Course Code	:	**ECO - 01**
Course Title	:	**Business Organization**
Assignment Code	:	**ECO – 01/TMA/2018-19**
Coverage	:	**All Blocks**

Maximum Marks: 100

Attempt all the questions.

1. a) Distinguish between the following: **(5+5)**

i) Advertising and publicity
ii) Savings bank account and current account

b) Write short notes on the following: **(5+5)**

i) Essentials of a good transport system
ii) Components of an insurance contract

2. "None of the four forms of business organization has all the features of an ideal form of business organization". Critically evaluate the statement. **(20)**

3. Why is the stock exchange called a barometer of the economic and business conditions in a country? **(20)**

4. Discuss various factors to be kept in mind while selecting suitable medium of advertising. **(20)**

5. What are the forms of organization in public enterprises? Explain their features, merits and limitations of each of them. **(5+15)**

1. a) Distinguish between the following:

i) Advertising and publicity

Advertising: Advertising is marketing as well as a promotional tool in the hands of the company which conveys a message about the company or a product to the viewers, listeners or readers. It is aimed at persuading customers, to choose the company's product over the product offered by the competitors.

Publicity: **Publicity** is another promotional tool, but it is not same as advertising. It is based on reality as t is neither sponsored nor it is under the control of any company or its representatives.

While advertising is an expensive technique to demonstrate company's products and services, publicity is always free of cost. These two terms are commonly understood as one and the same thing, but there is fine line of differences between advertising and publicity, which is explained here in tabular form.

Features of Advertising and Publicity

Particulars	Advertising	Publicity
1 Media	Presented by non-personal media such as radio, TV, newspaper, magazine, etc.	Presented by non-personal medium such as radio. TV, newspaper, magazine, etc.
2 Sponsor	There is an identifiable sponsor. Normally a company sponsors it for its product or service.	There is no identifiable sponsor. Media present the information voluntarily.
3 Payment	The company has to pay money to the media for the space or time used.	Company does not make any payment to the media.
4 Purpose	It is intended to give a favourable impression about the company or its product.	It may have a favourable or unfavourable influence on the public about the company or its product.

ii) **Savings bank account and current account**

Savings bank account: A savings bank account is opened and operated by people who wish to save a part of their income for his future needs and also earn some interest on his deposits. This type of account is intended to promote the habit of saving among depositors, therefore, some restrictions have been imposed on the number and the amount of withdrawals from this account. The banks allow interest on the minimum balance standing to the credit of an account during the period from the 10th day of the month to the last day of every month.

Current account: Current accounts are intended for businessmen, joint stock companies, public institutions, etc., whose banking transactions happen to be numerous on every working day. A current account is a running and active account which may be operated upon any number of times during a working day. There is no restriction on the number and the amount of deposits or withdrawals from this account. Since the amount from this account is repayable on demand, the banks are required to keep sufficient cash to meet such demands. Therefore, the banks pay no interest on current account deposits. The banks charge incidental charges on an unremunerative current account for the work and expenses involved in its maintenance.

The main advantage of current account is that the customers are relieved from the botheration of handling cash. Third party cheques with endorsements can be deposited in the current account for collection and credit to customer's account. Overdraft facilities are given in this type of account and loans and advances are granted by the bank.

	current account	Savings account
Defination	Current Account is the form of demand-deposits and the banker is obliged to repay the amount in the account on demand from the customer.	Saving Account is the form of both demand deposit and time deposit, because the amount is payable on demand and also banker pays interest on the amount in the account.
Used by	Current Accounts are opened by rich individuals, business firms, trust societies, etc.	Savings Accounts are used by a small depositors i.e. individuals who have normal income and don't do any high

		transactions.
Interest	Current Account deposits are non-interest bearing i.e the banker do not pay any interest for the amount in account.	Savings Account deposits earn interest as per the RBI rules on the balance left in the account of a customer.
Cost	The cost of maintenance of a current account is high for banks and they insist customers on maintaining minimum balances to cover up the costs.	The cost of maintenance of a savings account is low compared to current account because there are no high transactions involved.
Restriction	There are very less or no restrictions on the withdrawal limits of current account.	There are many restrictions on the withdrawal policy of a savings account.
Objectives	The primary objective of a current account is to provide convenient and more liquidity facilities to the customer.	The primary objective of a savings account is to encourage savings in the public by providing convenience and at the same time offering interest on deposits.

b) Write short notes on the following:

i) Essentials of a good transport system

A good transport system is one which should serve the purpose of transportation and satisfy the following requirements.

