade secret with anybody else. He is not expected to publish his accounts. He can maintain secrecy from his competitors. Secrecy is very important for small-scale concerns.

(vii) Self-Employment:

The sole proprietorship form of business organization offers the means of self-employment to those who do not want to serve others. As everyone can't get a suitable job to earn his livelihood in a developing country, the individuals can easily start a small-sized business unit as a sole-trader.

(viii) Healthy Relations with Employees:

A sole trader is in a position to maintain direct relations with his employees. This enables the employer and the employees to understand and appreciate the difficulties of each other. Moreover, a sole trader can quickly solve the grievances of his employees. This results into healthy relations between employer and employees which is of vital importance for the success of the business.

Disadvantages of Sole Proprietorship

(i) Limited Resources

The resources of a sole proprietor are limited. He makes investments from his family source only. There is a limit to which a single person can invest. He tries to raise finances from financial institutions also. These institutions want securities for their loans. The sole trader can't offer much security, so he does not get much help from financial institutions. The capacity for expanding business operations is limited for want of resources, even when there is a scope for expansion. Other forms of ownership are better than the sole proprietor for raising financial resources.

(ii) Limited Managerial ability

One person may not be expert in each and every function of the business. He will not be able to devote sufficient time for all types of activities. He will have to depend upon paid employees. The employees may not ~~be~~ take as much interest as the owner himself can take. The managing capacity of the proprietor is limited. In the present competitive world, complexities of managerial jobs are increasing everyday. The sole proprietor may not be able to use the services of experts for want of resources. So, one person will not be able to survive effectively. On the other hand, his

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limited resources will not allow him to use the services of professional people. Limited managerial capacity will hinder the growth of business.

(iii) Unlimited liability:

The liability of a sole proprietor is limited. His private property can also be assigned for meeting business obligations. A loss in business may deprive him of his private assets also. Unlimited liability also restricts his working. He tries to be cautious in taking risk. It acts as a detriment to the growth of business activities.

(iv) Uncertain continuity:

The business continues as far as sole proprietor is there. In case of his mobility or death, the business is discontinued. The successors of the sole proprietor may not have an aptitude or ability to continue in the business. The closure of a business will cause inconvenience to the consumers. It'll also result in social loss.

(v) Limited scope for employees

A sole trader can't attract trained and qualified persons for reasons of limited career opportunities. Moreover, the continuity of sole trade business being uncertain the employees also remain under psychological pressure. A sole proprietor can't offer financial incentive to employees because his activities are on a small scale. The employees will try to join good concerns whenever an opportunity arises.

(vi) No Large Scale Economies :

A small-scale concern can't economize in purchase, production and marketing. A large scale enterprise will be able to have favorable terms for purchasing and selling of goods. In a sole trade concern, overhead expenses are also more. So this type of concern can't enjoy the benefits of large scale economies.

(vii) More Risk Involved :

A sole proprietor is to take all decisions by himself. So, there is a possibility of taking wrong decisions. In other forms of organization, the decisions are taken by more than one person. So, the possibility of mistakes and wrong decisions are minimized. Lack of counselling may create difficult situations.

(viii) Unsuitable for Big Business :

After knowing all the disadvantages, it can be said that for big business projects, sole proprietorship system is unsuitable.

(2) Partnership

Meaning:

A partnership is an association of two or more persons to carry on, as co-owners, a business and to share its profits and losses. The partnership may come into existence either as a result of the expansion of the sole trading concern or by means of an agreement between two or more persons desirous of forming a partnership. When the business expands in size, the proprietor finds it difficult to manage the business and is forced to take more outsiders who will not only provide additional capital but also assist him in managing the business on sound lines. Sometimes, the nature of business demands large amount of capital, effective supervision and greater specialization. It's the ideal form of organization for the enterprise requiring moderate amount of capital and diversified managerial talent. This form is not suitable for a business requiring more capital and expert managerial personnel."

Definition:

(i) John, A. Shubin: "Two or more individuals may form a partnership by making a written or oral agreement that they will jointly assume full responsibility for the conduct of business".

(ii) Section 4 of Partnership Act, 1932 :- " The relation between persons who have agreed to share profits of a business carried on ~~all~~ by all or any of them acting for all." According to Partnership Act, there must be two or more persons having contractual relationship. It is not necessary that the business should be managed by all the partners but any one or more partners can run the business on behalf of all the persons. Any partner acting on behalf of other partners can bind the firm to third party. So there is an implied authority for contracting on behalf of other partners."

Characteristics of Partnership

(i) Association of 2 or more persons:

In partnership, there must be at least 2 persons. Partnership is the outcome of a contract. So, there must be 2 or more persons. The persons becoming partners must be competent to enter into a contract. Minors can't form a partnership firm as they are incompetent to enter into a contract. According to section 11 of Contract Act, there is no maximum limit on partners in Partnership Act, but according to Companies Act, the maximum number of partners engaged in a banking business can't exceed ten and twenty in any other business.

(ii) Contractual Relationship:

The persons joining the partnership enter into a contract for running the business. According to Partnership Act, the relation of partnership arises from contract and not from status. The contract

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may be "oral or written but in practice, written agreement is made because it helps to settle the disputes if they arise later on.

(iii) Earning of Profits.

The purpose of the business should be to make profits and distribute them among partners. If a work is done for charity purposes or to serve the society, it will ~~be~~ not be called a partnership. so the motive of the business should be to earn profits. It does not mean that there will not be losses but the motive should be earning of profits.

(iv) Existence of Business

Partnership can only be for some kind of business. The term 'Business' includes any trade, profession or occupation. By business we mean all activities concerning production, distribution and rendering of services for the purpose of earning profits. If the work is related to social service, we do not call it a business and hence no ~~production~~ partnership.

(v) Implied Authority.

There is an implied authority that any partner can act on behalf of the firm. The business will be bound by the acts of partners.

