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FORMS OF OWNERSHIP ORGANISATIONS

One of the basic question to be decided by any entrepreneur is that of ownership of the organisation. He has to decide whether he would like to organise the entire show individually or associate other people in his venture. Accordingly it may take the form of individual proprietorship organisation or an association of persons. An association of persons may take the following important forms:

1. Sole Proprietorship
2. Partnership
3. Joint Stock Company
4. Co-operative Society

In addition to the above four forms, another form of organisation called as Joint Hindu Family form exists in our country but its number is decreasing day by day.

An enterprise can be owned only by any one type and one form is more suitable than the other because of its distinguishing features. Before taking the final decision in setting up a business in the private sector, a businessman has to weight the distinguishing features of each form of organisation according to the requirements of the venture proposed to be established. Now we shall discuss the distinguishing features of different forms of business organisations.

SOLE PROPRIETORSHIP

Meaning

A sole individual single proprietorship business is a form of organisation in which an individual produces independently with his own capital (or sometime borrowed from relatives and friends), skill and intelligence and is entitled to receive all the profits and assumes all the risks of ownership, He may run the business all alone or with the help of his family members and some employees.

Historically, this form of organisation is the oldest form of business ownership. It is also the simplest and most natural. The proprietor carries on the business exclusively by and for himself. He invests his own capital and is thus the owner manager of the business; the full control rests with him. He is the supreme judge on all matters pertaining to it as he makes his own decisions. He bears the entire risk, but derives the total benefit. He has unlimited freedom of action. He may engage in any business of his choice without any legal formalities, unless he wishes to engage in certain types of business requiring licenses. For example, if a man wishes to open a shop, a grocery store, he may do so, if he can find a suitable location and can furnish money to produce a supply of goods on the other hand, to open a restaurant, he will have to obtain a license from the Health Department of the

Municipal Corporation. As his capital is limited and his liability unlimited, a sole proprietor can only run a small business.

Characteristics

To sum up, single proprietorship form of organisation may be said to possess the following main characteristics.

1. One-man or single ownership.
2. Proprietor and the firm identical.
3. Personal control.
4. Unlimited liability
5. Total or undivided risk.
6. Relatively free from government regulations.

Because of its special features, single proprietorship form of organisation is suitable for, and is adopted by enterprises:

- (a) Which are small in size;
- (b) Which require little capital;
- (c) Which lend themselves readily to control and management by one man;
- (d) Where risk involved is not heavy;
- (e) Where personal attention to customers need and tastes is important.

Consequently, the main types of business that take the form of sole proprietorship are retailers, hawkers, small grocery stores, bakers confectioners, laundries, small printing houses, small machine shops, and thousands of similar enterprises, and professional firms.

Advantages of Sole Proprietorship

The principal advantages of sole proprietorship organisation are as follows:

1. An individual enterprise is easy to form and simple to run. No legal formalities like registration are required to set it up. Any person can engage in such a business at will. The only restriction is where he wishes to start a specified type of business requiring a license, such as a restaurant, or sell opium, liquor, medicines, etc.
2. The direct touch with customers and personal interest in the business which makes for efficiency and economy. A sole trader is in a position to be in close touch with his customers and to cater for their individual tastes. This helps him to build up goodwill for himself. The direct relationship between effort and reward acts as a stimulus to maximum exertion for a sole proprietor.
3. As the sole proprietor is the sole master of his business his control over it is complete. He is responsible to no one else.
4. Promptness in taking decisions makes for efficiency. As there is no one else to dispute his judgement, he can maintain a decision made by him.
5. As the proprietor has the full control over his business and is the supreme judge in all matters he can introduce changes as the exigencies of occasion demand, and without any delay.

6. Secrecy is of vital importance for the success of a small business, and the sole proprietor is in an eminent position to keep his affairs to himself. As there is no legal obligations to supply any information regarding his business to anyone so he can maintain utmost secrecy in all matters.
7. The social advantage is also great. This form of organisation provides a way of life for those who take pride in ownership and control of what they own. It gives the sole proprietor an opportunity to utilize his capacity to the maximum and to enjoy freedom of action. As he is his own master and manager, he derives the greatest satisfaction from his venture.

Limitations of sole proprietorship

Despite so many advantages, this form of organisation suffers from several limitations. The limitations are as follows:

1. The first limitation is regards capital. The amount of capital that a sole proprietor can get together is limited. He can invest only as much as he owns or may be able to raise from friends and relatives. As a result, he is not in a position to easily expand his business when it may be found necessary to take advantage of economies of large-scale operation.
2. An individual however capable, cannot be expected to possess knowledge in all branches of a business and is bound to fritter or waste away his energies in doing things which could be left to others in a partnership or a company. Since, he is not an expert in all matters and the burden of responsibilities is likely to be more, his decisions may sometime be unbalanced.
3. The liability of the owner is unlimited. It is not only the assets of the business that are liable, but also his entire personal fortune for the debts of the business. The advantage of personal control is counter balanced by personal risk which might turn out to be very great. Limited capital and managerial ability and unlimited liability act as brakes to the development and expansion of business.
4. Continuity of business is difficult to maintain. When the proprietor dies or is no longer able to run the business, the business may come to an end, if there is no one capable enough to take his place. Very often the heirs lack the requisite ability or inclination to carry on the business. If it falls into weak hands, it will fail causing loss not only to the owner but also to society. The closure of the business which has been rendering a useful service to the community, would be a social loss.

In conclusion it may be safely stated that one man control of business is the best from the point of view efficiency and profitability, provided that one man is big enough to manage everything indefinitely. Unfortunately such omnipotent person does not exist. This form of business is, therefore, suitable in the following cases:

- (a) Where the capital required is small and the risk is not heavy.
- (b) Where promptness in decision making is of particular importance.
- (c) Where customers require personal attention.

(d) Where special attention has to be paid to the tastes and fashions of the customers.

It is but natural that household and personal service concerns, retail shops and professional firms are owned by individual proprietors. It follows that individual proprietorship has its own scope of activity, and continues to occupy an important position in the business world in spite of the development of larger organisations, such as joint stock companies. In India, as elsewhere, single proprietorship businesses continue to be the most numerous, in spite of the entry of large companies owning giant business concerns. It is also almost certain that individual proprietorship is in no danger of being crowded out by large corporations, because of the opportunities it offers to a vast number of people. The Government has also been encouraging individual owners to take up small manufacturing activities by setting up industrial estates and by providing training facilities, as well as granting financial assistance. The industrial Policy statement of the Central Government has laid stress on encouraging cottage and small-scale industry widely dispersed in rural areas.

PARTNERSHIP ORGANISATION

The individual proprietorship organisation, with all its limitations, proved unequal to the requirements of expanding business. Expansion of business called for more capital, advanced the risk, and required greater managerial ability than could be expected of a single individual. Therefore men of ability combined their resources and for this pooled their resources; labour and skill partnership organisation resulted.

Historically, partnership organisation has grown out of the need for more capital to produce for the ever-growing market, more effective supervision and control, greater specialisation and division of spreading the risk. It is indeed the simplest method of extending the size of a business and at the same time relieving the sole proprietor of part of the burden.

Meaning of Partnership

The formation and management of partnership organisation is governed by the provisions of the Partnership Act, 1932. Section 4 of the Act defines partnership: 'The relation between persons who have agreed to share profits of a business carried on by all or any of them acting for all'. This definition brings out the following characteristics of partnership:

1. **Contractual relationship:** Partnership can be formed only by a contract between two or more persons called partners. Only persons competent to enter into a contract can be partners. A minor cannot be a partner, although he may be admitted to the benefits of partnership. Also, a Hindu Joint family Firm which results from statute is not a partnership.
2. **Plurality of Persons:** As partnership results from a contract, there must be at least two partners, although the maximum number of partners must not be more than fifty.

3. **Existence of Business:** Partnership implies business, and where there is no business there is no partnership. Thus, the persons must form an association by contract to carry on some business.

The partnership Act, however, uses the term 'Business' in the widest sense, and covers all sorts of enterprises. It includes very trade, occupation or profession.