1. It should be ***economical.*** The cost of transport service should be low enough to enable the users to carry their goods at the lowest possible charge so that the ultimate consumer get the products at a reasonable price.
2. It should be capable of ***carrying goods as speedily as possible.*** There should not be any delay in reaching the destination except for natural calamities or unavoidable causes.
3. The transport service should be ***available regularly*** as and when required. It must ensure the safety of the goods.
4. It should be ***operated*** by ***the properly skilled and efficient*** persons capable of handling problems in emergency.
5. It should provide ***for insuring the risks of loss*** or damage to goods in transit, and assure payment of due compensation in case of delay causing loss to the owner of goods.
6. There should be ***proper arrangements for loading and unloading*** of goods promptly and at minimum cost.
7. As far as possible, ***delivery*** of ***goods should be made at & locations*** convenient to the receiver of the goods.

ii) Components of an insurance contract

Basically all insurance contracts consist of the following five parts (1) declaration, (2) insuring agreement, (3) exclusions and limitations, (4) conditions, and (5) binder. Let us discuss these five parts briefly.

1. **Declaration:** This is the first part of any insurance contract. It contains the information relating to identity of the insured, the property, the type(s) of coverage, term of the contract, insurance amount and the premium. Other

information may also be added to declaration depending on the type of contract and the specific circumstances surrounding the risk transfer. The declaration covers most of the basic information needed by the insurer in deciding whether to issue the contact and at what price.

2.Insuring Agreement: The insuring agreement is a formal statement detailing what the insurer promises to do in return for the premium paid. The perils insured against and services promised are stated and defined in the agreement. If there are limitations on the amount of recovery, these may be stated in the agreement. In the insurance contract, this agreement ordinarily follows the declarations. The insuring agreement is the most important section of the contract, since it contains the basic information about the nature of the risk transferred and what may be recovered in the event of loss.

3. Exclusions and Limitations: Insurance contacts may be written on an all risk basis, where the contract insures against all risks except those specifically excluded in the contract. The contract may be also on the named perils basis, where only losses resulting from the perils named in the contract are covered. Though the insured may prefer an all-risk contract since it offer the broader coverage, insurers normally do not undertake to insure against all risks. Perils which are covered in the contract are normally subject to limitations and/or exclusions. In general, such exclusions are of two types (1) certain kinds of property are excluded or certain perils are excluded or both things may occur, and **(2)** excluded property may be added by endorsement and the same is true of perils. It is important that the insured must understand the exceptions surrounding the transfer.

4. Conditions: The clauses are the conditions to be fulfilled by tile insured to enforce his rights under the contract. Most of these conditions refer to the type of information that must be supplied by the insured in the event of loss or refer to the right of the insured if dispute arises in regard to the loss. It is essential for the insured to know his duties. Unless he fulfils all the terms of the contract, he may not be able to recover the loss from the insurer.

5. **Binders:** Sometimes a memorandum called a binder is issued by the insurer. The binder is a temporary insurance contract. l11e binder contains the essential facts about the transaction such as date, amount, name of insured, and risk to be covered. In the event of loss, the binder serves in lieu of the policy and has the same force as if the policy had been issued.

2. "None of the four forms of business organization has all the features of an ideal form of business organization". Critically evaluate the statement.

The requisites of an ideal form of organisation are as follows :

1 Ease of formation: An important factor for preferring a particular form of organisation to another is the ease with which a business can be brought into existence. The comparative ease of difficulty in forming a particular form of organisation mainly depends on three factors: (i) formation expenses by way of registration fee, stamp duty, fees of legal experts, charges involved in the drafting of documents, obtaining licenses, etc., (ii) legal formalities, and (iii) procedural delays, etc. Unless it is very essential, it is better to go for an organisation which is easy to form.

***2* Scope of raising capital:** The choice of organisation mainly depends on the amount of capital required which is determined by the nature of business and the scale of operations. For example, if you want to open a retail shop in groceries, the amount of capital needed will not be much. But if you want to set up a sugar factory, you may require a large amount of capital. Ideal form of organisation is one which provides scope for raising the amount of capital as and when required.

