B.COM

BUSINESS ORGANIZATION

UNIT - 2

Forms of Business Organization

Syllabus - UNIT – 2

Forms of Business Organisation

Sole Trader, Partnership Firm, Limited Liability Partnership , Cooperative Societies and Joint Stock Company: Definition – Meaning – Characteristics – Advantages – Limitations - One Man Company- Virtual Organization- Private and Public Limited Company – Government Companies – Public Utilities.

EXPECTED LEARNING OBJECTIVES AND OUTCOMES

After studying this chapter, you should be able to:

- ✓ Identify different forms of business organisation;
- ✓ Explain features, merits and limitations of different forms of business organizations
- ✓ Distinguish between various forms of organisations; and
- ✓ Discuss the factors determining choice of an appropriate form of Business organisation.

1. **Sole Trader**
2. **Joint Hindu Family Business**
3. **Partnership Firm**
4. **Limited Liability Partnership (LLP)**
5. **Co-Operatives.**
6. **Joint Stock Company**
7. **One Man Company**
8. **Virtual Organization**
9. **Government Companies**
10. **Public Utilities**

SOLE TRADER

Sole proprietorship or Sole Trader is a business concern owned and operated by one person. The sole proprietor is a person who carries on business exclusively by and for himself. He alone contributes the capital and skills and is solely responsible for the results of the enterprise. In fact sole proprietor is the supreme judge of all matters pertaining to his business subject only to the general laws of the land and to such special legislation as may affect his particular business.

Definition of Sole Trader

J.L. Hanson: "A type of business unit where one person is solely responsible for providing the capital and bearing the risk of the enterprise, and for the management of the business."

The salient features of Sole Trader are as follows

1. **Single ownership**
2. **One man control**
3. **Undivided risk**
4. **Unlimited liability**
5. **No separate entity of the business**
6. **No Government regulations.**

Advantages:

(a) Simplicity – It is very easy to establish and dissolve a sole proprietorship. No documents are required and no legal, formalities are involved. Any person competent to enter into a contract can start it. However, in some cases, i.e., of a chemist shop, a municipal license has to be obtained. You can start business from your own home.

(b) Quick Decisions – The entrepreneur need not consult anybody in deciding his business affairs. Therefore, he can take on the spot decisions to exploit opportunities from time to time. He is his own boss.

(c) High Secrecy – The proprietor has not to publish his accounts and the business secrets are known to him alone. Maintenance of secrets guards him from competitors.
(d) Direct Motivation – There is a direct relationship between efforts and rewards. Nobody shares the profits of business. Therefore, the entrepreneur has sufficient incentive to work hard.

(e) Personal Touch – The proprietor can maintain personal contacts with his employees and clients. Such contacts help in the growth of the enterprise.

(f) Flexibility – In the absence of Government control, there is complete freedom of action. There is no scope for difference of opinion and no problem of co-ordination.

Disadvantages:

(a**) Limited Funds** – A proprietor can raise limited financial resources. As a result the size of business remains small. There is limited scope for growth and expansion. Economies of scale are not available.

(b) Limited Skills – Proprietorship is a one man show and one man cannot be an expert in all areas (production, marketing, financing, personnel etc.) of business. There is no scope for specialisation and the decisions may not be balanced.

(c) Unlimited Liability – The liability of the proprietor is unlimited. In case of loss his private assets can also be used to pay off creditors. This discourages expansion of the enterprise.

(d) Uncertain Life – The life of proprietorship depends upon the life of the owner. The enterprise may die premature death due to the incapacity or death of the proprietor. The proprietor has a low status and can be lonely.

JOINT HINDU FAMILY BUSINESS – (JHF)

Hindu Undivided Family business is a precise kind of business structure found only in India. This is one of the classical methods of business structure in the nation. It is administered by the Hindu Law. The source of membership in the company is birth in a family and 3 consecutive generations can be members of the company. The business is managed by the head of the family (eldest member) and he is called Karta. However, all the members hold equal ownership over the property of an ancestor and they are called as co-parceners.

- It refers to a form of business organization which is owned and carried on jointly by the members of the Hindu Undivided Family (HUF).
- It is also known as Hindu Undivided Family Business.

Characteristics of Joint Hindu Family Business:

Formation

- There should be at least two male members in the family to form a HUF.
- Ancestral property should have been inherited by members of HUF.
- All of the members enjoy this property and have an equal share in that property.
- Thus, any child taking birth in that family becomes a member of the HUF.
- There is no requirement for an agreement to become a member.

Liability

- There is limited liability of all the members or co-parceners in the Hindu Undivided Family business.
- All the co-parceners have equal rights and shares in the property of Hindu Undivided Family business
- The Karta has unlimited liability.

Control

- Karta is the person who has full control over the Hindu Undivided Family business.

- Karta can take advice from all the members but he is not bound to accept their decisions.

Continuity

- After the “Karta” is deceased, the very next eldest member takes up the position of Karta in Hindu Undivided Family business.
- The business can be divided and ended up by the mutual consent of the members.

Minor Members

- The person who has taken birth in Hindu Undivided Family can be a member of the family business.
- Therefore, a minor can also be a member of the family.

Important terms which are used in a Joint Hindu Family Business:

(1) Hindu Undivided Family

- The family who runs or carry on the business organization.
- Hindu Undivided Family includes an eldest male member ‘Karta’ and the other male members called co-parceners.

(2) Karta

- He is the person who is the head and eldest member of the family.
- Karta is the person who has full control over business activities.

(3) Ancestral Property

- It is the property of forefather or an ancestor and over which the members have equal right.

(4) Co-parceners

- The male members related to three successive generations.
- They have equal ownership right over the property of an ancestor.

Systems which are used in a Joint Hindu Family Business

There are two systems which are used in joint Hindu family business:

(1) Dayabhaga System

- It prevails in West Bengal and allows both the male and female members of the family to be co-parceners.
- A son gets right in the ancestral property only after the death of his father.

(2) Mitakashara System

- It prevails all over India except West Bengal.
- It allows only the male members to be co-parceners in the business.

The merits of the joint Hindu family business are as follows:

(1) Effective Control

- The Karta has full control over the business activities and takes a decision quickly.
- No one can interfere in the decision of Karta as every member is bound to accept his decision.
- Hence, it avoids clashes among the members and results in very speedy decision making.

(2) Continued Business Existence

- After the death of Karta, the next eldest member takes up his position. So, it does not affect the activities of the business.
- Hence, all the business activities are done smoothly, continuously without any threat.

(3) Limited Liability of Members

- As all the liability of the members is restricted to the extent of their share in the business.
- But the Karta has unlimited liability due to his complete hold on the business.
- Hence, in case of dissolution of the business, Karta’s personal assets and his share will be liable.

(4) Expanded Loyalty and Cooperation

- All the business operations are carried on by the members of a family jointly.

- So, this increases loyalty and cooperation with each other without any hindrance.
- Therefore, all the targets of the business can be achieved by the cooperation among the members and the Karta.

Limitations of a Joint Hindu Family Business

Below mentioned are the few demerits of a joint Hindu family business:

(1)Limited Resources

- All the members of Joint Hindu Family Business totally depend upon the ancestral property due to their limited liability.
- Many commercial banks resist extending the credit limit due to the weak financial position of the business.
- Hence, this will result in limited expansion and growth of the business.