4. **Sharing of Profits:** The agreement must be to make and share profits of a business among all the partners.
5. **Mutual agency:** The business must be carried on by all the partners or any one or more of them acting for all the partners. In results, each partner is both an agent and a principal.

All these conditions must be satisfied to constitute partnership. There must be a business and it must be run for sharing profits by the partners, all of whom, or some acting for all, may carry it on. It should be noted that, although sharing of profits is essential in order to be a partner, yet, merely sharing of profits does not necessarily make a person partner in a firm. Thus, a manager, who may be given a share in the profits, does not become a partner. The real test of whether a person is a partner is whether the business is conducted on his behalf. In other words, there must be an element of agency.

Legal Implication of Partnership

Some of the legal implications of partnership, which should be kept in mind while forming a partnership, are stated below:

1. **Legal position:** Legally a partnership firm is not a legal entity, nor a person with any separate right distinct from the partners constituting it. It is only an association of persons who are called individually partners and collectively 'a firm'. 'Firm' is only a convenient phrases to describe the partners and has no legal existence apart from them.
2. **Extent of Liability:** The liability of each partner for the debts of the firm is unlimited. The creditors have a right to recover the firms' debts from the private property of any or all partners, where the firms' assets are insufficient.
3. **Nature of partners' liability:** While the acts of the partnership are in the name of the firm, the responsibility created is joint as well as several resting upon each of the partner. No agreement between the partners to limit this liability only to some of them has any validity as against the claims of any uninformed parties.
4. **Utmost good faith:** The relation of partners is founded on mutual confidence and trust. Each partner must, therefore, be just and honest towards the other partners. He must not make secret profits.
5. **Implied authority:** Each partner is an agent able to bind the other partners in respect of all regular acts done by him on behalf and in the name of the firm. Such an act of a partner is deemed to be the act of the firm (i.e., the act of all the partners). This authority of a partner is called an Implied authority to bind all the partners.

6. **Unanimity of consent:** In all matters of importance and those affecting policy and nature of the business, unanimous decision by all the partners is necessary. The majority principle does not apply.
7. **Non-transferability of share or interest:** No one is allowed to transfer his partnership interest to any outsider, so as to make him a partner in the business. The majority principle does not apply.
8. **Dissolution:** Unless there is an agreement to the contrary, the death or insolvency of partner dissolves the firm. If, however, all the partners or all but one are adjudicated as insolvent, or the business of the firm becomes unlawful, the firm is compulsorily and automatically dissolved.

Chief Features of Partnership

The distinguishing features of partnership organisation are as follows:

1. **Formation:** Although a partnership constituted by means of contract between the partners, no legal formalities are required for its formation. An oral contract is sufficient to bring it into being. But it is advisable to reduce the agreement into writing, and prepare a properly drafted deed of partnership laying down the terms and conditions of partnership and the rights, obligations and duties of partners. As partnership arises by an agreement, a partnership firm must have a minimum of two partners. The maximum is ten for a banking business and fifty for other business. Registration of a partnership firm is not compulsory under our law, nor is any penalty provided for non-registration. The law, however, introduces certain disabilities, which make registration necessary at one time or other. The first disability is that an unregistered firm cannot file a suit to enforce a right arising from a contract. Secondly, a partner cannot sue the firm or other partners to enforce a right arising from a contract or conferred by the Partnership Act. But an outsider can sue an unregistered firm and its partners.
2. **Finances:** Normally, the capital of partnership firm consists of the amounts contributed by the various partners. The capital contribution by all the partners need not be equal, and one or more may not put in any capital at all. Such partners would only contribute their skill and labour. The initial capital may be augmented by borrowing on the security of the security of the firms' property and also on the strength of the private estate of partners.
3. **Control:** As partnership results from a contract, the control will depend upon its terms as agreed between the partners. Where all partners take active part in the conduct of the partnership business, the control rests with all of them. All major decisions are made by the unanimous consent of all the partners. There may, however, be some partners who do not take any active part in the conduct of the business, they are known as sleeping or dormant partners. In short, the control is shared by the active or ostensible partners.

4. **Management:** According to law every partner has a right to take a part in the management of the affairs of the business of the firm. In practice, partnership agreement provides for the division of work among the different partners according to their experience and knowledge. It is not unusual to have one of them as the senior partner who would be in the position of the chief executive, exercising over all supervision.
5. **Joint ownership:** Every partner is a joint owner of the partnership property, and has an equal share in it, unless different shares are provided by agreement. The property of the firm is required to be used exclusive for the purposes of the partnership.
6. **Duration of Partnership:** The partners may fix the duration of the partnership or say nothing about it. When they agree to carry on business for a definite period of time, it is called a partnership for a fixed term. When the term is over, the partnership comes to an end, but if the business is continued after the expiry of the period originally fixed the renewed partnership will become a Partnership at will. Where a partnership formed for a particular adventure, it is called a Particular partnership which would last until the business is finished. If the partners say nothing about the duration or agree to carry on the business as long as they wish to do so, the partnership will be one at will. Such a partnership can be dissolved at the will of any partner on his giving a notice to the partner. Where the partner cannot agree for the firm, the court may, on application order its dissolution.
7. **Taxation:** A partnership firm is liable to pay income tax and other taxes, as an individual is liable to pay. But there is slight difference with regard to the rate of tax depending on whether the firm is registered under the income tax Act or not. If it is under the income tax act, the income will be divided among the partners and each partner will be assessed separately. If the firm is not so registered, the firm will be required to pay on its total profit as distinct from the incomes of the individual partners.

Requisites of an Ideal Partnership

Partnership business grows out of the need for combining resources, both human and material. Some person may contribute capital, others their business ability and experience and still others may bring in technical skill the faithful contribution of each partner will make it successful. Mutual confidence and utmost good faith are essential. As each partner is the agent of the others and binds them to the fullest extent of their fortunes, it is necessary to be extremely careful while selecting a partner. When you are considering a partner, do not be in a hurry. Give yourself time to test him. Very often firms fail, because the partners cannot work in harmony. An ideal Partnership will satisfy the following conditions or requisites:

1. All partners must act with zealous cooperation and for the greatest common advantage. Each partner must contribute to the success of the business in accordance with his skill, knowledge, influence and personality.
2. Honesty of purpose and fairness in dealings are the fundamental principles of partnership. Each partner must create mutual trust and confidence among themselves. Only such persons as are known to one another should form partnership. The number of partners should also be kept small; otherwise, the partnership will become unwieldy.
3. The necessary funds, both for short term and long-term use should be available in sufficient amount. Long-term funds would normally be supplied by the partners as their capital contributions, and others might be obtained by way of loans. To maintain the sound financial position of the firm, drawings by the partners should be kept as low as possible. Part of the profit should be ploughed back into the business of the firm for further development.
4. The term or duration of partnership should be sufficiently long. Only long-term partnerships can adequately set up businesses and consolidate them effectively for success.
5. In order to avoid misunderstandings and future disputes it is advisable that mutual rights and obligations of partners be incorporated into a partnership deed. It should contain full details about capital, sharing of profits, extent of authority of each partner and so on.
6. The partnership firm should be registered with the Registrar of firms as soon after the formation is possible. An unregistered firm suffers from a number of disabilities, which may cause unnecessary loss to the firm.

Evaluation

Partnership organisation is admirable for medium size undertakings, where personal efforts of the owners are essential. It enjoys several of the advantages of sole proprietorship organisation and suffers from its limitations. We may, however, consider here the advantages and disadvantages of partnership organisation.

Advantages

Partnership organisation enjoys the following advantages:

1. **Facility of formation:** Like an individual enterprise, partnership can be formed without any legal formality and much expense. It can also be dissolved in the same way. Partnership taxes are also relatively small.
2. **Benefits of larger resources:** Partnership enjoys larger resources than a sole proprietor, so that the scale of operation is large and economies of large scale production enjoyed. There is always scope for the introduction of new talent and further capital.