***3* Extent of liability:** You know that the element of risk and uncertainty is prevalent in each business. In view of this, normally, the businessmen prefer limited liability. Obviously, limited liability is considered as an important feature of a good form of organisation. I-lowever, a certain amount of risk is also found to be important to provide the needed spur for initiative, drive, and involvement in business. Many times, the absence of such spur leads to weakness, inefficiency and even dishonesty on the part of management personnel.

4 Flexibility of operations: The form of organisation should be very flexible and adaptable to changing business conditions without much difficulty or complication. For example, if you want to expand your business, diversify or modernise the plant and equipment, the organisation should be able to meet all requirements.

***5* Stability and continuity:** Stability and long life of business is desirable from the point of view of owners, employees, and customers. Employees always prefer a stable and continuous employment. If the business is stable, the owner should be able to formulate plans for the future and to make investments paying for a considerable length of time. From the customers' point of view also, regular supply of goods and services is expected to meet their needs. An ideal form of organisation is one which provides reasonable amount of stability to the business.

***6.* Effectiveness of management:** As you know that the success of any business enterprise depends on the efficiency of management. Managerial efficiency depends on skills, motivation, flexibility, adaptability, etc. It is difficult for an individual to possess all these qualities.

7 Extent of government control and regulations: If the governmental control and regulations are too many, the enterprise may have to divert a lot of time, money and energy for complying with legal formalities and instructions. In some cases there may be too much interference by the government officials in the day-to-day business of the firm. No doubt, the investors, creditors, and customers trust the business enterprises whose activities are properly regulated by the government. But too much government interference is not favored by the entrepreneurs because it mars their initiative and disrupts the working of their business.

8 Business secrecy: In business, it is important to maintain business secrets without leaking them out to competitors. Therefore, a form of organisation which enables , retention of business secrets is preferred to the one wherein business secrets are difficult to preserve.

9.Tax burden: Business taxes like sales tax, excise duty, and customs duty are charged on certain products and services. Hence, such taxes affect all forms alike and they will not affect the choice. But the income **tax** liability is different from one form of organisation to the other. Naturally, the form of organisation which attracts the minimum amount of this tax liability is considered as an ideal form. From this point of view company form of organisation is considered to be best because it enjoys a number of tax reliefs which are no1 available in case of other forms of organisation.

10 Ownership prerogatives: Some persons have a very strong desire to control the entire business activities themselves and place a great value upon their right of personal leadership. Some persons are desirous of sharing the responsibilities and risks of a business. Some people may want to own a part of the capital without a strong desire to control the affairs of the business. You can also find some persons who are not ready to bear the business risk. An ideal form of organisation takes care of such prerogatives of the owners.

Comparative Study of Different Forms of Organisation:

S. N.	Basis of Comparison	Sole Proprietorship	Partnership	Private Limited Company	Public Limited Company	Cooperative Organisation
1	Formation	Easiest. No legal formalities required	Quite easy. No rigid legal formalities	Difficult due to legal formalities	Quite difficult due to many legal formalities	Few legal formalities are involved
2	Specific regulation	None	Indian Partnership Act, 1932	Companies Act, 1956	Companies Act, 1956	Cooperative Societies Act, 1912
3	Legal status	No separate legal status	No separate legal status	Separate legal status	Separate legal status	Separate legal status
4	Membership	Single owner	Minimum is 2 Maximum is 10 in banking business and 20 in others	Minimum 2 and maximum 50	Minimum 7 and no maximum limit	Minimum 10 and no maximum limit
5	Capital	Very limited capital	Limited capital	Larger capital resources	Any amount of capital can be raised	No substantial resources
6	Management and ownership	Owner management	Owner management	Control, risk and ownership generally go together	Complete separation of management from ownership	Not managed by all members
7	Managerial expertise	Very limited expertise	Limited expertise	Scope for expertise	Very wide scope for expertise	Scope for expertise
8	Owner's liability	Unlimited	Unlimited	Limited	Limited	Limited subject to By-laws
9	Basis of profit sharing	Fully enjoyed by owner	Shared by partners as per agreement	Shared by owners in the proportion of shares held	Shared by owners in the proportion of shares held	Volume of business by each member
10	Ownership transfer	At will and relatively easy	Restricted and relatively difficult	Restricted and relatively difficult	At will and very easy	Restricted
11	Business stability	Depends upon the life of owner	Depends upon the life, insolvency, retirement of partners	Perpetual existence. Death, insolvency of the members does not effect the life	Perpetual existence. Death, insolvency of the members does not effect the life	Death, insolvency of its members does not effect the life
12	Business secrets	Full secrecy	Secrets shared by the partners	Secrets shared by the members	Exposed to public	Exposed to members
13	State regulations	Almost nil	Very little	Considerable regulations	Excessive regulations	Considerable regulations
14	Tax liability	No special income tax	No special income tax	Heavily taxed and income is double taxed	Heavily taxed and income is double taxed	Exemption from income tax
15	Flexibility	It is an elastic organisation. There is no need of written documents	It can be changed only by the consent of all partners. It requires partnership deed which can be changed by the consent of all the partners	It is an elastic organisation	It is an unelastic organisation. Its Memorandum of Association is difficult to change. It can be changed through the permission of the Govt.	It is an unelastic organisation. Its Memorandum of Association is difficult to change. It can be changed through the permission of Govt.
16	Auditing of Accounts	Not required	Not required	Compulsory	Compulsory	Compulsory
17	Winding up	At will	At will	Under the Act	Under the Act	Under the Act