(2)Unlimited Liability of Karta

- All the important decision regarding management of various business activities are taken by Karta.
- But there is a disadvantage with the Karta that he has unlimited liability.
- Hence, all the business debts are paid by using the personal assets of the Karta.

(3)Dominance of Karta

- The Karta takes all the decisions individually and manages the business
- He also involves other members in decision making.
- But Karta is not bound to accept the decisions of the members which may create conflicts between the Karta and the other members.
- Hence, due to clashes in decision making, lack of cooperation between Karta and other members occurs.

(4)Limited Managerial Skills

- Sometimes the members suffer due to unfair decisions taken by the Karta in respect of business operations.
- Unfair decisions are taken due to the lack of managerial skills.
- So, the Karta cannot be knowledgeable or proficient in all managerial functions.

- Nowadays, the joint Hindu family business is declining due to the decreasing number of joint Hindu families in the nation.

PARTNERSHIP FIRM

As a business enterprise expands beyond the capacity of a single person, a group of persons have to join hands together and supply the necessary capital and skills. Partnership firm thus grew out of the limitations of one man business. Need to arrange more capital, provide better skills and avail of specialisation led to the growth to partnership form of organisation.

According to Section 4 of the Partnership Act, 1932 partnership is "the relation between persons who have agreed to share the profits of a business carried on by all or anyone of them acting for all". In other words, a partnership is an agreement among two or more persons to carry on jointly a lawful business and to share the profits arising there from. Persons who enter into such agreement are known individually as 'partners' and collectively as 'firm'.

Characteristics of Partnership:

i. **Association of two or more persons — maximum 10 in banking business and 20 in non-banking business**
ii. Contractual relationship—written or oral agreement among the partners
iii. Existence of a lawful business
iv. Sharing of profits and losses
v. Mutual agency among partners
vi. No separate legal entity of the firm
vii. Unlimited liability
viii. Restriction on transfer of interest
ix. Utmost good faith.

Formation of Partnership: **Partnership Deed.**

A partnership firm can be formed through an agreement among two or more persons. The agreement may be oral or in writing. But it is desirable that all terms and conditions of

partnership are put in writing so as to avoid any misunderstanding and disputes among the partners. Such a written agreement among partners is known as **Partnership Deed.** It must be signed by all the partners and should be properly stamped. It can be altered with the mutual consent of all the partners.

A partnership deed usually contains the following details:

a. Name of the firm.
b. Names and address of all the partners.
c. Nature of the firm's business.
d. Date of the agreement.
e. Principal place of the firm's business.
f. Duration of partnership, if any.
g. Amount of capital contributed by each partner.
h. The proportion in which the profits and losses are to be shared.
i. Loans and advances by partners and interest payable on them.
j. Amount of withdrawal allowed to each partner and the rate of interest.
k. Amount of salary or commission payable to any partner.
l. The duties, powers and obligations of all the partners.
m. Maintenance of accounts and audit.
n. Mode of valuation of goodwill on admission, retirement or death of a partner.
o. Procedure for dissolution of the firm and settlement of accounts.
p. Arbitration for settlement of disputes among the partners.
q. Arrangements in case a partner becomes insolvent.
r. Any other clause(s) which may be found necessary in particular kind of business.

Registration of Firms:

The Partnership Act, 1932 provides for the registration of firms with the Registrar of Firms appointed by the Government. The registration of a partnership firm is not compulsory. But an unregistered firm suffers from certain disabilities. Therefore, registration of a partnership is desirable.

Procedure for Registration:

A partnership firm can be registered at any time by filing a statement in the prescribed form. The form should be duly signed by all the partners. It should be sent to the Registrar of Firms along with the prescribed fee.

The statement should contain the following particulars:

1. Name of the firm.
2. Principal place of its business.
3. Name of other places where the firm is carrying on business.
4. Names in full and permanent addresses of all the partners.
5. Date of commencement of the firm's business and the dates on which each partner joined the firm.
6. Duration of the firm, if any.
7. Nature of the firm's business.

On receipt of the statement and the fees, the Registrar makes an entry in the Register of Firms. The firm is considered to be registered when the entry is made. The Registrar issues a Certificate of Registration. Any change in the above particulars must be communicated to the Registrar of Firms within a reasonable period of time so that necessary alterations may be made in the Register of Firms. The register is open for inspection on payment of a nominal fee.

Merits of Partnership:

The partnership form of business ownership enjoys the following advantages:

1. Ease of Formation:

A partnership is easy to form as no cumbersome legal formalities are involved. An agreement is necessary and the procedure for registration is very simple. Similarly, a partnership can be dissolved easily at any time without undergoing legal formalities. Registration of the firm is not essential and the partnership agreement need not essentially be in writing.

2. Larger Financial Resources:

As a number of persons or partners contribute to the capital of the firm, it is possible to collect larger financial resources than is possible in sole proprietorship. Creditworthiness of the firm is also higher because every partner is personally and jointly liable for the debts of the business. There is greater scope for expansion or growth of business.

3. Specialisation and Balanced Approach:

The partnership form enables the pooling of abilities and judgment of several persons. Combined abilities and judgment result in more efficient management of the business. Partners with complementary skills may be chosen to avail of the benefits of specialisation. Judicious choice of partners with diversified skills ensures balanced decisions. Partners meet and discuss the problems of business frequently so that decisions can be taken quickly.

4. Flexibility of Operations:

Though not as versatile as proprietorship, a partnership firm enjoys sufficient flexibility in its day-to-day operations. The nature and place of business can be changed whenever the partners desire. The agreement can be altered and new partners can be admitted whenever necessary. Partnership is free from statutory control by the Government except the general law of the land.

5. Protection of Minority Interest:

No basic changes in the rights and obligations of partners can be made without the unanimous consent of all the partners. In case a partner feels dissatisfied, he can easily retire from or he may apply for the dissolution of partnership.

6. Personal Incentive and Direct Supervision:

There is no divorce between ownership and management. Partners share in the profits and losses of the firm and there is motivation to improve the efficiency of the business. Personal control by the partners increases the possibility of success. Unlimited liability encourages caution and care on the part of partners. Fear of unlimited liability discourages reckless and hasty action and motivates the partners to put in their best efforts.

7. Capacity for Survival:
The survival capacity of the partnership firm is higher than that of sole proprietorship. The partnership firm can continue after the death or insolvency of a partner if the remaining partners so desire. Risk of loss is diffused among two or more persons. In case one line of business is not successful, the firm may undertake another line of business to compensate its losses.

8. Better Human and Public Relations:
Due to number of representatives (partners) of the firm, it is possible to develop personal touch with employees, customers, government and the general public. Healthy relations with the public help to enhance the goodwill of the firm and pave the way for steady progress of the business.

9. Business Secrecy:
It is not compulsory for a partnership firm to publish and file its accounts and reports. Important secrets of business remain confined to the partners and are unknown to the outside world.

Limitations of Partnership

1. Unlimited Liability:
Every partner is jointly and severally liable for the entire debts of the firm. He has to suffer not only for his own mistakes but also for the lapses and dishonesty of other partners. This may curb entrepreneurial spirit as partners may hesitate to venture into new lines of business for fear of losses. Private property of partners is not safe against the risks of business.

2. Limited Resources:
The amount of financial resources in partnership is limited to the contributions made by the partners. The number of partners cannot exceed 10 in banking business and 20 in other types of business. Therefore, partnership form of ownership is not suited to undertake business involving huge investment of capital.