3. **Flexibility:** The business is abundantly mobile and elastic, as it is free from legal restrictions on its activities. The partners can introduce any changes they consider necessary to meet the changed circumstances.
4. **Personal element:** The personal element in the business and the corresponding care, skill, efficiency and economy are ensured. There is thus an effective motivation to production. As the partners manage personally their supervision is effective.
5. **Benefits of combined ability:** Partnership enjoys the benefits of combined ability of it's a partners processing varying degrees of talent and skills. This is a distinct advantage over sole proprietorship. Two heads are better than one is an old saying.
6. **Prompt decisions:** The partners exercise joint responsibility and meet frequently. This enables to make decisions promptly.
7. **Sharing of risk:** Any losses sustained by the firm will be shared by all the partners with the result that the burden borne by each partner will be much less than what a sole proprietor may have to bear.
8. **Wholesome effect of unlimited liability:** The fact that the liability of the partners unlimited and each partner is liable to the full extent of his private fortune acts as a great check against dangerous speculation. This is a great safeguard against reckless actions. Unlimited liability also enhances the credit of the firm in the eyes of the leading public and thus enables it to borrow easily at a low rate of interest.
9. **Protection of minority interests:** The minority interest in a partnership is effectively protected by law. In matters of policy all partners must agree; and even in ordinary affairs of routine nature a dissatisfied partner may withdraw and dissolve the firm. Thus, in all important matters, the minority enjoys the right of the veto. In fact, the law gives every partner the right to be heard and consulted. In consequence, each member of the firm is equally important.

Disadvantages

Despite several advantages, the partnership form of organisation suffers from the following limitations:

1. **Lack of harmony:** There is always a danger of friction within the firm. Difference of opinion very often results in disharmony and lack of united management. This ultimately results in disruption and dissolution.
2. **Limited resources:** The limit in the number of partners limits the amount of capital that can be raised. Actually, in order to maintain harmony among the partners, the number has to be kept much smaller than the maximum allowed by the law, five partners should ordinarily constitute a partnership. This obviously limits the capital still further.
3. **Registered enterprises:** As unlimited liability extends to the entire fortune of each partner, the partners tend to be the overcautious. This restricts enterprise.

Consequently, partnership organisation tends to be useful only for comparatively small business.

4. **Instability:** the business may come to an abrupt end on the death or insolvency of any partner.
5. **Social loss:** such an abrupt closure of business is harmful not only to its owners, but to society, particularly if it has been successful and contributing to the well being of the community.
6. **Lack of public confidence:** The absence of legal regulations and the fact that there is no publicity in regard to a partnerships affairs also reduces to some extent public confidence.
7. **Heavy burden through implied authority:** Each partner as an agent, able to bind the others by his acts and omissions in the ordinary and usual course of the business of the firm. When, therefore, one partner is negligent, or commits a tort (civil wrong), or is guilty of a fraud within the scope of his authority, his partners are equally liable. This may put a heavy financial burden on the partners, which may, in some cases, result in the total ruin of a person.

Conclusion

On balance, partnership form of organisation is most suitable where size of the business is relatively small, and so the capital can be contributed by the partners themselves, it is an organisation that can be adopted by men of equal wealth and ability who combine their resources—capital, skill and labour—and run it for the common advantage of all the partners.

But the very success of the business would create problems relating to expansion for coping with the increased demand for the goods. In such a case, it would be necessary to convert the business into a limited company and collect funds from the public and take advantage of limited liability.

JOINT HINDU FAMILY FIRM

Joint Hindu Family Firm is a form of business organization existing in India alone. It is a product of Hindu Law and Hindu customs. After the death of a Hindu businessman, his business passes into the hands of living male issues who are known as co-parceners and the firm owned by Co-parceners is known as Joint Hindu Family Firm. Thus a Joint Hindu Family business comes into existence by operation of law. If the business set up by a person is carried on by the male members of his family after his demise or death, it is a case of Joint Hindu Family Firm.

The membership of J.H.F. is by birth under the Mitakshara Law but under the Dayabhaga Law the male heirs become members only (on the death of their father. Under the Mitakshara Law (which does not apply to West Bengal) only male members can become members, the wife of a Co-parcener is entitled to a maintenance out of her husband's share of profit. But under the Dayabhaga Law (applicable in West Bengal,) the widow of a co-

parcener becomes the member. An outsider can be a servant in the firm but he can never become a member.

The management of a J.H.F. rests with the head of the family who is called as Karta. The liability of the Karta is unlimited but the liability of other members is limited to the extent of their share in the business. A J.H.F. can enter into partnership with others. The death of a coparcener does not dissolve the J.H.F. Its dissolution is possible only through a mutual agreement but the male adult member can ask for the partition of the property of J.H.F.

Distinction between Joint Hindu Family Firm and Partnership Firm

1. Joint Hindu Family Firms exist in India alone because it is a creation of Hindu Law. It is not created by any contract between the co-parceners but it is created simply by operation of law. Partnership is always created by a contract between the partners and is governed by the Partnership Act.
2. Under the Partnership Act, the firm and partners are one and the same thing because the liability of partners is unlimited. In J.H.F: the members are just the co-owners of the property and business.
3. There is no limit on the number of members in a J.H.F. because the number of members varies according to birth and death in the family. But in a Partnership firm, the number of members cannot exceed 10 in case of banking business and 50 in case of any other business.
4. J.H.F. enjoys continuity because it need not be dissolved by the death, insolvency or lunacy of a co-parcener as incase of a Partnership firm. So long, the partition in the family does not take place it continues to exist.
5. A partner can take active part in the management of the partnership firm and he has an implied authority to bind the firm. But in a J.H.F. it is only karta who has got this authority.
6. A partnership must be registered so that it could enforce its right against third parties but there is no such need in case of J.H.F.
7. The liability of all the partners in a partnership firm is unlimited but in a J.H.F. the liability of Co-parceners except the karta is limited.
8. Partners share profits of the firm in a fixed ratio but in a J.H.F. the share of profits varies according to births and deaths in the family.
9. Partners can ask for the amounts of the partnership firm but the co-parceners cannot ask for the accounts of the J.H.F.
10. J.H.F. can enter into partnership with another firm but a partnership firm cannot enter into partnership with another firm.

COMPANY FORM OF ORGANISATION (Joint Stock Company)

As a result of industrial revolution, huge funds of capital were required to make the best use of technical lot of capital innovations. Individual proprietorship could not supply such huge capital or if someone could they did not like to risk their capital in new ventures.

Therefore, it became imperative to have another form of organization through which large sums of money could be amassed from large number of people who are either not capable of managing business enterprises or have no time or inclination to do so. They are, however, willing to invest their saving in a business provided they are assured that their money is safe and they will not be called upon to pay anything more than what they undertake to invest to earn a reasonable return. This form suitable to serve these purposes was found to be a limited company. The form enables the enterprises to secure the required capital from the general public, retaining at the same time, the management of the business in their hands. Thus we can say that company form of business organization came into existence because of the growing needs of industry after industrial revolution and the failure of the existing forms of business organisation to feed the continuously increasing needs of funds by the large sized industry.

Accordingly, the fundamental principal of company form of organisation is that the capital of undertaking is contributed by a large group of people called the shareholders, who exercise control over the company through the directors elected by them in general body meetings. The Board of Directors look after the management of company, take vital policy decisions and exercise their control through the General and Departmental Managers. Since the management is entrusted to people who have keen insight into business and large amount of funds can be collected from a large number of people, company form of organization is suited to large scale production. In fact, most of the shortcoming of single proprietorship and partnership firms of organization can be overcome by organizing a business as a joint stock company with limited liability.

Meaning and Characteristics

A company is a voluntary association of persons for profit with capital divisible into transferable shares, limited liability, corporate body with perpetual succession and having a common seal. An analysis of this definition will bring out the principal characteristics of company.

1. **Creation of law:** A company is a creation of law, and is sometime called artificial legal person. It exists only in contemplation of law and therefore has no physical shape or form. Although invisible, and intangible it enjoys almost all the rights of a natural person. It can enter into contracts and own property. It can sue and be sued. The legal personality is one of its distinctive features.

2. **Separate and distinct legal entity:** Being a creature of law, a company is a legal entity, something distinct from the persons who are its members. The life of the company is independent of the life of its members. Even if all the members die, the company does not come to an end. A member can both own its shares and be its creditor at the same time. Such a member cannot be said to be a creditor himself, but he is a creditor of the company which has its own independent personality. A member can also be an employee of the company. A shareholder cannot be hence liable for the acts of the company, even though he holds virtually the entire capital of it. It enjoy all the privileges of a natural person. It can

sue in court of law and it can be sued but a company cannot be citizen hence it cannot cast vote.