If you carefully analyses the Table, you will realise that no single form of organisation is having all the ideal features. You can fiord each form of organisation having some of these features. Each form is good in some aspects and not good in other respects. For instance, sole proprietorship and partnership forms of organisations are considered good from the point of view of ease of foundation, freedom from government regulations, ownership interest, retention of business secrets, etc. But the same features are not prevalent much in company form and cooperative form of organisations. Company form and cooperative form are ideal from the point of view of limited liability, scope of raising capital, professionalized management, continuity of life, etc. So, it is difficult to treat any one form as ideal in all respects and suitable in all situations.

3. Why is the stock exchange called a barometer of the economic and business conditions in a country?

Stock exchange, being a part of financial market, plays a very important role in the economic development of the country. Let us now examine the functions of stock exchanges from the economic point of view. These functions may be enumerated as (a) primary functions, and (b) secondary functions,

Primary functions

1 Marketability and price continuity: The stock exchange provides for easy marketability of securities as securities can be bought and sold conveniently on the floor of the stock exchange. Since transactions take place regularly, there is continuity in the dealings. Prices quoted are duly recorded and reported in the newspapers for the benefit of investing public. Besides, price fluctuations are also moderated because of the continuity of buying and ‘selling.

2 Mobilizing surplus savings: Stock exchange is an integral part of the capital market of a country. It is because through stock exchanges the savings from all parts of the country are made available to the industrial and commercial undertakings for meeting their financial requirements.

3 Barometer of economic and business conditions: The intensity of buying and selling of securities and the corresponding rise or fall in the prices of securities reflect the investors' assessment of the economic and\business conditions. Thus, during periods of economic and business prosperity prices of securities tend to rise. Conversely, prices tend to fall when there is economic stagnation or when business activities slow down as a result of depression in the markets. Indeed, change in security prices are known to be highly sensitive to changing economic, social and. political conditions. In the words of Alfred Marshall, the well known economist. stock exchanges are not merely the chief theatres of business transactions, they are also barometers which indicate the general conditions of the atmosphere of business.

4 Mobility of capital: Stock exchanges furnish an open and continuous market for securities. Savings invested in securities are converted into cash for reinvestment in other securities. Thus, stock exchanges provide mobility to capital and facilitate sound investment

5 Contribution to capital formation: Savings are encouraged when people come to know about the avenues of investment. Stock markets educate investors as regards where and how to invest their savings for a fair return.

6 Shock absorber: Stock exchanges bring about equilibrium in the prices of securities which ‘are bought and sold by speculators. Speculators generally buy securities in anticipation of rise in the prices. As a result of their buying, prices do not decline as low as might have been the case without their buying. Again when prices are, high, speculators sell securities in anticipation of decline in the prices. Their selling prevents price rising too high. Thus, speculative activities regulate excessive price fluctuations.

7 Sifting process: Investors generally prefer to invest their savings after proper assessment of the relative risks and returns associated with different securities. The comparative advantages and disadvantages of investment in various types of securities may be grasped by investors from the dealings which take place on the stock exchanges. Hence they can pick and choose from among different securities and make investment decisions on a sound basis.