(vi) Restriction and Transfer of Share

No partner can sell or transfer his share to anybody else without the consent of ~~o~~ the

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other ~~partner~~. partners. In case any partner does not want to ~~contribute~~ continue in the partnership, he can give a notice for dissolution of the firm.

(vii) Capital Contribution

The partners contribute to the capital of the firm. It is not necessary to have capital in profit sharing ratio. A partner can be admitted to the firm even without contributing to the capital. It is not essential that all partners must contribute to the firm's capital.

(viii) Protection of Minority interest

All important decisions are generally taken by concerns. It ensures protection of those who may not agree to the majority viewpoint. A partner may even ask for the dissolution of partnership if he feels aggrieved.

Advantages of Partnership form of Organization:

(i) Large resources

The resources of more than one person are available for the business. The partners can contribute to start a moderately large scale concern. More partners can be added if capital needs are large. The partnership concerns can also arrange funds from the outside sources.

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(ii) Promptness in Decision-Making :

The partners meet frequently and they can take prompt decisions. The firm will not lose any business opportunity because of delay in taking a decision.

(iii) Sharing of risk :

The risk of business is shared by more than one person. The burden of every partner will be much less as compared to the burden of sole trade. Furthermore, the business expansion won't be hampered for fear of risk.

(iv) Relationship between Reward and Work :

The partners try to put more labor to earn more and more profits. There is a direct relationship between reward and work. The more they work, the more will they be benefitted.

(v) More Possibility of Growth and Expansion :

As compared to a sole trade business, partnership concern has more possibilities for expansion and growth of business activities. The partner can contribute more and manage the activities more systematically.

(vi) Easy to form :

This is a suitable type of organization requiring no legal formalities. No formal documents are required to be prepared as is necessary in case of a joint stock company. A simple agreement among partners is sufficient to start partnership firm. A partnership deed is not necessary though it is advisable to prepare it. Even the registration of the firm is optimal.

(vii) Democratic Administration:

All partners may take active interest in the working of the firm. All the partners are consulted on important decisions. Generally, strategic decisions are taken by consensus only.

(viii) Saving in Managerial Expenses:

There are savings in expenses of a partnership firm. The partners divide all important functions among themselves and look after them. In other firms like joint stock company, managerial expenses are huge because they have to depend on hired employees.

Disadvantages of Partnership

(i) Unlimited liability

The liability of partners is unlimited. They are not only liable for their business investments but their private properties can also be taken for business liabilities. Partners try to avoid risks and it restricts the expansion and growth of the business.

(ii) Instability

The partnership concern suffers from the uncertainty of duration because it can be dissolved at the time of death, lunacy or insolvency of a partner. The lack of trust among partners can also lead to dissolution. The discontinuity of the business is a social loss and it causes inconvenience to the consumers and workers.

(iii) Mutual Distrust

The mutual distrust among partners is the main cause for dissolution of partnership concerns. It is difficult to maintain harmony among partners because they may have different opinions and may not agree on certain matters. Lack of confidence on each other can be a cause for quarrels and it may lead to the dissolution of the firm.

(iv) Limitation on Transfer of Share

No partner can transfer his share to a third party without the consent of the other partners. If a partner wants his share back, it will not be possible without the approval of others partners or without dissolution of the firm. In case of a company, any shareholder can transfer his shares without affecting the working of the business. In partnership, a partner is permanently wedded to it.

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(v) Lack of Public faith:

The accounts of partnership concerns are not published. So public is unaware of the exact position of the business. There is a suspicion in public mind that these concerns earn huge profits at the ~~end of~~ cost of consumers. There is no legal binding for the publication of accounts. So, partnership concerns lack public confidence.

(vi) Burden of implied authority:

A partner can bind the business by his acts. He can act as an agent of the business. A dishonest partner may lead the business in difficulties. The other partners will have to meet the obligations incurred by the partner. The provision of implied authority may create problems for the business.

(vii) Limited Resources

There is a limitation in raising additional resources for expansion purposes. The business resources are limited to the personal funds of the partners. Borrowing capacity of the partners is also limited. The number of partners to be added to a business is also limited. A banking company can't have more than 10 partners and in other businesses, the number of partners can't exceed twenty. So, there is a limit beyond which partners can't be added.

(viii) Cautions approach

Unlimited liability of partners leads to cautious approach on the part of partners. They try to avoid decisions where some sort of risk is involved. A number of business opportunities may be lost due to this type of tendency. Moreover, risk-bearing capacity of partners may also be limited.

Joint Stock Company

Introduction

With the technological improvements, the scale of operations has increased. The requirements for finances and managerial resources have gone up. The traditional forms of organizations such as sole-proprietorship and partnership couldn't meet the requirements of business. The increase in business volumes also brings in more liabilities. Under these circumstances, the company form of organization developed as the most suitable alternative. In this form of organization, a large number of persons known as shareholders join hands to start a bigger business and the liability of members is also limited to the extent of shares they have subscribed to.

Joint Stock Company form of organization was first started in Italy in the thirteenth century. In India, the first Companies Act was passed in 1850 and the principle of limited liability was introduced only in 1857. A comprehensive Companies Act was passed in 1956 and all undertakings registered under this act are known as 'companies'. The companies started under state or central legislations are called 'corporations'.

Definitions:

(i) "A company is "an association of many persons who contribute money or money's worth to a common stock and employ it in some trade or business, and who share the profit and loss (as the case may be) arising therefrom" – James Stephenson

(ii) "A Joint Stock Company is a voluntary association of individuals for profit, having a capital divided into transferable shares, the ownership of which is the condition of membership."

Characteristics.

The following are the characteristics of a Joint Stock Company:

(i) Association of Persons:

A company is an association of persons joining hands with a common motive. A private limited company must have atleast 2 persons and a public limited company must have at least seven persons to get it registered. Furthermore, the number of shareholders should not exceed 50 in private Companies but there is no maximum limit for the members in a public limited company.