3. Risk of Implied Agency:
The acts of a partner are binding on the firm as well as on other partners. An incompetent or dishonest partner may bring disaster for all due to his acts of commission or omission.

That is why the saying is that choosing a business partner is as important as choosing a partner in life.

4. Lack of Harmony:

The success of partnership depends upon mutual understanding and cooperation among the partners. Continued disagreement and bickering among the partners may paralyse the business or may result in its untimely death. Lack of a central authority may affect the efficiency of the firm. Decisions may get delayed.

5. Lack of Continuity:

A partnership comes to an end with the retirement, incapacity, insolvency and death of a partner. The firm may be carried on by the remaining partners by admitting new partners. But it is not always possible to replace a partner enjoying trust and confidence of all. Therefore, the life of a partnership firm is uncertain, though it has longer life than sole proprietorship.

6. Non-Transferability of Interest:

No partner can transfer his share in the firm to an outsider without the unanimous consent of all the partners. This makes investment in a partnership firm non-liquid and fixed. An individual’s capital is blocked.

7. Public Distrust:

A partnership firm lacks the confidence of public because it is not subject to detailed rules and regulations. Lack of publicity of its affairs undermines public confidence in the firm.

The foregoing description reveals that partnership form of organisation is appropriate for medium-sized business that requires limited capital, pooling of skills and judgment and moderate risks, like small scale industries, wholesale and retail trade, and small service concerns like transport agencies, real estate brokers, professional firms like chartered accountants, doctor’s clinics or nursing homes, attorneys, etc.

Types of Partners in Partnership
(Rights, Duties, Liabilities of Partners)

1. Active partners

The partners who actively participate in the day-to-day operations of the business are known as active or working partners. They contribute capital and are also entitled to share the profits of the business. They are also liable for the debts of the firm.

2. Dormant partners

Those partners who do not participate in the day-to-day activities of the partnership firm are known as dormant or sleeping partners.

They only contribute capital and share the profits or bear the losses, if any.

3. Nominal partners

These partners only allow the firm to use its name as a partner. They do not have any real interest in the business of the firm. They do not invest any capital or share profits and also do not take part in the conduct of the business of the firm. However, they remain liable to third parties for the acts of the firm.

4. Minor as a partner

You learned that a minor, i.e., a person under 18 years of age is not eligible to become a partner. However, in special cases, a minor can be admitted as a partner with certain conditions. A minor can only share the profit of the business. In case of loss, his liability is limited to the extent of his capital contribution to the business.

5. Partner by estoppels

If a person falsely represents himself as a partner of any firm or behaves in a way that somebody can have an impression that such person is a partner and based on this impression transacts with that firm then that person is held liable to the third party, the person who falsely represents himself as a partner is known as a partner by estoppels.

6. Partner by holding out

If a person by his act or omission gives an image to the third party that he is a **partner** to the firm he is a **partner** by estoppel. He is a **partner by holding out** if the company

represents him as its **partner** and the person knows it and the third party believing on the fact acts in good faith upon the belief.

Who Can or Cannot Be a Partner in Partnership Business?

Persons who have entered into a partnership with one another are called individually “partners.”

Not all persons become partners. Who wants to become a partner require to fulfill some qualities. They are-

1. **Person**

Under the Indian Partnership Act, a person may be a partner if he can enter into a contract. Who is a ‘person’? For the Partnership Act, the term ‘person’ does not include a partnership or a limited company. This, a Company P, can not form a partnership with a Company Q.

2. **Woman**

A woman can be a partner, married, or unmarried. Of course, a woman cannot be a partner if she is a minor or she is of unsound mind.

3. **Minor**

A minor cannot be a partner. But in an existing partnership, a minor can be admitted into a firm if all the partners of the firm agreed. Such a minor gets all the benefits of the partnership.

Status of a Minor in Partnership Business

A Minor Cannot Be a Partner, but A minor partner is a partner who is not major (not completed 18 years).

A minor cannot enter into a contract according to Section 20 of the Partnership Act. A contract with a minor is void. Since partnership is a relation resulting from contact, therefore a minor cannot be a partner in a firm.

A Minor Can Be Admitted to the Benefits of Partnership Alone

A minor can be admitted to the benefits of a partnership with the consent of all other partners for the time being. This can be done in a firm which already exists. He cannot be a full-fledged partner.

Rights of a Minor in a Firm

A minor has a right to have access and inspect and copy any of the accounts of the firm. The minors share liable for the acts of the firm, but his personal property is not liable for the debts of the firm.

The minor on severance can sue the partners for the account.

Liability of a Minor in Partnership Business

Liability of a Minor in a Firm. The share of a minor in the firm is liable for the acts of the firm. The personal property of the minor is not liable for the debts of the firm.

Position on Attaining Majority

Within 6 months of his attaining majority, he has to give notice: Whether he wishes to continue as a partner or not

- In case he does not make such an announcement, he will be treated as decided to continue as a full-fledged partner

- When he chooses to become a partner or is deemed tote partner, his liability becomes unlimited with effect from the date of his admission as such.

4. **Person of unsound mind**

A person who is of unsound mind cannot become a partner.

5. **Company**

In a Company, the capacity to enter into a contract is determined by the Memorandum and Articles of the Association of the company.

The liability of the members of a firm under the Partnership Act, for the debts of the firm, is unlimited. But a company .cannot incurs unlimited liability. Therefore a company cannot become a partner of the firm.

Rights of a Partner in Partnership Business

The rights of a partner are as follows:

1. Right of the partner to take part in the day-to-day management of the firm.
2. The right to be consulted and heard while taking any decision regarding the business.
3. Right of access to books of accounts and call for a copy of the same.
4. The right to share the profits equally or as agreed upon by the partners.
5. The right to get interested in capital contributed by the partners to the firm.
6. Right to avail interest on advances paid by the partners for business purposes.
7. The right to be indemnified in respect of payment made or liabilities incurred or for protecting the firm from losses.
8. Right to the use of partnership property exclusively for partnership business only, not himself.
9. Right as an agent of the firm and implied authority to bind the firm for any act done in carrying the business existing partners.
10. The right to continue unless and otherwise, he ceases to become a partner.
11. The right to retire with the consent of other partners and according to the terms-and-conditions of the deed.
12. Right of outgoing partner/legal heirs of the deceased partner.

Duties or Obligations of a Partner

The duties of a partner are as follows:

1. **To carry on the business to the greatest common advantage.**

Every partner is bound to carry on the business of the firm to the greatest common advantage. In other words, the partner must use his knowledge and skill in the conduct of business to secure maximum benefits for the firm.

2. **To be just and faithful to each other.**

Every partner must be just and faithful to other partners of the firm. Every partner must observe the utmost good faith and fairness towards other partners in business activity.

3. **To render true accounts.**

Every partner must render true and proper accounts of his co-partners. Every entry in the books must be supported by vouchers and explanations if demanded by other partners.

4. **To provide full information.**

Every partner must provide full information on activities affecting the firm to the other co-partners. No information should be concealed, kept secret.

5. **To attend diligently to his duties.**

Every partner is bound to attend diligently to duties in the conduct of the business of the firm.

6. **To work without remuneration.**

A partner is not entitled to receive any kind of remuneration for taking part in the conduct of the business. But in practice, the working partners are generally paid remuneration as per the agreement, so also commission in some cases.

7. **To indemnify for loss caused by fraud or willful neglect.**

If any loss is caused to the firm because of a partner's willful neglect in the conduct of the business or fraud commit by him against a third party, then such a partner must indemnify the firm for the loss.