8 Facilitates resource allocation: As a result of stock market transactions, funds flow from the less profitable to more profitable enterprises. Thus the existence of stock % exchange provides for mobility of funds i.e. movement or flow of funds in the economy as a whole. Industries which have potentials of growth are able to attract the savings of people towards their ventures relatively more than those which have no such prospects. Thus, financial resources of the economy are allocated on a reasonable basis. It is said that "without the stock exchange, the savings of the community, the sinews of economic progress and productive efficiency, would be used much less completely and be much more wasteful, than they are now".

Secondary Functions

1 Safety of investment and equity in dealings: The stock exchanges do not allow trading in each and every company's securities. Companies which want their securities to be traded on the floor of a stock exchange have to fulfill certain conditions.

2 Easy liquidity: The investors usually prefer liquidity of their investment i.e.. easy conversion into cash, besides adequate return on their investment. The stock markets provide that assurance to investors.

***3* Accurate and continuous report regarding sales:** All stock exchanges maintain regular record of the securities traded each day and the prices at which deals are finalized. This information is supplied to newspapers and other information media along with the prices of important securities which ruled at closing time.

4 Full information regarding listed companies: The organized stock exchanges - collect information about the companies listed with them and publish the information in the form of "Official Year Book". This proves very useful to the investors in making investment decisions.

5 Safeguards to investors: Every stock exchange has its own rules and regulations for the control of operations of the exchange. Only members are allowed to deal in securities and make transactions. As the members have to transact their business strictly according to the rules, the investors' interests are safeguarded against dishonesty or malpractices.

4. Discuss various factors to be kept in mind while selecting suitable medium of advertising.

You have learnt that these are different types of media available for advertising and each medium had certain distinct characteristics of its own. No single medium has all the ideal features. **A** particular medium which is suitable in one situation may not be suitable in other situations. So the manufacturer or distributor (trader) is required to select one or more media which will be most suitable for his purpose. The following factors influence the choice of media:
1) Character of the media
2) Nature of the product to be advertised
3) Type of audience
4) Coverage
5) Cost

1 Character of the medium: To judge the suitability of any medium, the characters of different types of media should be analyzed on a factual basis. Tile following aspects of the media are to be considered before choosing any particular medium.
a) The geographical coverage of the medium **i.e.** national, regional or local.
b) The, frequency and duration of exposure of the message to the audience.
c) Method of communication i.e., visual, oral, both visual and oral, etc.
d) Power of the medium to reach special categories of audience e.g. children, ladies, business executives, etc. This is also called audience selectivity.
e) Scheduling flexibility is another enactor. Produc.ing a TV advertisement takes more time than producing a newspaper advertisement. Similarly, withdrawal of advertisement with a short notice is not possible with some media.
f) Production quality of the media.
g) Degree of permanence or durability in the sense that how long the advertisement can remain before prospective customers' eyes or within their grasp. A TV advertisement

disappears within a few seconds whereas an holding continues delivering the same message to the passing public for a year or more.

Thus for a large manufacturer, a medium with the 'national coverage will **be** more suitable. To build up brand image, frequency of exposure may be molt important than duration of exposure. On the other hand, to provide very detailed information about the product, duration may be more important. Demonstrating the usefulness of Polaroid camera may require a medium to make oral and visual presentation. To advertise ladies garments it may be useful to select women's magazines like the Famine or Women's Era

2 Nature of the product: Consumer goods need to be advertised with different types of appeal for effectiveness. Familiar goods of daily consumption do not require elaborate description, while industrial machinery may require technical details to be explained. The size of advertisement and the time of exposure required vary according to the nature of the products. Again, advertisement for consumer goods can reach the largest possible number of people through mass media like newspapers, radio and 'television. But industrial goods may be more effectively advertised through trade and technical magazines. Advertisement of garments is best done in multi-colour printing in magazines.