(ii) Independent legal entity:

The company is created under law. It has a separate legal entity apart from its members. A company acts independently of its members. The company is not bound by the acts of its members and members do not act as agents of the company. A person can own its shares and can be ~~sued~~ its creditor too. The life of the company is independent of the lives of its members. The company can sue and be sued in its own name.

(iii) Limited Liability:

The liability of its shareholders is limited to the value of shares they have purchased. In case the company incurs huge liabilities, the shareholders can only be called upon to pay the unpaid balance on their shares. The company being a separate entity can incur debts in its own name and the shareholders will not be personally liable for that. However, shareholders of a limited company have unlimited liability. The liability of members of a company limited by guarantee is limited to the guaranteed amount.

(iv) Common seal:

A company being an artificial person can't put
its signatures. The law requires every company
to have a seal and get its name engraved on it.
The seal of a company is affixed on all
important documents and contracts as a token
of signature. The Directors must witness the
affixation of the seal.

(v) Transferability of Shares:

The shares of a company can be transferred
by its members. Whenever the members want to
dispose off the shares, they can do so by
following the procedure devised for this purpose.
Under Articles of Association, the Company can
put certain restrictions on the transfer of shares
but it can't altogether stop it. However, private
companies can put more restrictions on transferability
of shares, virtually making it zero.

(vi) Separation of Ownership and Management:

The shareholders of a company are widely scattered.
A shareholder may like to invest money but
may not be interested in its management. The
companies are managed by the Board of
Directors (BODs). The ownership and management
are in two separate hands. The shareholders do not
get any right to participate in company management.
The right to manage company affairs is vested
in the Directors who are elected representatives of

the shareholders.

(vii) Perpetual existence:

The company has a permanent existence. The shareholders may come or may go but the continuity of company will go on forever. The continuity of the company is not affected by death, lunacy or insolvency of its shareholders. The company can be wound up by the operation of law. The shares of the company may change hands a number of times but the continuity of the company is not affected at all.

(viii) ~~Cor~~ Corporate Finance:

A Joint Stock Company, generally raises ~~a~~ large amount of funds. The capital is divided into shares of small denomination. A large number of persons purchase share and contribute to the capital of the Company. Since there is no limit on the number of maximum members in public companies, large amounts of sources can be raised from persons from different walks of life.

Advantages of Joint Stock Company.

The company form of organization has been successful in almost all countries of the world. This form is suitable where large resources are required and the production has to be carried out on a large scale. The number of Joint Stock Companies has shown a phenomenal increase in the twentieth century. Some of the merits of company form of organization are discussed below:

(i) Accumulation of large resources:

The main drawback of the sole trade and partnership concerns has been the scarcity of resources. The resources of a sole trader and of partners being limited, these enterprises have always suffered for want of resources. A company can collect large sum of money from large number of shareholders. There is no limit on the number of shareholders in a public company. If need for more funds arises, the number of shareholders can be increased. Joint Stock Companies are suitable for those businesses where large resources are required.

(ii) Limited Liability:

The liability ~~in a~~ of members in a Company form of organization is limited to the nominal value of shares they have acquired. If a person has purchased a share of ₹100, his liability is limited to ₹100 only. If the share is partly paid, then he can be required to pay only the unpaid

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value of the share. In no case, the total payment will exceed ₹100. The limited liability encourages many persons to invest in shares of joint stock companies. Many persons will be reluctant to invest in those enterprises where liability is unlimited.

(iii) Continuity of Existence:

When a company is incorporated, it becomes a separate legal entity. It is an entity with perpetual succession. The members of a company may go on changing from time to time but that does not affect the continuity of a company. The death or insolvency of members does not in any way affect the corporate existence of the company. The continuity of a company is not only in the interests of the members but is also beneficial for the society. The discontinuation of a company may cause wastage of resources and inconvenience to the consumers.

(iv) Efficient Management:

In a company form of organization, ownership is separate from management. It enables the company to appoint expert and qualified persons for managing various business functions. The availability of large-scale resources enables the company to attract talented persons by offering them higher salaries and better career opportunities. The

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efficient management will help the company to expand and diversify its activities.

(V) Economies of Large-Scale Production

With the availability of large resources, the company can organize production on a big scale. The increase in scale and size of the business will result in economies in production, purchase, marketing and management, etc. These economies will enable the company to produce goods at a lower cost, thus resulting in more profits. The company will help consumers by providing them with cheaper goods and will also be able to accumulate more resources for further expansion.

(Vi) Diffused risk

In sole trade and in partnership business, the risk is shared by a small number of persons. Further uncertainties discourage them from taking up new ventures for fear of risk. In Company form of organization, the number of contributories is large, so risk is shared by a large number of persons. The burden to be shared by different individuals becomes insignificant. It enables companies to take up new ventures.

(Vii) Democratic set-up

The values of shares is generally small. It enables persons with low incomes to purchase the shares of companies. Shareholders come from all walks of life. Every individual has an opportunity to become a shareholder. Secondly, the Board of Directors is elected by the members. So members have a say in deciding the policies of the company. The Company form of organization is democratic both from ownership and management side.

(viii) Social Benefits :

The Company form of organization mobilizes scattered savings of the community. These savings can be better used for productive purposes. The companies also enable financial institutions to invest their money by providing them avenues. It also enables the utilization of natural resources for better productive uses. Large-scale production enjoys a number of economies enabling low cost of production. The society is supplied with enough quantity of goods.

Demerits/Limitations of Company form of Organization

The Company form of organization suffers from the following drawbacks :

1. Difficulty of formation :

Formation of a Company is not an easy task. A number of stages are involved in Company promotion. The suitability of a particular type of business is to be decided first.

2. Separation of Ownership and Management :

The ownership and management of a public company is in different hands. The owners i.e., shareholders play an insignificant role in the working of the company. On the other hand, control is in the hands of those who have no stakes in the Company. The management may indulge in speculative business activities. There is no direct relationship between efforts and rewards. The profits of the company belong to shareholders and the Board of Directors are paid only a commission. The management does not take personal interest in the working of the company as is the case in partnership and sole-trade business.