3. **Perpetual succession:** The process of incorporation brings into being a corporate body distinct and separate from the members who constitute it. The right given to the shareholder to transfer their shares without affecting in any manner the position of the company gives the company continuity. As a natural consequence of corporation and transferability of shares, the company has perpetual or uninterrupted existence. It continues to exist without regard to the death of the individuals involved in its corporate affairs or the transfer by them of their interests in the company. Members may come and members may go, but of immortality, inasmuch as its members change from time to time without affecting its existence.

4. **Limited Liability:** The limited liability of the shareholders is another important characteristic of a company. A person, by buying shares in a company acquires an interest in it, and is at liberty to dispose of these shares whenever he likes. If anything goes wrong with the company, his liability is limited by the nominal amount of the shares held by him. In other words, while he stands to lose the money he has invested, he cannot be called upon to pay single paisa out of his private property in order to help to meet the company's obligations.

5. **Common Seal:** The law requires every company to have a seal with its name engraved on it. As the company has no physical form or shape, it cannot sign its name on a document. Therefore, originally, all documents and contracts required the affixing of the seal known as common seal. But now most of the transactions are signed by the directors who act as its agents. For instance it is compulsory to affix the common seal on share certificate and debentures.

6. **Divorce between Ownership and Management:** The personality of the company is separate from the personalities of the persons constituting it. Therefore, the shareholders can not bind the company by their acts. Since the investors of share capital are a heterogeneous group of people residing far and wide, they cannot be expected to manage the affairs of the company. They leave this task of their representatives—the Board of Directors. This characteristic of a company militates against the golden rule of capitalism that management and ownership should vest in the same person. Shareholders are the real owners of a joint stock company. They elect directors for the management of company. But the elected directors either may not have sufficient time to look into the affairs of a company or may not have the requisite specialization, so they appoint professional managers. Though shareholders are the owners but the ultimate management lies in the hands of hired employees thus there is divorce between ownership and management.

The chief implications of the foregoing analytical description of the company may be summed up as follows:

- (a) A company is a voluntary association of mutually agreeing persons.
- (b) It is an autonomous legal unit distinct from its associating members in name, in the duration of its life and the liability to creditors.

- (c) It exists because the State has by statute enabled it to exist as a separate legal entity enjoying similar rights as owing similar obligations as a natural person.

Chief Features of Company Form of Organisation

The principal and distinguishing features of a company form of organisation are as follows:

1. **Formation:** Since corporate life and form cannot exist without the permission of the State, a company having corporate personality, can be brought into being only by following certain formalities as provided by the law. The formation of a company is passed through two main stages viz., **Promotion and Incorporation**. **Promotion** consists of the process of conceiving an idea and developing it into a concrete proposition project to be accomplished by the incorporation and floatation of a company. The person or persons, known as **Promoters**, take the necessary steps to accomplish these objectives. They discover the opportunities to make money; investigate the propositions, assemble and finance them and thereby produce a going concern. To prepare the two fundamental documents, namely the Memorandum of Association and the Articles of Association, and get them registered with the Registrar of Companies, on payment of the necessary stamp duty and the registration fee. The Registrar, being satisfied that all that is required to be done under the law has been done, registers the company and issues a Certificate of Incorporation in token of the birth of the Company.
2. **Financing:** Where the capital needs are not vast and it is desired to preserve secrecy and family character of the business, but enjoy the benefit of limited liability, a private limited company is formed and the general public is invited through a prospectus to supply the capital.
3. **Control:** In law and theory, the members of a company, who contribute the share capital, have the ultimate control of the company's affairs. Every company is required to hold an annual general meeting at which the shareholders are supposed to exercise their power of control. In practice, however, the control lies with the 'management' or the 'inside group'. But the board of directors is required to prepare and present at the meeting its annual report as also the annual audited accounts, for the consideration of the shareholders present at the meeting. The effective control is exercised by the board of directors as the representatives of the members and as agents of the company.
4. **Management:** Since the risk-bearing shareholders are widely scattered, and do not, in most cases, have the time, or knowledge of business, the management of the company has to be entrusted to the board of directors. The Companies Act also states that the Board of Directors is entitled to exercise all such powers as the company in general meeting can exercise. Thus, the directors are the exclusive representative of the shareholders, and are charged with the administration of the affairs of the company and the use of its

assets. The directors of the company lay down the objects and frame the policies and secure their implementation by the managerial personnel right from the Chief Executive to the first-line supervisors. It could be noted that the shareholders are the risk-bearers, but the directors are the risk takers.

5. **Duration:** A company comes into being through a process other than natural birth, and so possesses the property of immortality. Thus, it is said to have perpetual existence. Its life is not affected or interrupted by the death or insolvency or withdrawal of any member. It continues to exist even if all its members die or adjudicated insolvent. This capacity of perpetual succession ensure its continuity. Members may come and members may go, but the company goes on undisturbed until dissolved by a process of law. Also, a shareholders cannot get back his money from the company. This is provided for to save the company from disintegration. In all these respects company form of organization is superior to partnership and sale-proprietorship organisations.
6. **Taxation:** In a large number of situations the tax burden on Companies are heavier than those on partnerships. For example, a company's profits are taxed at a flat rate as against slab rates in case of unincorporated associations, e.g., partnerships. In other words, the rate of income tax in the case of a company remains the same no matter whether its profits are large or small. On the other hand, sole proprietorship business or partnership firm will be taxed at progressive rates, going up with the increase in profits.

Distinction between a Company and Partnership Firm

The nature of company organization can be better understood by comparing it with a partnership. The principal points of distinction between a company and a partnership are as follows:

1. **Formation:** A company is formed by registration under the Companies Act or incorporated by an act of legislature. In other words, registration or incorporation by a special statute is essential to form a company. A partnership need not be registered, although registration on voluntary basis is provided for.
2. **Corporate Personality:** A partnership is an association of persons who have agreed to carry on some business for sharing profits. The partnership form is no way distinct from partners who constitute it. In other words, apart from the partners, the firm has no independent or separate legal existence. Since a partnership firm is not a legal entity, the partners and the firm are one and the same. The company, on the other hand is a legal entity possessing its corporate personality, separate and distinct from the members who constitute it. It acts in its own name and has legal rights.
3. **Management:** The shareholders, who contribute the capital, do not as shareholders; manage the affairs of a company. They entrust it to their representatives, i.e., the Board of Directors. In partnership, every partner is entitled

to take part in the management of the firm's business, and the firm is bound by the acts of partners but a company is not bound by the acts or shareholders.

4. **Business and Profits:** A partnership can be formed only for carrying on some business or profession with a view to making and distributing profit among partners. There can be no partnership if the object is not a carry on business and share its profits. A company can however, be formed for purposes other than carrying on any business or for sharing of profits by its members. For example, a company can be registered under section 25 of the Companies act, 1956, for promoting commerce, art, science, religion, or any useful object. Such company may make some profit but this has to be utilized for the promotion of its objects and not distributed amount its members as dividend.
5. **Liability of Members:** The liability of shareholders of a company is limited so that no shareholder can be called upon to pay more than nominal value of the shares held by him. The liability of partners is unlimited. It is joint and several, to pay the debts of the firm.
6. **Number of Members:** A private limited company can have maximum number of 200 members and there is no limit to maximum number in the case of a public company. A partnership form cannot have more than 50 partners (10 in case it carries on banking business).
7. **Transferability of Shares:** The shares in a company are transferable, with the result that shareholders keep on changing. A partner cannot transfer his share and interest in the partnership business without the consent of all other partners.
8. **Continuity of Existence:** A company has perpetual succession or continuous existence. The death or insolvency of any or all the shareholders does not effect the life of the company, as it has separate and distinct entity from the life to its members. But the partnership comes to an end on death or insolvency of a partner.
9. **Capital Requirements:** A company raises its capital from the saving of a large number of people, usually in small amount of 50 shares because the shares are of the nominal value of 10 or 100 and a person can apply for a minimum of 50 or 5 shares. A partnership has to depend upon the resources of the partners. It may borrow from banks or individuals. But it cannot issue debentures to the public, which can be issued by a company, the resources at the command of a company are larger than those at the disposal of a partnership firm.
10. **Audit of Account:** A company is required by the law to have its accounts audited once in a year by a Chartered Accountant practicing in India. No such obligation is placed on a partnership firm.
11. **Change of Objects:** The objects and powers of a company are set out in its memorandum of Association and so is its authorized capital. Any alteration in Memorandum for changing the objects can be made by passing special resolution in general body meeting and with the sanction of the Company Law Board and for

reduction of share capital with the sanction of the court. But the partners can make any changes in their partnership agreement, as and when they like.