8. To hold and use partnership property exclusively for the firm.

The partners must hold and use the partnership property exclusively for the business of the firm, not for their benefit.

9. To account for personal profits.

If a partner derives any personal profit from partnership transactions or the use of the property of the firm or business connection, the firm, or the firm's name, he must account for such profit and pay it to the firm.

10. Not to carry on any competing business.

A partner must not carry on competing for business with that of the firm. If he carries on and earns any profit, then he must account for the profit made and pay it to the firm.

11. To share losses

It is the duty of the partners to bear the losses of the firm.' partners share the losses equally when there is no agreement or as per their profit share ratio.

12. To act within the authority.

Every partner is bound to act within the scope of authority. If he exceeds his authority and the film suffers from any loss, he shall have compensated the firm for such loss.

13. Duty to be liable jointly

Every partner is jointly and individually liable to the third parties for all acts of the firm done while he is a partner.

14. Duty not to assign his interest

A partner cannot assign or transfer his partnership interest to an outsider to make him the partner of the firm without the consent of other partners.

However, he can assign his share of the profit and his share in the assets the firm where the assignee shall not be entitled to interfere in the conduct of the business.

Liabilities of a Partner to Third Parties

The following are the liabilities of a partner to third parties:

1. **Liability of a partner for acts of the firm**

Every partner is jointly and severally liable for all acts of the firm done while he is a partner. Because of this liability, the creditor of the firm can sue all the partners jointly or individually.

2. **Liability of the firm for the wrongful act of a partner**

If any loss or injury is caused to any third party or any penalty is imposed because of the wrongful act or omission of a partner, the firm is liable to the same extent as the partner.

However, the partner must act in the ordinary course of business of the firm or with the authority of his partners.

3. **Liability of the firm for Wrongdoing by partners**

Where a partner acting within his apparent authority receives money or property from a third party and Wrongdoing it or a firm receives money or property from a third party in the course of its business and any of the partners' Wrongdoingsuch money or property, then the firm is liable to make good the loss.

4. **Liability of an incoming partner**

An incoming partner is liable for the debts and acts of the firm from the date of his admission into the firm. However, the incoming partner may agree to be liable for debts before his admission.

Such agreeing will not empower the prior creditor to sue the incoming partner. He will be liable only to the other copartners.

5. **Liability of a retiring partner**

A retiring partner is liable for the acts of the firm done before his retirement.

But a retiring partner may not be liable for the debts incurred before his retirement if an agreement is reached between the third parties and the remaining partners of the firm discharging> the retiring partner from all liabilities.

After retirement, the’ retiring partner shall be liable unless public notice of his retirement is given. No such notice is required in case of retirement of a sleeping or dormant partner.

LIMITED LIABILITY PARTNERSHIP (LLP)

Concept of "limited liability partnership

LLP form is a form of business model which:

(i) is organized and operates on the basis of an agreement

(ii) Provides flexibility without imposing detailed legal and procedural requirements

(iii) Enables professional/technical expertise and initiative to combine with financial risk taking capacity in an innovative and efficient manner

LLP shall be a body corporate and a legal entity separate from its partners. It will have perpetual succession.

1. LLP is an alternative corporate business form that gives the benefits of limited liability of a company and the flexibility of a partnership.
2. The LLP can continue its existence irrespective of changes in partners. It is capable of entering into contracts and holding property in its own name.
3. The LLP is a separate legal entity, is liable to the full extent of its assets but liability of the partners is limited to their agreed contribution in the LLP.
4. Further, no partner is liable on account of the independent or un-authorized actions of other partners, thus individual partners are shielded from joint liability created by another partner’s wrongful business decisions or misconduct.
5. Mutual rights and duties of the partners within a LLP are governed by an agreement between the partners or between the partners and the LLP as the case may be. The LLP, however, is not relieved of the liability for its other obligations as a separate entity.
6. Since LLP contains elements of both ‘a corporate structure’ as well as ‘a partnership firm structure’ LLP is called a hybrid between a company and a partnership.

7. According to the Limited Liability Partnership Act, 2008, an LLP is a body corporate formed and incorporated under this Act. It is a legal entity separate from that of its members.

Features:

1. An LLP must be registered under the LLP Act 2008.
2. It is a body corporate having a separate entity of its own.
3. It has perpetual succession. Any change in its members does not affect its existence, rights and liabilities,
4. Any individual or a body corporate can be a partner in an LLP.
2. Every LLP must have at least two partners.
3. There must be at least two designated partners and one of them must be a resident in India.
4. An LLP must maintain proper books of accounts as per the double entry system.
5. An LLP must file with the Registrar a Statement of Account and solvency along with its annual return in the prescribed form.
6. The LLP gives an entrepreneur the twin benefits of limited liability and a flexible internal structure. It is also free from dividend distribution tax and minimum alternate tax.

Merits:

a) LLP enjoys stability as changes in partners do not affect its existence.

b) The liability of an LLP and its partners in Limited.

c) A body corporate and a foreigner can be partners in an LLP.

d) An LLP can raise, large amount of funds as there is no restriction on the number of members and risk involved is limited.

Limitations:

a. Time and money are involved in the formation and registration of an LLP.

b. There is less flexibility of operations because an LLP has to comply with certain legal formalities.

c. There is lack of business secrecy as an LLP has to file the prescribed documents with the Registrar. Its accounts are open to the public for inspection.

Difference between LLP & "traditional partnership firm"

• Under “traditional partnership firm”, every partner is liable, jointly with all the other partners and also severally for all acts of the firm done while he is a partner

.• Under LLP structure, liability of the partner is limited to his agreed contribution. Further, no partner is liable on account of the independent or un-authorized acts of other partners, thus allowing individual partners to be shielded from joint liability created by another partner’s wrongful acts or misconduct.

Difference between LLP & a Company

A basic difference between an LLP and a joint stock company lies in that the internal governance structure of a company is regulated by statute (i.e. Companies Act, 1956) whereas for an LLP it would be by a contractual agreement between partners

- .The management-ownership divide inherent in a company is not there in a limited liability partnership
- LLP will have more flexibility as compared to a company.
- LLP will have lesser compliance requirements as compared to a company.

CO-OPERATIVE SOCIETY

The co-operative movement has been necessitated to protect the interest of weaker section of society. The primary objective of this movement is “how to protect economically the weaker section of society from the oppression of economically strong segment of society?”. In all forms of organisation, be it a sole trade, partnership or joint stock company, the primary motive is to increase profit. The business man price to promote his own interest through all possible means including exploitation of consumers. The co-operative form of organisation is a democratic set up run by its members for serving their own interest. It is self-help through mutual help.

The philosophy behind cooperative movement is **“all for each and each for all”.** Cooperative societies are voluntary associations started with the aim of service to members.

Hubert Calvest says, " cooperation is a form of organisation where in persons voluntary associate together as human beings on the basis of equality for the promotion of the economic interest of themselves."

V.L.Mehta defines cooperation as, "one aspect of a vast movement which promotes the Voluntary association of individual having common economic needs who combine towards the chievement of the common economic end they have in view and who bring into this combination a moral effort and a progressively developing realisation of moral obligation." The underlying factor in this definition is the achievement of economic ends. Infact, cooperative movement was started to safeguard the consumers from the exploitation The Indian cooperative societies act,1912 defines cooperative in section 4 as, **"a society which has its objectives the promotion of economic interest of its members in accordance with cooperative principle."**

CHARACTERISTICS OF A COOPERATIVE SOCIETY:-

1. Voluntary membership.
2. Political and religious neutrality.
3. Democratic management.
4. One man, one vote.
5. Service motive.
6. Distribution of surplus.
7. Cash trading.
8. Limited interest on investments.
9. State control.
10. Cooperative education and training.