3. Evils of Factory system:

The company form of organization leads to large-scale production. The evils of factory system like insanitation, air pollution, congestion of cities are attributed to joint stock companies. Joint stock Companies facilitate formation of business combination which ultimately leads to the monopolistic control and exploitation of consumers.

4. Speculation in shares:

The joint stock companies facilitate speculation in the shares at stock exchanges. The prices of shares depend on both economic and non-economic factors. The speculators try to fluctuate the prices of shares according to their suitability. The Stock exchanges will not help the growth of healthy investment when speculative activities are being carried on. The management of joint stock companies also sometimes encourage speculation in shares for their personal gains.

5. Fraudulent Management:

The promoters and directors may indulge in fraudulent practices. The management is in the hands of these persons who have not invested much in the company. The Company Law has devised methods to check fraudulent practices but they have not proved enough to check them completely.

6. Lack of Secrecy:

The management of companies remains in the hands of many persons. Everything is discussed in the meetings of Board of Directors. The trade secrets can't be maintained. In case of sole trade and partnership concerns, such secrecy is possible because of a few persons are involved in management.

7. Delay in Decision-making.

In company form of organization, no single individual can make a policy decision. All important decisions are taken either by the Board of Directors or are referred to as General house. Decision-making process is time-consuming. If some business opportunity arises and a quick decision is needed, it will not be possible to arrange meetings all of a sudden. So many opportunities may be lost because of a delay in decision-making.

8. Concentration of economic power.

The Company form of organization has helped concentration of economic power in a few hands. Some persons become Directors in a number of companies and try to formulate policies which promote their own interests. The shares of a number of companies are purchased to create subsidiary companies. Interlocking of directionship and establishment of subsidiary companies. Interlocking of directorship and establishment of subsidiary companies have facilitated concentration of economic power in the hands of a few business houses.

Co-operative Organization

Introduction and meaning:

The co-operative movement has been necessitated to protect the interests of weaker sections of society. The primary objective of this movement is "how to protect economically weaker sections of society". In all forms of organization, be it a sole trade, partnership or joint stock company, the primary motive is to increase profits. The businessman tries to promote his own interest through all possible means including exploitation of consumers. The co-operative form of organization is a democratic set up run by its members for serving the interests of themselves. It is self-help through mutual help. The philosophy behind co-operative movement is "All for each and each for all".

Co-operative societies are voluntary associations started with the aim of service to members. Hubert Calvert says," Co-operation is a form of organization wherein persons voluntarily associate together as human beings on the basis of equality for the promotion of economic interest of themselves". V.L. Mehta defines Co-operation as

One aspect of a vast movement which promotes the voluntary association of individuals having common economic needs who combine towards the achievement of the common economic ends they have in view and who bring into his combination a moral effort and a progressively developing realization is the achievement of economic ends. In fact, co-operative movement was started to safeguard consumers from the exploitation of capitalism. Dr. H.N. Kunzen defines Co-operatives as "Co-operative is self-help as well as mutual help. It is a joint enterprise of those who are not financially strong and cannot stand on their legs and therefore come together not with a view to get profits but to overcome disability arising out of the want of adequate financial resources". This definition suits the Indian context. In India, co-operatives are started by the weaker section of society for protecting its members from the clutches of profit-hungry businessmen.

The Indian Co-operative Societies Act, 1912 defines co-operative in Section 4 as "Society which has its objective the promotion of economic interests of its members in accordance with co-operative principle".

Characteristics/Principles of Co-operatives:

Some of the principles/characteristics of co-operatives are discussed as follows:

(1) Voluntary membership:

Everyone is at liberty to enter or leave the co-operative society as and when he likes. Nobody is compelled to join a co-operative society. The members are also free to use or not to use the services of the society. Though, there is no limit on the membership of the societies, sometimes certain limits are imposed to keep the society as a workable group. Consumer co-operatives do not restrict the membership but marketing co-operatives, producers co-operatives, insurance societies, etc. may limit membership to a number which is properly manageable. Voluntary membership is the main ingredient of co-operation. Everybody ~~is~~ willing to join a society is allowed to do so. Voluntary membership has been responsible for the success of co-operative movement.

(2) Political and Religious Neutrality:

The membership of a co-operative society is opened to all irrespective of religion, caste, creed, color or political affiliation. The co-operative movement can attract a large membership only by staying out of politics where people have divided opinions. Co-operatives represent universal brotherhood and it should not lose its path in political contradictions. There is no place for caste or discrimination in co-operatives. The primary aim of co-operatives is to serve its members. So, co-operatives are neutral as far as political and religious affiliations are concerned.

(3) Democratic Management:

The management of a co-operative society is always on democratic lines. All the members of a society elect a body of persons to conduct and control the day-to-day working of the society. The members frequently meet and give guidelines to its executive. The management is elected through one man one-vote system. The day-to-day work is conducted by expert persons but the ultimate control lies with the members. In a co-operative, democracy is more than a system, it is a condition of its business success. Co-operative business stands ~~on~~ or falls ~~on~~ with democracy.

(4) One-man, one-vote:

In co-operative societies, every member is given one vote irrespective of his contribution towards their basis of number of shares held by a person. So, persons having large number of shares control the organization. In a co-operative, nobody can control the society on the strength of his wealth. All members have equal voice in the management of the society.

(5) Service motive:

The primary objective of co-operative societies is to provide service to their members. The aim is not to earn profits as is the case in all other forms of organizations. The service of members is the fundamental object of co-operative societies. The societies earn a small amount of profit to cover up administrative expenses. The profit is generally earned when goods are sold to non-members.

(6) Limited interest on investment:

The pioneers of co-operative movement want to give certain percentage on capital contribution in the form of dividend. This is an incentive to members for keeping money with the society as deposits. In India, a maximum of 9% per annum can be paid as interest on contributions to the society. This is a first charge on the surpluses of the society.