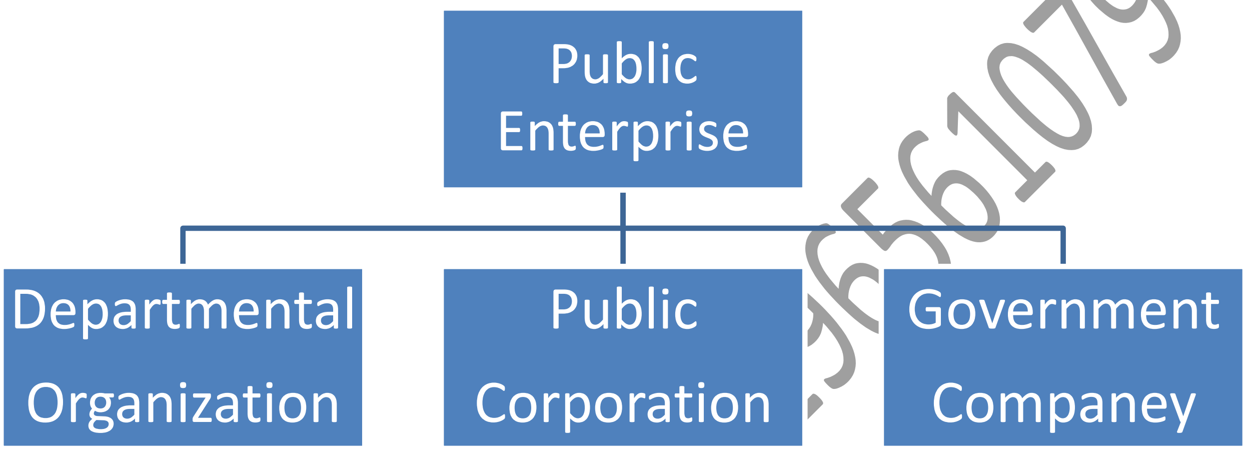
3 Type of audience: Media habits of the target audience to be reached is one of the important factors to be considered while selecting the medium. If the target audience are illiterate, press medium (newspapers and magazines) is ineffective. Similarly, if the target customers are in villages where there are no TV sets, advertising by TV is a waste. The most effective medium to reach housewives in the urban areas may be the radio or television, and for-business executives it may be a professional magazine. Therefore, the characteristics of the target customers with respect to media are very important in selecting proper medium.

4 Coverage: How many and what percentage of the potential buyers can be approached through each possible medium are also determining factors in the choice of a medium. One medium may be able to reach more number of target customers than the other media. Therefore, a medium which can reach the maximum number of target customers should be preferred. For instance, if target audience are illiterate and do not have TV sets, short films in the cinema halls may be more effective. Similarly, the number of doctors who can be reached through direct mail is expected to be more than the number who can be reached through any other medium. To advertise sewing machines to the urban customers, women's magazines may be more appropriate as the appeal will reach many more ladies through this medium.

5 Cost: The most important factor determining the choice of a medium is the cost involved. Cost of a medium may be analyzed in two ways: 1) absolute cost, and **2)** cost related to audience size. Absolute cost is the actual charge for buying a certain amount of time or space in a medium. If the small firm had set aside a small amount for advertising, it cannot afford to use an expensive medium. For instance TV is a very expensive medium whereas newspaper advertising is relatively cheaper. However, what is important is not the absolute cost of using each medium but the size of the target, audience reached in relation to the cost. Relative cost is a comparative cost. It is the absolute cost related to the size of the audience served by the chosen medium. For instance, charges for a full page advertisement in two different magazines may be exactly the same. But if one magazine has a circulation of **3** lakh and the other has a circulation of 4 lakh, advertisers choose the second magazine as it reaches more number of customers for the same money.

5. What are the forms of organization in public enterprises? Explain their features, merits and limitations of each of them.

In the case of public enterprises there are three forms of organization: 1) departmental organization, 2) public corporation, and 3) government company. Look at Figure 17.1 for the forms of organization in public enterprises. In this unit we shall discuss about the features, merits and limitations of each of these three forms of organization and evaluate which form is suitable under a given situation.



DEPARTMENTAL ORGANISATION: -

Departmental form of organisation is the oldest form of organising public enterprises. Under this form of organisation, business activities of the undertakings are conducted under the overall control of one of the departments of the government. In other words, when a public enterprise is organised, financed and controlled in much the same way as any other government department. it is known as 'departmental form of organisation.' This form of organisation is generally, chosen for such undertakings which are important from the view point of public interest and national interest. **This is suitable under the following situations:**

i) Where the basic purpose of an enterprise is to procure revenue for the government.

ii) Where the government desires to have firm control over service sectors keeping in view public interest (e.g., posts and telegraph, broadcasting, etc).

iii) Where maintenance of secrecy is regarded as a matter of strategic importance (e.g. atomic energy, defence industries, etc.).

iv) Where projects are in earlier stage of initial planning and require constant efforts and continuous funds that can be provided only by the government.