TYPES OF COOPERATIVE SOCIETIES:-

1. Consumers' cooperatives.
2. .Producers' cooperatives.
3. Marketing cooperatives.
4. Housing cooperatives.
5. .Credit cooperatives.
6. Cooperative forming societies.

ADVANTAGES OF COOPERATIVE SOCIETIES:-

1. Open membership.
2. Service motto.
3. Supply of goods at cheaper rates.
4. Democratic management.
5. Low management costs.
6. Surpluses shared by members.
7. Check on other business.

LIMITATIONS OF COOPERATIVE SOCIETIES

1. Lack of capital.
2. Lack of unity among members.
3. .Cash trading.
4. .Political interference.

JOINT STOCK COMPANY

With the growing needs of modern business, collection of vast financial and managerial resources became necessary. Proprietorship and partnership forms of ownership failed to meet these needs due to their limitations, e.g., unlimited liability, lack of continuity and limited resources.

The company form of business organisation was evolved to overcome these limitations. Joint stock company has become the dominant form of ownership for large scale enterprises because it enables collection of vast financial and managerial resources with provision for limited liability and continuity of operations.

A joint stock company is an incorporated and voluntary association of individuals with a distinctive name, perpetual succession, limited liability and common seal, and usually having a joint capital divided into transferable shares of a fixed value.

DEFINITIONS

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

Prof. L.H.Haney, "A joint stock company is a voluntary association of individual for profit,having a capital divided into transferable shares, the ownership of which is the condition of membership."

Section 2 (20) of the Companies act 2013 provided that, **"Company means a company Incorporated under this act are under any previous company law."**

Chief Justice John Marshall of U.S.A defined a company in the famous Dartmouth College case as "an artificial being, invisible, intangible and existing only in contemplation of law; being the mere creature of law it possesses only those properties which the charter of its creation confers upon it, either expressly or as incidental to its very existence; and the most important of which are immortality and individuality.

"Thus, a company is an artificial legal person having an independent legal entity.

Characteristics features of Joint Stock Company

Separate Legal Entity – A joint stock company is an individual legal entity, apart from the persons involved. It can own assets and can because it is an entity it can sue or can be sued. Whereas a partnership or a sole proprietor, it has no such legal existence apart from the person involved in it. So the members of the joint stock company are not liable to the company and are not dependent on each other for business activities.

Perpetual – Once a firm if born, it can only be dissolved by the functioning of law. So, company life is not affected even if its member keeps changing.

Number of Members – For a public limited company, there can be an unlimited number of members but minimum being seven. For a private limited company, only two members. In general, a partnership firm cannot have more than 10 members in one business.

Limited Liability – In this type of company, the liability of the company's shareholders is limited. However, no member can liquidate the personal assets to pay the debts of a firm.

Transferable share – A company's shareholder without consulting can transfer his shares to others. Whereas, in a partnership firm without any approval of other partners, a partner cannot move his share.

Incorporation – For a firm to be accepted as an individual legal entity, it has to be incorporated. So, it is compulsory to register a firm under a joint stock company.

Also read: Importance of Partnership Agreement

Types of Joint Stock Company

The joint stock company is divided into three different types.

Chartered Company – A firm incorporated by the king or the head of the state is known as a chartered company.

Statutory Company – A company which is formed by a particular act of parliament is known as a statutory company. Here, all the power, object, right, and responsibility are all defined by the act.

Registered Company – An organisation that is formed by registering under the law of the company comes under a registered company.

Example of Joint Stock Company

Indian Oil Corporation Ltd.

Tata Motors Ltd.

Reliance Industries Ltd.

State Bank of India

Advantages of Company Organization

The company form of business ownership has become very popular in modern business on account of its several advantages:

1. Limited Liability:

Shareholders of a company are liable only to the extent of the face value of shares held by them. Their private property cannot be attached to pay the debts of the company. Thus, the risk is limited and known. This encourages people to invest their money in corporate securities and, therefore, contributes to the growth of the company form of ownership.

2. Large Financial Resources:

Company form of ownership enables the collection of huge financial resources. The capital of a company is divided into shares of small denominations so that people with small means can also buy them. Benefits of limited liability and transferability of shares attract investors. Different types of securities may be issued to attract various types of investors. There is no limit on the number of members in a public company.

3. Continuity:

A company enjoys uninterrupted business life. As a body corporate, it continues to exist even if all its members die or desert it. On account of its stable nature, a company is best suited for such types of business which require long periods of time to mature and develop.

4. Transferability of Shares:

A member of a public limited company can freely transfer his shares without the consent of other members. Shares of public companies are generally listed on a stock exchange so that people can easily buy and sell them. Facility of transfer of shares makes investment in company liquid and encourages investment of public savings into the corporate sector.

5. Professional Management:

Due to its large financial resources and continuity, a company can avail of the services of expert professional managers. Employment of professional managers having managerial skills and little financial stake results in higher efficiency and more adventurous management. Benefits of specialisation and bold management can be secured.

6. Scope for Growth and Expansion:

There is considerable scope for the expansion of business in a company. On account of its vast financial and managerial resources and limited liability, company form has immense potential for growth. With continuous expansion and growth, a company can reap various economies of large scale operations, which help to improve efficiency and reduce costs.

7. Public Confidence:

A public company enjoys the confidence of public because its activities are regulated by the government under the Companies Act. Its affairs are known to public through publication of accounts and reports. It can always keep itself in tune with the needs and aspirations of people through continuous research and development.

8. Diffused Risk:

The risk of loss in a company is spread over a large number of members. Therefore, the risk of an individual investor is reduced.

9. Social Benefits:

The company organisation helps to mobilise savings of the community and invest them in industry. It facilitates the growth of financial institutions and provides employment to a large number of persons. It provides huge revenues to the Government through direct and indirect taxes.

Limitations of Company

A company suffers from the following limitations:

1. Difficulty of Formation:

It is very difficult and expensive to form a company. A number of documents have to be prepared and filed with the Registrar of Companies. Services of experts are required to prepare these documents. It is very time-consuming and inconvenient to obtain approvals and sanctions from different authorities for the establishment of a company. The time and cost involved in fulfilling legal formalities discourage many people from adopting the company form of ownership. It is also difficult to wind up a company.

2. Excessive Government Control:

A company is subject to elaborate statutory regulations in its day-to-day operations. It has to submit periodical reports. Audit and publication of accounts is obligatory. The objects and capital of the company can be changed only after fulfilling the prescribed legal formalities. These rules and regulations reduce the efficiency and flexibility of operations. A lot of precious time, effort and money have to be spent in complying with the innumerable legal formalities and irksome statutory regulations.

3. Lack of Motivation and Personal Touch:

There is divorce between ownership and management in a large public company. The affairs of the company are managed by the professional and salaried managers who do not have personal involvement and stake in the company. Absentee ownership and impersonal management result in lack of initiative and responsibility. Incentive for hard work and efficiency is low. Personal contact with employees and customers is not possible.