(7) State Control:

The Co-operative Societies are to follow certain rules and regulations framed by the government.

(8) Finances:

The finances of a co-operative society are contributed by members through the purchase of shares. Since, co-operatives are generally formed by the weaker and poorer sections of the society, their capital collections are meagre. Also, there is limit to the maximum shares that a member can buy in a co-operative society. The government also lends financial support in the form of loans from the state & Central Co-operative Banks.

Merits of Co-operative Society.

1) Easy to form

The formation of a co-operative society is very simple as compared to the formation of any other form of business organization. Any ten adults can join together and form a co-operative society. The procedure involves in the registration of a co-operative society is very simple and easy. No legal formalities are required for the formation of a co-operative society.

2) No obstruction for membership.

Unless and otherwise specially debarred, the membership of co-operative society is open to everybody. Nobody is obstructed to join on the basis of religion, caste, creed, sex & color etc. A person can become a member of a society at any time he likes and can leave the society when he doesn't like to continue as members.

(3) Limited Liability:

In most cases, the liability of the members of the society is limited to the extent of capital contributed by them. Hence, they are relieved from the fear of attachment of their private property, in case the society suffers financial losses.

(4) Service Motive:

In a cooperative society, members of the society are provided with better goods and services at reasonable prices. The society also provides financial help to its members at concessional rates. It assists in setting up production units and marketing of ~~production units~~ products to small business houses as well as small farmers for their agricultural products.

5) Democratic Management:

The cooperative society is managed by the elected members from and among themselves. Each member has equal rights through its single vote but can take active part in the formation of the policies of the society. Thus, all members are equally useful for the society.

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(6) Stability & continuity:

A cooperative society can't be dissolved by the death, insolvency, lunacy, permanent incapability of the members. Therefore, it has stable life and continues to exist for a longer period. It has got separate legal existence. New members may join & old members may quit the society but society continues to function unless ~~others~~ otherwise all members unanimously decided to close the same.

(7) Economic co-operations.

The cooperation carried on by the cooperative society is economical due to the eliminations of middlemen. The services of the middlemen are provided by the members of the society with the minimum cost. In the case of cooperative society, the recurring and non-recurring expenses are very less. Further, the economies of scale of production or purchase, automatically reduces the procurement price of goods, thereby minimizes the selling price.

(8) State patronage:

Government provides special assistance to the societies to enable them to achieve their objectives successfully. Therefore, the societies are given financial loan at lower rates. Government also extends many types of subsidies to cooperative societies strengthening their financial stability and sustainable growth in future.

Disadvantages of Co-operatives.

(1) Limited resources.

Co-operative societies ~~are~~ financial strength depend on the capital contributed by its members & loan raising capacity from state cooperative Banks. The membership fee is limited for which they are unable to raise large amount of resources as their members belong to the lower and middle class. Thus, co-operatives are not suitable for the large-scale business which requires huge capital.

(2) Inefficient management.

A cooperative society is managed by the members only. They don't possess any managerial & special skills. This is considered as a major drawback of this sector. Inefficiency of management may not bring success to the societies.

(3) Lack of secrecy.

The co-operative society doesn't maintain any secrecy in business because the affairs

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of the society is openly discussed in the meetings. But secrecy is very important for the success of a business organization. This paved the way for competitors to compete in more better manner.

(4) Cash trading:

The cooperative societies sell their products to outsiders only in cash. But, they are usually from the poor sections. These persons require to avail credit facilities which is not possible in the case of co-operatives. Hence, marketing is a shortcoming for the co-operatives.

(5) Excessive Government interference:

Government put their nominees in the Board of Management (BOD) of cooperative society. They influence the decision of the Board which may or may not be favorable for the interest of the society. Excessive state regulation, interferance with the flexibility of its operation affects adversely the efficiency of the management of the society.

(6) Absence of motivation:

The members may not feel enthusiastic because the law governing the regulation cooperation put some restriction on the rate of return. Absence of relationship between work and reward discourage the members to put their maximum effort in the society.

(7) Disputes & Differences.

The management of the society ~~somet~~ constitutes various types of personnel from different social, economical and academic background. Many-a-time, they strongly differ from each other on many important issues. This may become detrimental to the interests of the society.

8) They would allow generic marketing

When marketing through a cooperative, you might lose control of your unique brand, especially when it performs advertizing for all members. Also, you might get lumped in with other businesses or competitors that you don't want to be associated with in the perceptions of your customers

Public Enterprises / Organizations

Introduction

"Public enterprises are autonomous or semi-autonomous corporations and companies, established, owned and controlled by the State and engaged in industrial and commercial activities."

Public enterprises as a form of business organization have gained importance in recent times. During twentieth century, various governments started participating in industrial and commercial activities. Earlier, the role of government was limited only to the maintenance of law and order. The policy of Laissez faire was practiced in most of the countries.

The development of industries was left to the judgment of private entrepreneurs. During twentieth century, various governments started participating in industrial and commercial activities. Earlier, the role of government was limited only to the maintenance of law and order. The policy of Laissez faire was practiced in most of the countries.

The development of industries was left to the judgment of private entrepreneurs. During twentieth century, outbreak of two world wars, depression in many countries and social evils of Industrial Revolution of earlier times compelled State governments to participate in planning and developing industrial structure of their countries.

Industrial revolution helped all round growth of industries. Private entrepreneurs started working only for profit motive. The exploitation of consumers and workers by private entrepreneurs became the order of the day. Russion Revolution gave a lead to new economic and political system in the world. State Governments started realizing their social responsibility towards people.

The outcomes of all these factors were the active participation of governments in industrial and commercial enterprises. At present, governments of almost all countries in the world are participating in economic activities in one or the other way.

Private sector is hesitant to develop those industries where heavy investment is required and gestation period is long. State enterprise is considered necessary to reduce economic inequality and to prevent concentration of wealth in a few hands.