Features of the Departmental Organization

The following are some of the important features of departmental organization.

1. The enterprise is managed by a Government department with a Minister at the top responsible to the Parliament for its operations.

2. The downward delegation of authority is effected from the top executive to every part of the organization i.e. it represents the line type of authority relationship between the executives at various levels.
3. It is financed through annual budget appropriations made by the legislature and its revenues are directly paid to the treasury.

4. For procedures as to budgeting, accounting and auditing, it is treated at par with other Government departments.

5. Since it is an integral part of the Government, the staff of the enterprise is treated at par with other civil servants for all purposes.

6. It enjoys the sovereign immunity of the state. Hence, it can be used only by following the specified procedure.

Merits of Departmental Organization

The following are some of the advantages of departmental organization.

1. Control over the enterprise is direct and absolute in departmental organization..

2. The revenues of the enterprise directly go to the Government in a Departmental Organization..

3. The personnel are generally low salaried. Hence, the administrative overhead charges are less in a departmental organization..
4. Since these undertakings are subject to strict control, chances for misuse of funds are remote in departmental organization..

Demerits of Departmental Organization

The following are some of the disadvantages of departmental organization.

This type of organization is severely criticized by many authors because of the several defects in it. Some of them are given below:

1. Excessive centralization of control leads to delay in action. Redtapism and bureaucracy have become the illuminating features of these organizations.

2. The Government officials who are in the helm of affairs generally lacks business acumen. They run the departments in their own fashion without considering the sovereignty of the consumers.

3. There is no scope for the initiative and skill as the procedures and policies are subject to criticism in the Parliament.

4. It lacks flexibility, which is fundamental for the success of any business.

5. Treasury holds the financial strings of the concern. The profits, if any, are mostly used to give relief to the taxpayers rather than the consumers. Similarly, the losses are also not viewed with any seriousness.

6. For each and everything, the sanction of the Minister or the top executive is essential. The executives at the lower level cannot take any decision.

When is the Departmental Organization Suitable?

The demerits of this type of organization are many. Hence, for under takings, which are to be run on sound business line, departmental administration is completely unsuitable. However, there are a few categories of industries for which departmental management is best suited.

They are as follows:

1. If the Government must have strict and close control.

2. If the industry requires absolute secrecy (defence production).

3. If the basic objective is to procure funds for the Government.

4. If the projects are in the beginning stage and requires continuous flow of funds.

PUBLIC CORPORATION: -

Public corporations are also referred to as state-owned enterprises and nationalized industries. Such corporations are owned by the government, as the business must register securities in the stock market before selling to the public. The chairman and board of managers in a public corporation are appointed by the government. Such individuals are in charge of the daily operations of the business. Notably, public corporations have no shareholders.

When a private business chooses to convert to a public corporation, the funds come from the government in the form of government-approved loans. The funds also come from the private sector. The goal of the public corporation isn't to make a profit but rather to have more of a non-profit purpose to serve the needs of the public.

1. **Autonomy**: Public corporation is an autonomous set up. Therefore it enjoys considerable independence and flexibility in its operations. Initiatives can be taken to tap opportunities and to improve efficiency.
2. **Protection of public interest**: Public corporations can formulate and implement policies which promote public welfare. Policies of the corporation are subject to ministerial review and parliamentary scrutiny. Therefore it would be ensured that public interest is protected and promoted.
3. **Red tapism minimized**: In a public corporation red-tapism and bureaucratic delays are minimized to a great extent. A file need not pass through different levels of bureaucracy as in a departmental undertaking.

4. **Speedier decisions**: Since bureaucracy and red-tapism are reduced to a considerable extent in public corporations, quick decisions can be taken. Delays in decision making is avoided and therefore problems can be solved faster, opportunities can be tapped in a better manner and overall functioning of the organization is improved.
5. **Erase of raising funds**: Since public corporations are government owned statutory bodies, they can raise the required funds by issuing bonds. They need not entirely depend on the government for their financial requirements.
6. **Comparative prices**: Profit is not the primary motive of public corporations. So it does not strive to charge high prices to maximize profits. Since it is basically formed to serve the public interest, it charges lower prices. Such lower prices benefit the general public and more number of people are able to consume the services of public corporations.
7. **Economies of scale**: Since they operate on a large scale, public corporation can reap the benefits of economies of scale. The benefits derived from economies of scale can be passed on to the general public in the form of cheaper prices, stable prices, better quality of service etc.
8. **Employee welfare**: A public corporation follows its own recruitment policy. It can recruit the best talent and provide them appropriate training. Better perks and amenities can be provided to the employees which improves their motivation level. Through these measures it is able to maintain a healthy employer-employee relationship, attract and retain talent and improve productivity levels.