4. Oligarchic Management:

In theory the management of a company is supposed to be democratic but in actual practice company becomes an oligarchy (rule by a few). A company is managed by a small number of people who are able to perpetuate their reign year after year due to lack of interest, information and unity on the part of shareholders. The interests of small and minority shareholders are not well protected. They never get representation on the Board of Directors and feel oppressed.

5. Delay in Decisions:

Too many levels of management in a company result in red-tape and bureaucracy. A lot of time is wasted in calling and holding meetings and in passing resolutions. It becomes difficult to take quick decisions and prompt action with the consequence that business opportunities may be lost.

6. Conflict of Interests:

Company is the only form of business where in a permanent conflict of interests may exist. In proprietorship there is no scope for conflict and in a partnership continuous conflict results in dissolution of the firm. But in a company conflict may continue between shareholders and board of directors or between shareholders and creditors or between management and workers.

7. Frauds in Promotion and Management:

There is a possibility that unscrupulous promoters may float a company to dupe innocent and ignorant investors. They may collect huge sums of money and, later on,

misappropriate the money for their personal benefit. The case of South Sea Bubble Company is the leading example of such malpractices by promoters.

Moreover, the directors of a company may manipulate the prices of the company's shares and debentures on the stock exchange on the basis of inside information and accounting manipulations. This may result in reckless speculation in shares and even a sound company may be put into financial difficulties.

8. Lack of Secrecy:

Under the Companies Act, a company is required to disclose and publish a variety of information on its working. Widespread publicity of affairs makes it almost impossible for the company to retain its business secrets. The accounts of a public company are open for inspection to public.

9. Social Evils:

Giant companies may give rise to monopolies, concentration of economic power in a few hands, interference in the political system, lack of industrial peace, etc.

Suitability:

Despite its drawbacks, the company form of organisation has become very popular, particularly for large business concerns. This is because its merits far outweigh the demerits. Many of the drawbacks of a company are mainly due to the weaknesses of the people who promote and manage companies and not because of the company system as such. The company organisation has made it possible to accumulate large amounts of capital required for large scale operations.

Due to its unique characteristics, the company form of ownership is ideally suited to the following types of business:

(i) Heavy or basic industries like ship-building, coach-making factory, engineering firms, etc., requiring huge investment of capital.

(ii) Large scale operations are very crucial because of economies of scale, departmental stores, chain stores and enterprises engaged in the construction of bridges, dams, multistoried buildings, etc.

(iii) The line of business involves great uncertainty or heavy risk, e.g., shipping and airline concerns.

(iv) The law makes the company organisation obligatory, e.g., banking business can be run only in the form of company.

(v) The owners of the business want to enjoy limited liability.

VIRTUAL ORGANISATION

Definition, Characteristics and Types

Definition:

McHugh et al. (1995) define the holonic organisation or network as . .a set of a company that acts integratedly and organically; it is constantly re-configured to manage each business opportunity a customer presents. Each company in the network provides a different process capability and is called a holon."

This new form of organisation, i.e., 'virtual organisation' emerged in 1990 and is also known as digital organisation, network organisation or modular organisation. Simply speaking, a virtual organisation is a network of cooperation made possible by, what is called ICT, i.e. Information and Communication Technology, which is flexible and comes to meet the dynamics of the market.

Alternatively speaking, the virtual organisation is a social network in which all the horizontal and vertical boundaries are removed. In this sense, it is a boundary less organisation. It consists of individual's working out of physically dispersed work places, or even individuals working from mobile devices and not tied to any particular workspace. The ICT is the backbone of virtual organisation.

Although the concept of a virtual organization in which employees never interact face-to-face is intriguing, such purely virtual organizations are very rare. Instead, many organizations have degrees of virtuality, that is, some aspects of the organization are traditional but others are considered virtual. Virtuality can vary along four dimensions:

1. **Space**: The physical locations of the employees—are they colocated or dispersed in different places?
2. **Time**: The time zone in which the employees work— are they working the same business hours or are they dispersed across time zones?
3. **Culture**: The employees' cultures—are employees from the same culture or country or from different ones?
4. **Boundary**: The organizational dispersion of work— do the organizational processes stay with the organization or are they outsourced?

Characteristics:

A virtual organisation has the following characteristics:

1. Flat organisation
2. Dynamic
3. Informal communication
4. Power flexibility
5. Multi-disciplinary (virtual) teams
6. Vague organisational boundaries
7. Goal orientation
8. Customer orientation
9. Home-work
10. Absence of apparent structure
11. Sharing of information
12. Staffed by knowledge workers.

In fact, this list of the characteristics of virtual organisation is not an exhaustive one but illustrative only. One can add more characteristics to this list.

Types of virtual organizations

Depending on the degree or spectrum of virtuality, virtual organisations can be classified into three broad types as follows:

1. Telecommuters
2. Outsourcing employees/competencies
3. Completely virtual

A brief description of these follows in turn.

Telecommuters:

These companies have employees who work from their homes. They interact with the workplace via personal computers connected with a modem to the phone lines. Examples of companies using some form of telecommuting are Dow Chemicals, Xerox, Coherent Technologies Inc., etc.

Outsourcing Employees/Competencies:

These companies are characterised by the outsourcing of all/most core competencies. Areas for outsourcing include marketing and sales, human resources, finance, research and development, engineering, manufacturing, information system, etc. In such case,

virtual organisation does its own on one or two core areas of competence but with excellence. For example, Nike performs in product design and marketing very well and relies on outsources for information technology as a means for maintaining inter-organisational coordination.

Completely Virtual:

These companies metaphorically described as companies without walls that are tightly linked to a large network of suppliers, distributors, retailers and customers as well as to strategic and joint venture partners. Atlanta Committee for the Olympic Games (ACOG) in 1996 and the development efforts of the PC by the IBM are the examples of completely virtual organisations.

Les Pang offers a list of best practices, based on a review of successful implementations of virtual organizations.

1. Foster cooperation, trust and empowerment.
2. Ensure each partner contributes and identifiable strength or asset.
3. Ensure skills and competencies are complementary, not overlapping.
4. Ensure partners are adaptable.
5. Ensure contractual agreements are clear and specific on roles and deliverables.
6. If possible, do not replace face-to-face interaction entirely.
7. Provide training that is critical to team success.
8. Recognize that it takes time to develop the team.
9. Ensure that technology is compatible and reliable.
10. Provide technical assistance that is competent and available.

PRIVATE AND PUBLIC LIMITED COMPANY

1. Private company.
2. Public company.

PRIVATE COMPANY

According to companies act, a private company is one which has the following characteristics:-

1. It has a minimum of two members and a maximum of two hundred members.
2. .A private company restricts the rights of members to transfer their shares.
3. It prohibits any invitation to the public to subscribe to its share and debentures.
4. Does not invite general public to invest deposits in the company.
5. It has a minimum paid up capital of Rs one lakh.

SPECIAL PRIVILAGES AND EXEMPTIONS AVAILABLE TO PRIVATE COMPANY:-

1. Minimum number of members is two.
2. Minimum number of directors is two.
3. Quorum for general meetings is two members.
4. Managerial renemeration is unlimited.
5. No rotational retirement of directors.
6. No legal restrictions on filling of casual vacancies.

PUBLIC COMPANY

According to Indian companies act, all companies other than private companies are called as
public companies. It is a company, in which, public at large is interested. A public company
has the following features:-

1. It is formed with a minimum of seven members.
2. It invites general public to subscribe its shares.
3. There is no restriction on the maximum number of members.
4. It permits the transfer of shares.