In India, a socialistic order has been established after independence. The Industrial Resolution of 1948 and 1956 have clearly defined the role of public and the private sectors. The government has reserved for itself basic and other strategic industries. A

Complimentary role has been assigned to both private and public sectors. At present, public sector enterprises are engaged in manufacturing, trading as well as service activities.

Definition

State enterprise is an undertaking owned and controlled by the local or state or central government. Either whole or most of the investment is done by the government. The basic aim of a State enterprise is to provide goods and services to the public at a reasonable rate through profit earning is not excluded but their primary objective is social service.

A.H. Hansen says, "Public Enterprise means state ownership and operation of industrial, agricultural, financial and commercial undertakings."

S.S. Khera define State enterprises as "the Industrial, commercial and economic activities carried on by the Central or by a State Government, and in each case either solely or in association with private enterprise, so long it is managed by self-contained management."

"Public enterprises are autonomous or semi-autonomous corporations and companies established, owned and controlled by the State and engaged in industrial and commercial activities." - N.N. Mallya

Characteristics of Public enterprises

Following are the characteristics of Public enterprises:

(1) Financed by Government:

Public enterprises are financed by the government. They are either owned by the government or majority shares are held by the government. In some undertakings, private investments are also allowed but the dominant role is played by the government only.

(2) Government Management:

Public enterprises are managed by the government. In some cases, government has started enterprises under its own departments. In other cases, the government nominates persons to manage the undertakings. Even autonomous bodies are directly and indirectly controlled by the government departments.

(3) Financial Independence:

Though investments ~~are~~ in government undertakings are done by the government, they become financially independent. They are not dependent on the government for their day-to-day needs. These enterprises arrange and manage their own finances. An element of profitability is also considered while pricing their products. It has helped the enterprises to finance their growth themselves.

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(4) Public services:

The primary aim of State enterprises is to provide services to the society. These enterprises are started with a service motive. A private entrepreneur will start a concern only if possibilities of earning profits exist but this is not the purpose of public enterprises.

(5) Useful for various sectors:

State enterprises don't serve a particular section of the society but they are useful for everybody. They serve all sectors of the economy.

(6) Direct Channels for using foreign Money:

Most of the government to government aid is utilized through public enterprises. financial and technical assistance received from industrially advanced countries is used in public enterprises.

(7) Helpful in implementing Government plans.

Economic policies and plans of the government are implemented through public enterprises.

(8) Autonomous or Semi-autonomous Bodies:

These enterprises are autonomous or semi-autonomous bodies. In some cases, they work under the control of government departments and in other cases, they are established under statutes and under Companies Act.

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Different forms of Public Enterprises:

The forms of Public enterprises are as follows:

1. Departmental Organization
2. Board Management
3. Statutory or Public Corporation
4. Government Company

Public Enterprises form #1. Departmental Organization:

Under departmental management, a public undertaking is run as a department of the government. The traditional enterprises such as the post and telegraphs, broadcasting, munitions factories etc are managed as departments of the govt.

The overall responsibility of management rests with the ministry concerned, e.g. Ministry of Posts and Telegraphs, Ministry of Broadcasting.

This type of enterprise is financed through annual budget appropriates made by legislature and its revenues are paid into the treasury. Departmental enterprises are subject to budget accounting and auditing controls applicable to all govt. departments.

Departmentally administered enterprise possess a ~~bar~~ permanent staff of civil servants whose method of recruitment and conditions of service are the same as for other civil servants. It

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public is not satisfied with the working of such enterprise, the matter can be raised in Parliament because they are within the control of the Parliament.

The Study Team on public Sector Undertakings has mentioned the following principal characteristics of Departmental Undertaking:

1. It is financed by annual appropriations from the treasury and all, or a major share, of its revenues are paid into the treasury.

2. It is subject to the budget, accounting and audit controls applicable to govt. agencies.

3. Its permanent staff consists of civil servants and their conditions of recruitment and service are the same as for other civil servants.

4. It can be sued only by following the procedure prescribed for filing suits against the government.

Merits of Departmental Organization:

1. Secrecy:

The departmental undertaking is directly subordinate to a Ministry. The need for secrecy, strategic importance and other similar conditions make the departmental form the most suitable form of organization

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in certain areas (for defence industry).

2. Complete Accountability.

The accountability of departmental undertakings to Parliament is complete, their management being under the Ministry concerned, or it assures the maximum degree of control by politically responsible officials.

3. Absolute Govt. control:

It provides a means of securing absolute govt. control.

4. Instrument of Social Policy.

The state can make use of these undertakings as instruments of its economic and social policy.

5. Direct criticism is Parliament:

From the public point of view, the departmental organization has an advantage that if anything goes wrong or if the public is dissatisfied with the working of an undertaking the matter can be immediately raised in Parliament.

Disadvantages of Departmental Organization.

1. No Business-Like Functioning

The basic weakness of department management is that such enterprises can't be run in business-like fashion. Control by legislature makes it subject to political changes and consequently it becomes difficult to formulate long-range business plans. Moreover, officials are afraid of taking initiative and risks ~~of~~ for fear of being criticized in the Parliament. Some amount of freedom has been introduced in the case of Railways by arranging a separate executive board.

2. Red-Tapeism:

Govt. departments are noted for red-tapeism and procrastination and can't be sensitive to consumer demand. Govt. officials generally do not have necessary management training which is essential for running industries.

3. No separate funds for expansion:

The revenues of the enterprise are merged with the general revenues of the govt. and are not generally used for the expansion of the business.

4. Political influence:

The departmentally-managed undertakings are under the control of ministers and the political parties to which they belong and who hardly understand the problems of management of industry. Moreover, their policies suffer from instability because of the uncertainty attached to the tenure of the political parties and ministers.

5. Delay in Decision-making:

Govt. officials who are asked to manage public undertakings generally lack business acumen. They are selected and trained generally for a purpose quite different from, running industries and services. They are used to working under a rigid system of set rules and for every decision, they look for a precedent. This causes delay in decision-making which is harmful for business enterprise.