12. **Majority Rule:** In the case of a company, decisions are taken by a majority rule that does not hold good in all policy and other important matters. Unity in partnership, being rule, all partners must agree in all important matters.
13. **Statutory Control:** Right from its inception, a company is subject to numerous and varied statutory requirements. It is subjected to vigorous control by the Government throughout its existence. A partnership firm, though governed by a statute, is left relatively free from State control and statutory regulations.

Classes of Companies

(a) **Private Companies:** A private company is one, which by its articles:

- (i) restricts the right to transfer its shares.
- (ii) limits the number of its members to 200, excluding employee members and ex-employee members.
- (iii) prohibits any invitation to the public for subscription to its shares or debentures.

A private company must always comply with these restrictions. A violation of any of these restrictions will make the company a public company.

The minimum number of members to form a private company is two. By definition, a company which is not a private company is a public company. The minimum number of members for a public company is seven, but there is no limit to the maximum number.

A private company suits the need of those who wish to take advantage of limited liability and at the same time keep the business as private as possible, maintaining its secrecy. It is in some respects like a partnership. The shares are not freely transferable nor can share warrants be issued by it. In this way the members of a private company like partners are in a position to maintain personal contact and secrecy in business. A private company, therefore, combines the advantages of limited liability and the facilities of the partnership organisation.

Because of the special features of private company and many privileges enjoyed by it is a common practice with businessmen to convert their family business into private limited companies, and enjoy, the double advantage of retaining privacy as regards internal affairs and limiting their liabilities. Then, as and when need arises, they convert the private company into a public company by simply altering the Articles of Association by special resolution.

(b) **Public Company:** The Companies Act defines a public company as a company which is not a private company. A public company is a company the membership of which is open to the general public under the provision of its articles. The minimum number required to form it is seven, but there is no limit to maximum number. It invites the members of the public through a prospectus. It does not impose any of the restrictions required in the case of a private company, and any person competent to contract can become

its member. However, it is subject to much greater statutory control than a private company. For example, it must allot its shares within 120 days of the issue of the prospectus, but only if the “Minimum Subscription” has been subscribed. It must have at least three directors and can commence its business only after obtaining the Certificate to Commence Business. Its managing director or manager can be appointed only with the approval of the Central Government. The managerial remuneration can be paid with the approval of the said Government. As a public company is in a position to raise vast amount of capital and can raise huge sums, it is suitable for large-scale enterprise, whereas a private company would be suitable for medium size businesses.

Evaluation

The company form of organization pervades the whole business world. Other form of organization may outnumber it, but most business is transacted by companies. This is possible because of the many advantages it enjoys over other forms of business organizations.

Advantages

The principal advantages of the company form of organization are as follows:

1. **Vast amount of capital:** The outstanding advantage of the company is that it allows the mobilization for production purposes of a vast amount of capital that would otherwise might have little chance of being used. In a public company there is no limit to the maximum number of its shareholders. Very large number of people, who are otherwise busy, may, by buying shares in a company, acquire interest in it without giving up their own vocations. As the shares can be bought in small amounts, investors can divide their saving amongst a number of companies, and thus reduce the overall risk.

The fact that the shares are easily transferable gives joint stock companies an added advantage in attracting capital. This method of collecting capital from many people, each of whom may have only a comparatively small amount gives the company the use of much larger capital than can be collected by private business. The latter must depend mainly upon the financial resources of the proprietor in fact, no business form is so well adapted to raising vast amounts of capital as the joint stock company.

2. **More scope for expansion:** More capital funds at the disposal of company and the ploughing back of company's profits make possible for the business to expand. Thus the company form of organization offers an excellent scope for self generating growth.
3. **Diffused risk:** The risk of loss is spread over a large number of investors and the possibility of hardship on a few persons as in the case of partnership and on an individual in the case of single proprietorship is minimized. Large amount of capital can be collected from far and wide from rich and poor. Because of diffused

risk, limited liability and management in the hands of professional members, a company can afford to take bold decisions and enter into entirely new business ventures.

4. **Democratization of ownership:** The fact that relatively small amounts of capital can be mobilized collectively results in democratization of ownership. While it, enables all types of people, big and small, venture some and cautious, to become part owners, it permits of the use of skill and initiative of the able entrepreneur, his expert knowledge and business ability which would otherwise be lost to the community.
5. **Transferability of shares:** A shareholder can at any time transfer his share to any person who is willing to take them. The stock exchanges assist in the sale and purchase of the shares. As the shares are readily transferable, a shareholder can easily convert his holdings into cash. This facility coupled with the limited liability has encouraged investment by the general public.
6. **Stability:** Company organization, we have already seen is a legal entity with perpetual succession. Therefore, it may outline many generations of private producers. The continuation of succession as a result of incorporation makes for stability. This encourages experimentation for efficiency. The continuity is not seriously affected by a change either in the management or the owners.
7. **Organised intelligence:** The power of capital is supplemented by organized intelligence which makes for increased efficiency of direction and management. The skills and flexibility of administration is increased as a result of limited liability and the entity idea. The wisest and the most skilful directors may be chosen; and anyone found indifferent or inefficient may be removed. The company being independent of any single man, the organized intelligence of the Board of Directors and the expertise of other top managers is available for sound and bold policies.
8. **Definite standing:** The Company gives a definite standing and facilitates binding actions through its agents. An outsider willingly deals with a company because he knows the exact scope of its business and legal limits of its powers.
9. **Limited Liability:** The liability of members of a company is limited. He cannot be called upon to pay anything more than the nominal value of the shares held by him. When acquiring shares in a company, he knows the maximum loss he may suffer if the company fails. This encourages people, even those with relatively small savings, to invest money in a company, thus providing large amount of capital for initial outlay and further expansion.
10. **Special advantages:** The greater advantage to society of the company organization is to be found in its added encouragement of investment and the possibility it affords of efficient direction of large-scale industry. The element of stability is notably well cared for by the company. The compulsory publicity and other regulations of companies are beneficial to the community, especially with

regard to banking and Public Utility Company. The overhead costs unit per incurred in the form of salaries paid to the managerial personnel comes to be low vis-à-vis other form of organization. The company through mass production of goods has succeeded in converting luxuries of yesterday into necessities of today. Even people with low incomes have been enabled to possess things which they could not have dreamt of owning.

11. **Tax relief:** A company pays income-tax as a separate large person at a flat rate fixed by the Finance Act from year to year. In case of higher incomes this rate is lower than that charged in the case of sole traders and partners.

Disadvantages or Company Organization

In spite of so many advantages of company form of organization here are some drawbacks of this form of organization. The principal disadvantages of company form of organization are as follows:

1. **Difficulty in formation:** The legal formalities and procedures required in the formation of a company are many. The cost involved is quite heavy. In addition to the cost promotion and the preparation of necessary documents and payment of commission to brokers and underwriters. At the time of floatation, heavy stamp duty and registration fees have to be paid.
2. **Incapable or fraudulent management:** The company form of organization can be used by dishonest promoters and fraudulent directors to cheat or overcharge the ignorant public, in spite of many safeguards provided by company law.
3. **Encouragement of reckless or careless speculation:** The company form of organisation encourages reckless speculation on the stock exchange. This is an evil of greater magnitude in our country because in many cases the stock exchanges act as “hush agencies” rather than an aid to sound investment or stability.
4. **Waste and inefficiency associated with indirect management:** Lack of personal interest on the part of salaried managers is likely to lead to inefficiency and waste as there is little individual initiative and personal responsibility. Motivation is less direct than in sole proprietorship or partnership.
5. **Clash of interests between members and management:** The company form of organisation does not promote or safeguard the interest of the shareholders. Because of the separation of management from ownership, it is not the owners who govern but a few who control and manage a company's affairs. In other words, a few govern but let the shareholders believe that they are the rulers. Thus, in theory, the company form of organization seems to be democratic but in practice, it is oligarchic. The interest of the minority shareholders are often in jeopardy. This lack of identify of interests between the company (i.e., the shareholders) and its management encourages financial manipulation and speculation.