Disadvantages or Demerits of Public Corporations

The following are some of the disadvantages or demerits of public corporations.

1. **Political interference**: Public corporations are a State enterprise. Though autonomy in functioning is said to be one of the strong points of public corporations, the reality is otherwise. They suffer from continued political interference and have to act according to the wishes of the political masters. For e.g. even after the steep increase in oil prices in global markets, ONGC is not able to increase its prices in the domestic markets, because of political interference.
2. **Misuse of power**: It enjoys immunity from parliamentary inquiry into its day-to-day functioning. Such immunity might induce some officials to misuse their power and indulge in corrupt practices. It takes considerable amount of time and effort to unearth corrupt acts and the corporation loses valuable resources.
3. **Financial burden**: When a public corporation incurs losses, the government provides subsidies to make good the loss. Such provision of subsidies on a regular basis places a great strain on government finances, more-so in the case of a developing economy like India.
4. **Consumer interests ignored**: Many public corporations operate as monopolies. Absence of competition leads to lethargic functioning, reduced focus on efficiency improvements and innovation and poor customer service with the result that consumer interests are ignored.

GOVERNMENT COMPANEY: -

According to the Indian Companies Act. **a government company is a company in which** 51 per cent or more of the total paid-up capital is held by the central government or any state government or by many state governments or partly central government and partly by one or more state governments. Any company which is subsidiary of such a company is also considered a government company. Thus **a** government company is an enterprise wherein government is a predominant shareholder having the bulk of controlling interests, Government company is registered under Indian Companies Act. When the government applied to the Registrar of

Joint Stock Companies for setting up a new company, it has to follow all the rules and procedures as are applicable to private persons. Just because the government is getting a company registered it does not get any concession in regard to the formal requirements.

The merits and limitations of a government company are:

Merits of a government company:

Easy to form: Such a company can be easily formed by the government. Whenever, the government wants to take up a new activity, it can establish a new company. No bill is required to be passed by the legislature for a government company to get formed.

Easy to bring changes in constitution: By making amendments in Articles, it is easy to bring changes in the constitution. As government controls such companies it has the right to amend the Articles and pass resolution in the meeting whenever required.

Facilitates private participation: As per the wants of the government, it can facilitate private participation in the equity of public enterprises by selling a part of equity of a company to the general public.

Easy to transfer ownership: Public enterprise can be disposed off easily with the help of this form. By selling the shares to private party, once the price at which the shares are to be transferred is decided, transfer of ownership becomes much easy.

More autonomy: Government company has got all the advantages that are found in the public corporation form. It has its own charter, autonomy of operations, freedom in personnel matters, adequate finance etc.

Flexibility in operations: Such a company can take quick decisions and prompt actions on any matter affecting its business because evils of red-tapism and bureaucracy are not found in such companies. Employees of the government company are not the civil

Limitations of Government Company:

Evades constitutional responsibility: Such a company evades constitutional responsibility because without getting specific approval of Parliament, a government company can be formed. Reasons for setting up a government company or its constitution are not discussed by the Parliament.

Fear of public accountability: Directors and chief executives of a government never take initiative in entering new areas of activities because they always have the fear of public accountability.

Public criticism: Annual reports of the concerned ministry contain the performance of a government company. These reports are either placed before the parliament or state legislature. These annual reports are regarded as public documents that expose the enterprise in front of the public.

Government interference: The autonomy of a company may get affected as the government has the right to make changes or revise the Memorandum and Articles of a company whenever required. The government can alter the constitution of a government company without any public discussion.

Lack of professional management: Its the government who mostly appoints the directors of a government company. Because of this reason, these enterprises fail to achieve business efficiency found in similar enterprises in the private sector.

Such a form of organization is best suited to industrial and commercial undertakings.