6. No Long-term Policy:

Frequent transfers of officers make it difficult to follow a long-term policy on the part of the business enterprise.

7. Inflexibility:

The departmental organization fails to provide flexibility so essential to effective business operations. For all these limitations, departmental management is confined to those cases only where there are sufficient reasons.

Public Enterprises Form #2: Board Management:

It is a particular type of departmental management. Here is a Board of Directors ~~who~~ which manages the enterprise. The Board is constituted by the Government and the Govt. has direct Control over it like Departmental organization. The Board is directly subordinate to ~~a~~ ministry e.g. Railway Board, State Electricity Board. It has the same advantages and disadvantages of Departmental Organization.

Public Enterprises Form #3: Public or Statutory Corporation:

A public or statutory corporation is created by a Special Act which defines its powers, functions, privilages and prescribes the pattern of management. There are three important features of this Corporation. In the first place, it is an autonomous body corporate ~~act~~ and is administered by a Board of Directors in which various interests are represented.

The Board formulates policies which are executed by a Chairman or a director general in its day-to-day administration.

In most cases, its staff are not civil servants and they are appointed under terms and conditions determined by the Corporation itself.

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secondly, since it is to a large extent, free from direct parliamentary control, it can operate like a true business concern.
Thirdly, it is financially self-supporting. It is usually set up with a capital fund and is allowed to use its earnings.
However, when the Govt. has to provide capital to these corporations, parliamentary control is exercised over them, otherwise they are free from parliamentary control. Examples of such corporations are the Indian AirLines Corporation, Life Insurance Corporation, Damodar Valley Corporation, Oil and Natural Gas Commission, etc.
The Study Team on public Sector undertakings mentioned the following features of public corporation:
1. It is owned by the State.
2. It is created by a special law defining its objectives, powers and privileges and prescribing the form of management and its relationship with govt. departments.
3. It is a body corporate and can sue and be sued, enter into contracts and acquire property in its own name.
4. Except for appropriations to provide capital or to cover losses, it is usually independently financed; it obtains funds by borrowing either from the govt or in some cases, from the public and through revenues derived from the sale of goods &

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services and has the authority to use and reuse its revenue.

5. It is ordinarily not subject to the budget, accounting and audit laws and procedures applicable to govt. departments and

6. Excluding the officers taken from govt. departments on deputation, the employees of public corporations are not civil servants and are not governed by govt. regulations in respect of conditions of service.

As pointed out by the Study Team, in most democratic countries, the public corporation has been the common form of organization for public enterprises. "In the UK, US and Canada, this form of public corporation has been adopted. In Italy, the company form has been retained for concerns brought within the public sector, but it is confined to the sub-holding companies and operating units.

The two top management institutions that control all the operating units and sub-holding companies are the ENI and IRI and they are statutory corporations. Thus, it is only in India that the govt. seems to have adopted the method of running companies by directly holding shares in them. In Italy, the state holdings are administered by public corporations which, in turn, hold shares in a

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number of companies.

In India, the govt. companies have been subjected to both. While it is sometimes claimed that the advantages of the two systems state managements and private enterprises have been combined in govt. companies in India, many witnesses who appeared before us held the view that govt. companies had merely succeeded in accumulating the disadvantages of both."

Preferring the public corporation to the company, the Team has pointed out that though from the Govt. pronouncements on the subject, it appears that the company form is conducive to greater autonomy, the reports of the parliamentary Committees indicate the very opposite.

Advantages of Public Corporation:

1. Quick decision-making power:

Ability to make quick decisions not only on routine matters but also ~~on~~ important questions of policy is an essential condition of success of business management. It is available in a public corporation.

2. Internal Autonomy:

It enjoys complete internal autonomy and is free from parliamentary or political control in the internal and routine management.

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3. Best Management:

Management is vested in a chosen body, Governing Board representing the men of ability, Skill and business experience. It is a form of management combining what is best in management and what is best in public service.

All executive and management powers are given to small boards responsible for management and administration of the state enterprise. It is neither answerable to shareholders nor elected by them. The Board and its executives are free from political influence and completely responsible for internal organization and administration.

4. Financial independence:

Corporation has defined powers and functions which are governed by a special Act. It has financial independence and a clear-cut jurisdiction over a specific area, industry or commercial activity.

5. Independent Legal Status:

Corporation is a legal person. It can sue or can be sued in the Court. It is its own master, answerable fully as any other individual or company. It is a public authority for public purpose.

6. Flexibility:

A public corporation has flexibility of operation, accountability to the parliament ~~or~~ but no bureaucracy. For the success of a business enterprise, flexibility is the essential prerequisite. It is available in public corporation.

7. Criterion of Efficiency:

Unlike an ordinary business corporation, a public corporation is formed primarily for offering public service and promoting public welfare. It is not for the provision of dividend but for rendering service to society. Any surplus goes to the benefit of community. Pricing policy is based on break-even point in the long run. Profit maximization is not a criterion of its efficiency and a guide to its policy. Profit maximization can't be its main goal. But it is a secondary though important objective. In short, it is not expected to seek profit at the cost of social good.

Disadvantages of Public Corporation:

1. Limited Autonomy:

Theoretically, public corporations possess all the advantages mentioned in practice. However, there are limitations. The autonomy or independence of management is somewhat limited. The Minister has the power to issue instructions on matters of national interest but sometimes this is stretched further than its legitimate field and he meddles with matters relating to internal management, thereby defeating the fundamental

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objective of autonomy

2. Rigidity :

It is a rigid form of organization as any change in its ~~contruction~~ constitution and powers will require amendment of the special act.

3. Time-consuming :

It needs special legislation and hence, its formation is elaborate and time-consuming.

4. Not suitable for every type of enterprise

It is suitable only for the management of very big enterprise. For trading business, it is not a suitable organization.