6. **Bureaucratic approach:** A company form of organization does not enjoy the same amount of flexibility and promptness of decisions as the single proprietorship concerns or partnership firms do. The bureaucratic habit of the company managements to discourage troublesome decisions often retards growth. Decisions are further delayed, to some extent at least, when they have to be taken at meetings, which are often far between.
7. **Excessive regulation by law:** The State that creates the company regulates its activities much more closely than those of non-corporate bodies. A company and its management have to function well within the law, and the provisions of the Companies Act are quite complex and strict. At every step it is necessary to comply with its provisions lest the company and its management might be penalized. The penalties are quite heavy, and in several cases, officers in default can be punished with imprisonment.
8. **Social ill-effect of large Company:** There are notable failings of big business which necessarily flow from company form of organisation. These are summed up as follows:
 - (a) The absence of responsibility to the shareholders for work done with his wealth frequently leads to abuse, e.g., unsatisfactory working conditions and exploitation of labour.
 - (b) A big business, to be successful must have a system of checks and counter checks in each department. Such a system is necessarily wasteful of effort and represses elasticity and initiative and encouragement to do work in a mechanical manners.
 - (c) There is generally a tendency for company organizations to form themselves into combinations exercising monopolistic powers which has a harmful effect on other producers in the same line of to consumers of the commodity produced.
 - (d) The company form of organization is conducive to concentration of wealth and economic power to the loss of public interest.
 - (e) It encourages restrictive trade practices, which are against the interests of the community.

From the social point of view the effects of company organization upon the distribution of wealth are highly important. It has great potentialities both for good and evil. On the one hand it might tend to diffuse wealth by encouraging widespread investment in small amounts and the distribution of profits and interests of industry accordingly. On the other hand it might result in undemocratic concentration of wealth in the hands of a few industrial dictators. Inequality in wealth distribution has been encouraged by joint stock organization. However, considering good and bad points in the history of business units, no finer instrument exist with which to meet the complex problems of modern enterprise. To the large unit, company offers an easier way to finance itself by means of dividing its ownership into many small portions that can be sold to a wide range of purchasers. Other

forms, which are suitable for small and medium enterprises, many outnumber it, but most of the business is transacted by units of this type.

COOPERATIVE ORGANISATION

Why Cooperatives?

The primary aim of the business organization discussed so far is to earn profit. These forms of organization may exploit the economical weaker sections of society. The cooperative form of organization attempts to make the common man free from the oppression or injustice of the economically strong people and organization. The philosophy behind cooperatives is mutual assistance and service. The aim is at encouraging self-help on the part of economically weaker sections of society by looking after their own affairs in cooperation with one another. Thus, the principal theory of true cooperative organization is the elimination of profit and the provision of goods and service to its members at a proper price.

As a form of business organization, a cooperative is an enterprise ordinarily set up by economically weaker section of society to achieve their common economic and social interest, to eradicate capitalist exploitation, to eliminate middlemen, and to bring the consumer and producer together. With these objectives in view, the consumer, belonging to working and lower middle classes, combine either to produce goods themselves or to purchase them collectively thus retaining for themselves some of the benefits usually derived from business by capitalists. This joint effort on their part enables them to protect their interests to some extent. The cooperative organization is democratic because the affair are managed by member and each member has only one vote irrespective of his shares in the co-operative society.

The term cooperative means working together. A cooperative enterprise means a voluntary association of persons (usually of smaller means) joining together on equal basis for promotion of certain economic and business interests.

The International Labour Organisation (I.L.O) defines a cooperative as “an association of persons, usually of limited means who have voluntarily joined together to achieve a common economic end through the formation of a democratically controlled business organization, making equitable contributions of the capital required and accepting fair share of risk and benefits of the undertaking.”

We may give our definition which contains the important attributes of cooperative enterprise. A cooperative organization is a voluntary association—(i) with unrestricted membership, and (ii) collectively owned funds, (iii) organized on democratic principles of equality, (iv) by persons of moderate means and wants through mutual action, (v) in which the motive of production and distribution is service rather than profit.

Principal Characteristics

The foregoing definition reveal some of the features which are common to cooperative society, a partnership firm and a company. But in addition to that as a form of business organisation, a cooperative enterprise possesses the following special characteristics.

1. **A cooperative society is a voluntary association:** The membership of the society is voluntary and to all persons having common interest. In other words, there is no compulsion for any person to become a member nor can any person be denied the right to become a member of the society. A member may leave a society by giving due notice and withdraw his capital; but he cannot transfer his shares to another person. The position of a shareholder of a company and member if a cooperative society differs in this respect. As shareholder in a company can transfer his shares to another person but he cannot take back his capital from the company by surrendering his shares. A member of a cooperative society can get back his capital but cannot transfer his shares to another person.
2. **Its members enjoy equal voting rights:** A cooperative society is a democratic organization and so all its members have equal voice in the management of its affairs. The rule is one member, one vote. Therefore, each member has one vote regardless of the number of shares held by him. This rule is based upon the principles of cooperation and equality which states that a rich man cannot be allowed to exercise control because he is rich and can afford to hold a large number of shares. In this respect also the cooperative organisation differs from a company. In a company, the voting rights are governed by the amount of capital invested by a member.
3. **Its management is democratic:** As a necessary consequence of the principal of equality the management of cooperative society is essentially democratic. As a rule, cooperative societies work on local basis, which enable almost all the members to attend the meetings and elect their managing committees. Since each member exercises an equal right with others, the managing committee is in the real sense an elected body and must pay attention to the wishes of all member and not only a section of them. In many cases, some or all the members may take part in the day-to-day work of their society, and may appoint a manager from among themselves. Of course, outsiders, will be appointed when the society grows in size.
4. **A cooperative society is organized to render service to its members and not to make profit at the cost of its members:** If, for instance, a society produces a product, it is mainly to supply to its members at a reasonable price. A consumers' cooperative society is expected to supply goods first to its members and then to outsiders at a reasonable profit.
5. **Payment of surplus as bonus to members on purchases made by them:** Commercial concerns usually distribute their profits among their shareholders in proportion to their capital contribution. But a cooperative society does not

distribute its surplus as dividend among its shareholders in proportion to the capital provided by them. The share capital is virtually treated as loan capital and a moderate rate of interest (although called dividend) is allowed out of the surplus. A portion of the balance is utilized for the general benefit of the members. A portion may be paid as bonus to employees and workers. The rest of the net surplus is distributed among members in proportion to their individual purchases from the society. The non-member purchasers are not usually paid anything out of the surplus, although there is no bar to such payment. A company earns the profits and shareholder receive dividend, often at the cost of the consumers. In a cooperative society the consumer is the one who is looked after.

6. **Trading on cash basis:** As a rule, cooperative societies conduct business on cash basis and allow no credit. A member in need of money can get back part of his capital, and re-invest when he can afford to do so. Since the members are normally persons of small means, this principle helps both the member-buyers and the society. The members do not incur debts and the society does not face the danger of bad debts
7. **State control and Registration:** A cooperative society is required to be registered under the Cooperative Society Act, 1912. On registration, it becomes a corporate body like an incorporated company, enjoying certain privileges and subject to control and supervision of the Government.

A cooperative society must fulfill the following conditions in order to obtain registration namely:

- (a) It must have 10 adult members-i.e., those who have completed the age of 18 years.
- (b) The members should be bound together by a common bond, e.g., they should belong to the same village or locality, tribe or occupation, etc.
- (c) The members should present a joint application to the Registrar of Cooperative Societies furnishing required particulars, such as membership, share capital, objects and powers, etc.
- (d) A copy of the bye-laws and scheme of organization should be submitted to the Registrar.