5. Has minimum paid up capital of Rs five lakh..It must allot shares within 120 days from the issue of prospectus.
6. Before starting the business, it requires a certificate of commencement from the registrar of companies.

STAGES FOR FORMATION OF A COMPANY

:- Following are the stages for formation and incorporation of a company:-

- **A. Promotion**
- **B. Incorporation/ registration.**
- **C. Capital subscription or raising of capital.**
- **D. Commencement of business.**

ONE PERSON COMPANY (OPC)

According to The Companies Act, 2013 of India "One Person Company is a company registered under the proposed Companies Act with just one member and shall have '(OPC)' added in brackets to its name." The Memorandum of such a company shall indicate the name of the person.

The concept of 'one person company' has the following characteristics:

(i) OPC may be registered as a private company with one member.

(ii) Adequate safeguards in case of death/disability of the sole owner are provided.
(iii) OPC will have a corporate entity of its own.

(iv) The owner of an OPC shall be liable only to the extent of its capital. If the activities are carried out in a mala fide manner the liability of the owner extends to his personal property.

(v) An OPC may be managed by the owner or his representative.

(vi) An OPC will get its annual accounts audited and file a copy of the same with the Registrar of Companies.

(vii) A minimum share capital may be prescribed for an OPC.

(viii) Every OPC shall have at least one director.

(ix) The one person shall have to indicate the name of the person who in the event of the subscriber's death, disability, etc. becomes the members of the company.

Merits:

(i) OPC will enable small entrepreneurs and professionals, e.g., chartered accountants, lawyers, doctors, etc. to avail the benefits of companies,

(ii) The procedure for forming the OPC is very simple.

(iii) Running an OPC is easy as it does not require compliance with many legal formalities.

(iv) As the risk is limited to the value of shares held by one person, small entrepreneurs have not to fear litigation and attachment of personal assets.
(v) There is no need to share business information with any other person, therefore, business secrecy is ensured.

(vi) The motivation and commitment of the owner are high due to absence of profit sharing.

(vii) Quick decisions can be taken due to complete control by the owner. There is freedom of action.

(viii) OPC would provide the start-up entrepreneurs and professionals the much needed flexibility in setting up business without losing control.

Demerits:

(i) The life of OPC is uncertain and instable.

(ii) The concept of OPC makes mockery of the corporate concept because company means more than one person.

(iii) A company should operate as a democratic institution with discussion and decision by voting. But in an OPC there is no democracy.

(iv) An OPC has to be incorporated. It has also to comply with some legal formalities. The concept of OPC has been introduced in a half-hearted and incomplete manner. How would OPC work and what would be the regulatory provisions concerning their formation and functioning has not been made clear. Hence, the provisions concerning OPC require a re-look and redrafting.

GOVERNMENT COMPANY

Government Company is a company or an organization in which at least 51% of the paid up share capital is held by the central government or the state government or partly by both central and state government. These are many government companies, few of them are, Steel Authority of India Limited, Bharat Heavy Electricals Limited, Coal India Limited, State Trading Corporation of India, etc.

The public sector companies in India were incorporated into two main objectives:

1. To achieve more equity in the distribution of wealth and income amongst the citizens of the country.

2. To gain the momentum in the growth of the nation.

Features of a Government Company

1. It is a separate legal entity.

2. It is incorporated under Companies Act 1956 & 2013.

3. The management is governed and regulated by the provisions of Companies Act.

4. The Memorandum of Association and Articles of Association govern the appointment of employees.

5. A government company gets its funding from government shareholding and other private shareholdings. The company can also raise money from the capital market.

6. A government company is audited by the agency appointed by the central government. This agency is mainly Comptroller and Auditor General of India (C&AG).

Merits and Demerits of Government Companies

Merits of a Government Company

1. To incorporate a government company, all the provisions of the Companies Act are to be followed.

2. The government organization enjoys all autonomy in management decisions and flexibility in day to day activities.

3. These companies control the local market and sustain it to curb the unhealthy business practices.

Limitations of a Government Company

1. These companies face a lot of government interference and involvement of government officials, ministers, and politicians.

2. As these companies are financed by the government, so these companies evade all constitutional responsibilities of not answering to the parliament.

3. The efficient operations of the company are hampered, as the board of the company comprises mainly of politicians and civil servants, who have more emphasis and interest in pleasing their political party co-workers or owners and less concentrated on growth and development of the company.

Suitability of a Government Company

Where in some situations the private sector companies are needed along with public sector companies for generating strategic growth for the society. The suitability of Government Company becomes more required in giving all powers which a private sector company is deprived of.

Whenever the private sector companies lack the financial arrangement and the objectives are not fulfilled. In this case, the private sector joins hands with Government Companies to create synergic effects for growth and expansion.

Role and Importance

The importance and role of public sector companies have changed with time. Let us see the role of these companies in nation's growth.

1. Economies of Scale

The sectors where a large amount of capital is required, which in general terms private sector companies don't accommodate are dealt in by the public sector companies. Industries like, electric power plants, natural gas, petroleum etc are under the control of public sector companies.

2. Regional Balance

For the overall development of the nation, various areas which economically backwards be never touched by companies. Mainly the development was done near port areas and interior parts of the country were never accessed. To have a balanced growth of the whole nation, public sector companies take the charge and do the development in underprivileged areas.

3. Development of the Infrastructure

All the heavy industries were very less in number and low capacity at the time of independence. These industries were like, engineering, iron, and steel, oil and gas refineries, heavy goods machinery, etc.

Private Sector was never willing to participate in the development of heavy industries because the gestation period was too long in these industries and the amount of capital to be invested is huge in number. So the government had to rely on public sector companies to develop these sectors which were an integral part of the development of the nation.

4. Control on Monopoly and Restrictive Trade Practices

Public sector companies have a very important role to control the monopoly created by private sector companies. Public sector companies keep a check on guidelines of Monopolistic and Restrictive Trade Practices.

5. Import Substitution

Public enterprises are also engaged in manufacturing and production of capital equipment which was earlier imported from other countries. Companies like MMTC have played a very crucial and vital role in expanding Indian markets for exports and other trades.

PUBLIC UTILITIES

Meaning, Characteristics and Problems

Meaning of Public Utilities:

Public utilities are those business undertakings which are engaged in the supply of some such services which are absolutely necessary for the community. There are certain services like water supply, gas, electricity, transportation, communication, etc., which cannot be dispensed with without a serious setback to the smooth and successful economic living of the community.

These services are so essential to the public that any interruption in their supply would throw the normal life of the community out of gear. Economic enterprises established to operate such services are known as public utility undertakings. Public utility concerns, therefore, may be defined as undertakings which are "clothed with public interest."

Characteristics of Public Utilities:

1. Indispensability Arising Out of Necessity:

Public utilities are very important for the economic well-being of the community. They satisfy our basic wants. For example supply of water, light, power, transport and communication are essential to everyone for civilised and comfortable living. Therefore, it is necessary that these services are supplied regularly, uniformly and adequately.

2. Monopoly or Semi-Monopoly Position:

By monopoly we mean absence of competition or predominance of a single seller in a particular market. The existence of monopoly or near-monopoly is another important characteristic of public utility concerns.

3. Public Regulation and Control:

Public utility undertakings are subject to relatively minute government control and regulation than non-utility concerns. As these enterprises enjoy a monopoly position and are engaged in the supply of essential services to the community, their working and policies are regulated by the government. Regulation may relate to the fixation of rates, determination of the quality, regular and adequate supply of services, etc.