Evaluation :

The public corporation strikes a middle course between the departmentally-run undertakings on one side and the privately owned and manged corporate bodies on the other. It represents an attempt to combine some of the desirable features of both of them and to secure the best of both the worlds.

Herbert Morrison has observed that it is a combination of public accountability and management for public ends. With a growing trend towards nationalization, the public corporation is destined to play an important part in the field of nationalized industries in the twentieth century as a privately owned corporation played in the realm of capitalist organization in the nineteenth century.

Public Enterprises form # 4: Government Company:

Under the Companies Act, 1956, Government Company has been defined as "any company in which not less than 51% of paid-up share capital is held by the Central Government or by any state Government or Governments or partly by the Central Government and partly by one or more State Governments".

Public enterprises that are established under provisions of the Companies Act are referred to as Government Companies. It is like a statutory corporation in many respects but no special law is required to set it up.

Features of Government Company:

The principal characteristics of the Government Company as mentioned by the Study Team on public sector undertakings are the following:

1. It has most of the features of a private limited company.
2. The whole of the capital stock or 51% or over of it, is owned by the Government.
3. All the Directors or a majority of them, are appointed by the Government, depending upon the extent to which private capital is participating in the enterprise.

4. It is a body corporate created under a General law viz, the Companies Act.

5. It can sue and be sued, enter into contract, and acquire property in its own name.

6. Unlike the public corporation, it is created by an executive decision of the Govt. without Parliament's specific approval having been obtained and its Articles of Association, though conforming to an Act, are drawn upon and are revisable by the government.

7. Its funds are obtained from the Govt. and in some cases, from private shareholders and from revenues derived from the sale of its goods and services.

8. It is generally exempted from the personnel, budget, accounting & audit laws and procedures applicable to govt. departments and

9. Its employees, excluding those who are on deputation, are not civil servants.

The Industrial Policy Resolution of 1948 had declared that the management of state enterprises will, as a rule, be through the medium of public corporations under the statutory Control of the Central Government, which will assume such powers as may be necessary to ensure this. But most of the public sector undertakings have been organized as companies.

The Company form of organization for public enterprises had come in for much criticism in the beginning. Since the Government in most cases was the only shareholder, it was said that the provisions of the Company Law did not have much relevance to a government company.

Another objection was that the organization of public enterprises as companies reduced their accountability and diluted audit control. But this criticism was largely met by writing special provisions into the Companies Act in 1956 with regard to the submission of Annual Reports and Accounts and Audit by the Comptroller and ~~Act~~ Auditor-General.

Advantages of Government Company:

The followings are the advantages of a Government Company:

1. Flexibility

The strongest argument for a government company is its flexibility, both operational and functional. Flexibility may also refer to the ease with which the Articles are drawn up and altered. As the Ministry drafts the Articles it can provide operational flexibility which becomes more difficult in the case of a public corporation which is set up by an Act passed by the legislature.

Similarly, any modification or alteration of Articles can be made very easily by the Ministry, while in the case of a public corporation the procedure is lengthy and cumbersome.

2. Easy formation

The setting up of an enterprise takes no time and as a large number of undertakings are being set up, it is very simple to ~~so~~ form a company. To set up so many public corporations would mean delay in establishing an enterprise. Generally, the provisions of the Acts creating public corporations are more rigid than the Articles of govt. companies and thus, they are against flexibility.

3. Autonomy

The advantage of autonomy is also greater in the case of a government company than with a public corporation.

4. Foreign Collaboration

The Company form is very useful where foreign capital is invited to assist the setting up of huge public enterprises, such as Hindustan Steel Limited, which is govt. company owning three steel plants and assistance given by U.K, Germany and the former USSR.

5. The Company form may be adopted for 3 reasons:

(a) When the govt. may have to take over an existing enterprise in an emergency.

(b) Where the state wishes to launch an enterprise in association with private foreign capital or

(c) Where govt. wishes to start an enterprice with a view to transforming it to private management.

Disadvantages of Government Company.

1. No constitutional responsibility:

It evades the constitutional responsibilities of a state enterprise. This defect is no more present because Section 639 of the Companies Act requires the Central Govt. to place before each house of Parliament an annual report on the working of each govt. company together with a copy of the audit report. Hence, in India there is no evasion of constitutional responsibility

2. No Real Autonomy:

The separate entity and autonomy of a company exist only in name. In reality, everything rests with the govt. which exercises the functions of shareholders and of managerial control.

3. Single Shareholder.

In the case of a company in private sector, the Directors are elected by a large number

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of shareholders and their choice is the result of collective judgment, while in the case of a Govt. company, the Govt. is the only shareholder and the judgment of a single shareholder is bound to be inferior.

4. Autonomy is changeable.

The extent of autonomy that it provides for can be substantially affected or altered by executive agencies of the government. But this can also happen in the case of public corporation. The company form of organization has limited utility for the operation of state enterprises. It is not only considered to be inferior to public corporation but also condemned "as a fraud on the Companies Act and on the Constitution".

In India, most of the state undertakings are organized as Government companies. The Hindustan Machine Tools Ltd., Heavy Electricals Ltd., Indian Refineries Ltd., Hindustan Shipyard Ltd., Indian Oil Corporation, The Fertilizer Corporation of India, National Coal Development Corporation Ltd. are examples of Govt. companies.

In 1992, there were 143 Govt. companies as against 60 Statutory Corporations in India. It is clear that the present organization of public undertakings reflects

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a marked preference for government company form.

Originally, the Govt. intended to organize public sector undertakings into public corporations but later when the Govt. company form was introduced, it found favor particularly because of the flexibility that it provides for subsequent reorganization.

Evaluation :

The decision taken by Govt. in 1961 on the recommendations of the Krishna Menon Committee on the form of organization reads as follows : Govt. considers that the form of management of the undertakings should be determined by the requirements of each case.

Accordingly, from the point of view of the flexibility of operations, the company form of management would be preferable. In some instances, it would be necessary to form statutory corporations while in a few others, for various reasons, it would be desirable to run the undertakings as departmental organization