After registration the society comes under the supervision of the Registrar who keeps a watch over its working. Every cooperative must have its annual accounts audited by an auditor from the Cooperative Department and then submit returns, copies of audited accounts and the annual report to the Registrar.

Type of Cooperatives

Cooperatives may be formed practically for any type of activity. Since we are concerned mainly with those cooperatives which are engaged in some kind of business, only business cooperatives are discussed here.

The principal types of business cooperatives are:

1. Producers' Cooperatives.

2. Consumers' Cooperatives.
3. Marketing Cooperatives Societies.
4. Housing Cooperatives.
5. Cooperative Farming Societies.

Producers' Cooperatives: One of the solutions of inadequate purchasing power is to eliminate the class which controls production. i.e., to become your own producer or manufacturer by organizing producers' cooperatives. They are also called industrial Cooperatives. We have several sugar cooperatives in our country. The Producers Cooperatives may be defined as voluntary associations of work people owning an enterprises producing goods for their consumption and for sale at a profit in order to retain the profits which would otherwise go to the capitalist, and by the application of the system of co-partnership, to substitute an alternative method of labour remuneration instead of wages.

The system provides a greater incentive to do one's best because the division of interest between the worker and employer is removed by combining the two-entities. The worker becomes his own employer, Cooperative productive enterprises are best suited to trades and industries where little capital is needed. Cooperative production activity should, therefore, be confined to cottage and small scale industries. As stated above, cooperative sugar mills, particularly in the South and West of India, have been fairly successful.

Consumer's Cooperative: The objective of consumers' cooperative is to eliminate the middle man and to protect the interest of consumers. These cooperative are economic enterprises set up by the consumers, mainly of moderate means, for the distribution of goods of daily needs primarily among the members of the societies. These societies, have no profit motive as they are formed by the consumers themselves. These societies buy goods in bulk from wholesalers and sell to consumers are reasonable prices. The difference is represented by the surplus which is distributed among the purchasing members in the form of a bonus on purchases. This is the oldest form of cooperative organisation. In our country, consumers' cooperatives have received-good deal of impetus from the Government, as they help to check rise in prices of consumer goods.

Marketing Cooperatives: In the field of agriculture these is great scope for cooperation. The marketing cooperative sales societies are voluntary associations of independent producers organised for the purpose of arranging for the sale of their produce. The aim of the marketing cooperative or sales society is two-fold. One to secure a remunerative price for produce, and secondly to make available a permanent and ready market for the produce of the members. The marketing society collects the produce from members, grades them and then sells at a remunerative price to the wholesale market. The cash proceeds are distributed among the members according to the quantity pooled.

Housing Cooperative: Housing cooperatives are association of persons who are interested either in securing the ownership of a house or obtain accommodation at reasonable rent. Such societies are formed mostly in urban areas. Intending builders of houses join together to form cooperatives of this kind. Such a society can secure for the

members, the economies of collective purchase of building materials, buildings and loans at low rates of interest. There is much scope for such societies in India.

Cooperative Credit Societies: The cooperative credit societies are voluntary associations of people with moderate means formed with the object of extending short-term financial assistance to members and creating the habit of thrift among them. The funds of these societies consist of share capital contributed by the members. The liability of members is generally unlimited. This helps the society in raising additional funds from outside sources and ensures that every member shows keen interest in the working of the society. Normally, loans are granted for productive purposes, but the rate of interest charged is kept as low as possible.

The credit societies may be either agricultural cooperative credit societies or non-agricultural credit societies. The former generally confine the activities to their respective villages. The non-agricultural credit societies are formed by city people of moderate or limited means.

Cooperative farming Societies: The cooperative farming societies are basically agricultural cooperatives formed with the object of reaping the benefits of large farming and maximising agricultural output. Although these societies are advocated in countries like India where because fragmentation of holding per acre production is low. Yet they have not proved to be successful whatever they have been tried.

Miscellaneous societies: In addition to the more important types of cooperative stated above, some other types are found in some parts of the world. Societies set up in rural areas with the object of processing certain raw materials produced by the tillers of land to supply to industries, are known as Processing Cooperatives. Cooperatives for processing cotton, jute, paddy, sugarcane, oilseeds, fall under this category. Cooperative societies have also been formed for fisheries, dairy farming, supply of sugar-cane, cold storage, etc.

Evaluation

As a form of organisation, the cooperative store offers the following advantages:

1. The consumer controls his own supplies, and cuts out the middleman's profit.
2. He is saved of the loss common to retail trade, on speculative buying. The ordinary shop has to rely on itself to judge whether there is a market for an article. But the cooperative store knows what is required by the members.
3. There is no need to have surplus stock at hand as the demand is constant and regular.
4. Some of the expenses of management are saved by the voluntary service of the controlling committee. It is possible to get even a paid manager at a lower salary as a result of the ideal of cooperation.
5. There is a complete integration between the manufacturer, wholesaler and the retailer and thus they have clear advantage over capitalistic enterprise.

6. A cooperative store has its regular customers and therefore it does not have to incur expenses on publicity which is a big item in the budget of the capitalistic manufacturer.
7. There is no profit for any special class of investors which tends to equalise the distribution of wealth.
8. The payment of part of profits as bonus on purchases proves to be better than other methods and ties the members to the organisation. The capitalists have tried to copy this by issuing gift coupons or giving away small items free with purchases.
9. Above all, they are more than a mere device for getting necessities cheaper. They have a social value of increasing welfare. They provide a school of self-government for a class that has difficulty in getting it elsewhere. The movement has done a great service to the workers and people with reasonable means.
10. The movement has also done a great service by removing inefficient capitalist shop from localities where cooperatives stores have been established.
11. From the organisation point of view, a cooperative enjoys some more advantages such as:
 - (a) The registration of a cooperative society is relatively simple. Any ten people can register it without any elaborate legal formalities.
 - (b) As the members of a cooperative society belong to a particular locality, office or group and they enjoin together with the common goal of co-operation for business, the problems of coordination are not that grave as in other forms or organisations.
 - (c) After giving dividend, the balance of the surplus earned can be utilised for the growth and expansion of the business of the society.
 - (d) The life of a cooperative society like that of an incorporated company is independent of the lives of its members.
 - (e) The law gives preferential treatment to cooperatives in respect of income tax.
 - (f) Since cooperation is an instrument of the socio-economic policy of the Government, the State extends many forms of assistance to cooperatives.

Limitations

The cooperative form of business enterprise, inspite of many merits, has its limitations and is not likely to replace other forms of organisations. The limitations are as follows:

1. The idea of cooperative organisation cannot be extended beyond a certain limit, because a Cooperatives can secure only a limited amount of capital, as the members usually come from a limited group and normally have limited means. Again, the extension of size of the organisation might become a serious threat to its success.
2. Unlike the capitalistic system, cooperation cannot be extended to cover the whole economic system because of the very philosophy behind it. In order to embrance or cover the entire economic system, it must attract people of all incomes and

grades of society. But this it should not do so lest it might again slip into the clutches of the capitalist and hit at the very purpose of starting the cooperative.

3. The management of a cooperative vests in a managing committee which generally lacks technical knowledge, is often incompetent and is often influenced by considerations other than efficient service. It is often difficult to get the service of experienced and efficient workers on account of limited capacity to pay adequate remuneration. Even if a real efficient man has been found, he is likely to be attracted by a capitalist on a much higher salary unless he is an idealist.
4. Cooperatives are also subjected to a considerable degree of State regulations and the cooperative department almost overadministers them. This obviously goes against the flexibility and efficiency of management. Because of too much democratisation of its management, secrecy in business cannot be maintained.
5. The movement has still to develop the entrepreneurial functions. One of the most serious obstacles in the success of cooperatives is the bickering or disagreements among members. Once the initial enthusiasm is over, groupism begins which leads to frictions and rivalry among active members, and once it begins there is no end to it.

In the light of some of the aforementioned limitations, the cooperative principle cannot succeed in the following three types of industrial enterprise, namely:

- (a) Those in which there is a large element of speculation;
- (b) Those involving the production of finer and more individual commodities in which high qualities of skill and adaptation are called for;
- (c) Those industries which require highly centralised production but whose customers are scattered over wide areas, and where demand is not regular.