The object is to ensure that services of standard quality at fair rates are adequately and regularly made available to public according to their normal requirements. Special laws are passed and relevant rules are framed to guarantee satisfactory functioning of the public utility concerns.

4. Special Franchise:

To enable the public utility concerns to carry out their functions economically, efficiently and satisfactorily, special rights are granted to them by the government. The rights and privileges are specified in the 'Franchise' issued to the enterprise by the government. Franchise is a charter containing the powers, privileges and rights granted to them as well as the duties and liabilities cast upon them in the course of their working. Public utilities need the extensive use of streets and other public properties for which special franchises become necessary.

The franchise is liable to be withdrawn by the government if the undertaking does not comply with the regulations or restrictions subject to which the franchise is issued.

5. Costs:

Public utilities have to invest large amount of capital for acquiring fixed assets. For example, railways have to spend a lot on the construction of railway line, coaches, engines, station buildings, plant and machinery etc. The costs are heavy and fixed.

The fixed nature of the cost-structure is a special feature of public utility concerns. Because of fixed costs, increase in the turnover of their services does not cause corresponding increase in the overall cost of the undertaking. On the other hand, costs per unit of service rendered go on decreasing with the increase in the supply of services.

6. Demand:

Demand for public utility service is also one of the distinctive features.

(i) Public utility services cannot be shared and hence demand for them may at any time increase.

(ii) Public utility services "sell themselves" and there is, therefore, no need to create a demand by salesmanship or advertisement.

(iii) Demand for public utility services is both direct and derived. Direct demand arises from requirements for direct and immediate consumption. Derived demand means utilisation of the service for other industrial and commercial purposes. For example, electricity for lighting is a direct demand while it is a derived demand if it is utilised as a motive power for running a factory.

(iv) Demand for public utility services is both elastic and inelastic. Derived demand is particularly elastic and direct demand is normally inelastic.

7. Price Policies:

The price policies of public utilities are to be in tune with the peculiar nature of demand and costs. Since they work under the condition of decreasing costs, the prices charged by them should cover the average costs. A price which covers all the operational expenses and leaves a fair margin of profit on the capital invested is determined with the consent of the government.

8. Rights and Duties:

The special franchise granted to the public utility undertakings confers certain rights on them and also binds them with some duties.

Rights include the following:

(i) To collect a reasonable price;

(ii) To render service subject to reasonable rules and regulations;

(iii) To withdraw service under prescribed conditions after giving notice to customers; and

(iv) Privilege of reasonable rules and regulations which ensure them prompt payment, such as meter readings and investigations, acceptance of service deposits, etc. They are also given the power to use streets and buildings for fixing appliances.

Their duties include the following:

i. Public utilities are under the extraordinary duty to supply reasonably adequate service to all those who apply.

ii. They are required to serve up to the limit of their capacity. Here capacity does not refer to the physical capacity only, but the capacity of the undertaking "determined by profitableness."

iii. They must not let customers wants go unsatisfied. Nor should they attach unreasonable conditions for supplying services to customers.

iv. They must serve without discrimination all consumers in similar circumstances.

v. They must observe more than ordinary care in the course of supplying their services so that public safety is not endangered.

Problem of Ownership and Control of Public Utility Services:

Public utility services may be under private ownership or may be owned and operated by the public authorities. Since they require heavy capital investments, they usually take the form of joint stock companies. The privately-owned public utility undertakings tend to earn undue profits at the cost of public welfare.

Though they are governed by statutory rules, the government regulation fails to be completely effective. Therefore, recent tendency is towards government ownership, control and management of these undertakings.

The following reasons have prompted the State ownership of public utilities:

(i) "Difficulties in effective regulation" can be removed by direct government ownership and management.

(ii) The "need for co-ordination" can be met more effectively if all these undertakings are under government ownership, management and control.

(iii) Substitution of profit motive by service motive is practicable only when these undertakings are owned and managed by the government.
(iv) In a planned economy, the key services which are clothed with public interest should necessarily be in Public or State sector. The Industrial Policy Resolution of 1956 declares that the public utility service will, as far as possible, be under State ownership and management.

Organisation of Public Utility Undertakings:
Public utilities under state ownership are generally organised in one of the following forms:

1. **Departmental undertakings**, i.e., run by a department of Central, State or Local Government.
2. **Public corporation** created under a special Act passed by the Legislature.
3. **Government company** registered under the Companies Act.

Review Questions

1. What do you understand by a. Sole proprietorship firm? Explain its merits and limitations.
2. Distinguish between a Joint Hindu family business and partnership.
3. Explain different types of partners.
4. What do you mean by incorporation of a company? What are the steps involved in corporation of a company?
5. Why is partnership considered by some to be a relatively unpopular form of business ownership?
6. Explain the merits and limitations of partnership.
7. Explain meaning, features, merits and demerits of Joint Stock Company.
8. Discuss the characteristics, merits and limitations of the cooperative form of organization. Also describe briefly different types of cooperative societies.
9. Explain the Features of Virtual Organisation
10. What are the Objectives of public utilities
11. Explain the factors which affect the choice of form of business organization.

Multiple choice Questions

1. What is the limit of members in case of a Private Company?
   a) 2
   b) 7
   c) 10
   d) 50

2. The life of sole proprietorship business is ___________
   a) Unstable
   b) Stable
   c) Very short life
   d) Long life

3. The capital of a company is divided into number of parts each one of which are called
   a) Share
   b) Dividend
   c) Profit
   d) Interest

4. The maximum number of partners allowed in the banking business are
   (a) Two
   (b) Twenty
   (c) No limit
   (d) Ten

5. In a cooperative society the principle followed is
   (a) One share one vote
   (b) One man one vote
   (c) No vote
   (d) Multiple votes

6. Which of the following is an advantage of a sole proprietorship?
   a) Ease of starting a business.
   b) Being your own boss.
   c) Pride of ownership.
   d) All of the above.

7. The Head of the joint Hindu family business is called
   a) Manager
   b) Proprietor
   c) Karta
   d) Director

8. Profits do not have to be shared. This statement refers to
   a) Company
   b) Sole proprietorship
   c) Joint Hindu family business
   d) Partnership

9. The board of directors of a joint stock company is elected by
   a) General public
   b) Government bodies
   c) Shareholders
   d) Employees

10. A partner who is not actually involved in the partnership but lends his name for public relations purposes is a:
    a) Silent partner.
    b) General partner.
    c) Nominal partner.
    d) Dominant partner.

11. The structure in which there is separation of ownership and management as per law is called
    a) Company
    b) All business organisations
    c) Partnership
    d) Sole proprietorship

12. The best definition of a sole trader form of business organization is:
    a) The business only employs one person
    b) The business is owned by one person
    c) The firm has a single customer
    d) There is a single firm in the industry.

13. A partner whose association with the firm is unknown to the general public is called
    a) Active partner
    b) Sleeping partner
    c) Nominal partner
    d) Secret partner

14. Provision of residential accommodation to the members at reasonable rates is the objective of
    a) Producer's cooperative
    b) Consumer's cooperative
    c) Housing cooperative
    d) Credit cooperative

15. Which of the following is not a characteristic of a virtual company?
    a) **Permanent teams**
    b) Geographical dispersion of employees
    c) Information technology–enabled organization
    d) Customer-driven organization