As regards their suitability, it may be safely stated that cooperatives are suitable for small and medium size enterprises. Some of the limitations noted above render this form of organisation suitable largely for trading business. Happily, state assistance and the resourcefulness of members and their leaders have enabled some cooperatives to start large scale operations. The Kaira cooperative making Amul products, sugar cooperatives in Maharashtra and the South, and the latest Indian Farmers' Fertilizer Cooperative are good examples of venturesome activity.

Distinction between Cooperatives and Companies

Although a cooperative society resembles a company in some respects, there are many points of distinction between the two:

1. The most fundamental difference between a cooperative and a company is that of ideology. The very basis of cooperation is self-help among the members of a cooperative whereas a company organisation aims at making profit. Any surplus earned by a cooperative society is incidental to the objective of service. Profit is the motive of a company and service is the objective of a cooperative society.

2. The control in the case of a cooperative society is vested in the members equally regardless of the individual contribution by way of investment in the enterprise. Thus, a cooperative is an economic democracy for its members who have an equal right to vote towards the formulation and the execution of its business policy. The members can effectively exercise their power of appointing the managing committee and removing any undesirable members of the Committee, as each member of the society has only one vote regardless of the capital invested. In a company, the votes vary with the capital holdings, so that a few rich people can control it. Moreover, a cooperative society operates with a limited area with the result that all the members can attend its meetings. This is not possible in the case of a company as shareholders are scattered far and wide. The company management therefore becomes oligarchic rather than democratic.
3. It follows from the above that in a company there is a great divorce between ownership and control and many a time a clash of interests, but this does not happen in case of cooperative enterprise.
4. The joint stock companies are not directly concerned with the promotion of welfare or efficiency of their shareholders. In the case of cooperative the welfare is the main objective.
5. The cooperatives receive special incentives from the Government in the light of its policy of promoting the growth of cooperatives as against exploitative form of business. One of the important concessions to cooperatives is exemption from income-tax upto a certain limit. Exemption from stamp duties and registration fees are also available to them. The company is an organisation formed for earning profits and thus does not enjoy privileges.
6. Some other points' distinction between the two forms of organisations are:
 - (a) The shares of cooperatives are not, as a rule, transferable, while transferability of shares in a company is the fundamental rule and practice in company form of organisation.
 - (b) A member of a cooperative can, by giving notice, withdraw his capital and cease to be a member at will but a shareholder in a company cannot do so.

Cooperation in India

The cooperative began in India a cooperative credit societies with the enactment of an Act in 1904. The comprehensive cooperative societies Act. 1912 recognised both credit and non-credit societies. But inspite of various measures to encourage Cooperatives, the total volume of production, distribution and consumption in the wealth of the country, the share of the Cooperatives is almost negligible.

No doubt, in absolute terms the cooperative organisation has made considerable progress, particularly since 1954, but in relation to population to progress cannot be said to be satisfactory. Some of the causes of this slow progress are:

1. **Lack of Spontaneity:** The cooperative movement in India did not start at the instance of the people themselves, but was sponsored by the Government. In reality the movement began as a department of the Government and therefore people did not take much interest in it.
2. **Illiteracy and ignorance:** The illiteracy and ignorance as well as conservatism of the rural population stood in the way of the development of cooperative. The movement was meant to help people to help themselves, but they did not understand significance of cooperation and what it meant to them.
3. **Unlimited liability:** The liability in the case of a credit society, the majority of members of which are agriculturist, is unlimited. As a result of this unlimited liability better class of farmers did not join the credit society. There was thus lacking a complete and willing cooperation on the part of the people.
4. **Poor Management and leadership:** An inherent defect of Cooperatives which has come out from the very philosophy of the movement is that great stress is laid on the principle of cooperation and hardly any attention is paid to the management aspect. Also, there has been absence in most cases of leadership so that the movement has suffered as a result of favouritism and partiality.
5. **Casteism and party-politics:** In recent years with political awakening in the country, politics have entered the cooperative movement, too. Different groups vie with each other to get their nominees elected to the management committees with a view to securing control of the organisation for sectional gains instead of looking after the interests of all the members. As a result, very often the needy fail to get any assistance which works against the spirit of cooperation.
6. **Competition from vested interest:** One of the powerful opponents of cooperatives enterprise has been the vested interests. The small traders and money lenders worked for the failure of the rural societies. In urban areas, consumer societies have had to face strong opposition and hostility of traders and speculators. The weak financial position of the societies and indifference of the people who should take advantage of the movement have combined to make the position still worse.

Achievements of Cooperation

In spite of its weaknesses and slow progress, cooperation has been in a position to show some benefits on the people, particularly in rural areas.

1. The farmers have been able to secure credit at a cheap rate, and get out of the clutches of money lenders. In general the farmers have benefited from the principles of thrift and self-help.
2. The cooperatives have encouraged the use of better farming methods by helping the procurement of better manures and improved seeds. Similarly, the marketing societies have enabled the farmers to buy their requirements at fair prices and sell their product at reasonably good prices.

3. The cooperatives movement has contributed generally to the improvement of rural life. Undesirable social customs have been given up and the general social moral climate in rural areas has improved.
4. The non-credit societies have helped their members to improve their economic condition and saved them from the exploitation of powerful groups. For example, in many urban areas, housing cooperatives has enabled middle income groups to buy plots of land at reasonable rates and construct houses. Similarly, consumers' cooperative societies have rendered a great service to the community by supplying goods in short-supply equitably and at reasonable prices.

Choice of Suitable Form of Business Organisation

The problem of choice of a suitable form of business organisation arises at the time of establishing the business and later on where the business expands. The initial choice of the form of business organisation depends on the nature of business and the scale or business proposed to be undertaken. It is the nature and scale of business operations which determine the amount of capital required and the risk involved in the proposed venture. So the form of organisation selected should be such which fully meets the needs of the business. Now we shall discuss the factors affecting of choice of organisation.

Factors Affecting Choice of Organisation

1. **Ease of Formation:** One of the primary considerations in making the choice of the most suitable form of organisation is the ease with which it can be set up. Facility of formation, minimum legal requirements and freedom from Government regulation are ideal conditions favouring the choice. From this point of view sole proprietorship is the best and joint stock company form of business organisation is most complicated.
2. **Ease of Raising Capital:** Another factor is the ease with which the requisite capital can be raised. Small amount of capital can be invested by entrepreneur himself and he would be satisfied by setting up his own business, and single proprietorship form of organisation would serve his purpose effectively. If a large business requiring huge amount of capital is to be set up, company form may be necessary.
3. **Extent of Liability:** Liability may either be limited or unlimited. Where it is unlimited the proprietor can be made to pay the full amount of the debts of the business. His private property can also be utilised to pay such debts. In the case of single proprietorship and partnership and the liability of the owners is unlimited. In company form of organisation, the liability is limited and the members cannot be asked to pay beyond a certain limit. Where risk element is greater and the scale of operation is above medium, the company form of organisation is most suitable.
4. **Relationship between ownership and control:** The golden rule is that control should be where ownership lies. Where the owner is also the manager, as in the

case of one-man business, the degree of control with the owner is complete. In a large business owned by a company there is a divorce between ownership and control.

5. **Decision-making Facilities:** Some person, particularly those who value the right of personal leadership, prefer sole proprietorship. If a very high degree of leadership is required, he will then form a company in order to attract other talent.
6. **Flexibility of Operation:** A good form of organisation lends itself to maximum flexibility, as changes can be introduced promptly. Single proprietorship, for example, enjoys to the maximum degree this characteristic.
7. **Maintenance of Secrecy:** Secrecy, especially in the case of small business concerns is of supreme importance. For that purpose, the entrepreneur will probably prefer single proprietorship.
8. **Continuity of existence:** To ensure continuity of existence and stability, company, as a legal person will be adopted as it may outlive generations of individual proprietors. The life span of a single proprietorship is often limited to the life span of the proprietor.
9. **Freedom from Government Regulations:** Different forms of organisation are subject to government regulation in varying degrees. In single proprietorship the Government regulation and control is minimum. Partnership is exposed to some control but the company is controlled by government regulation much more closely.
10. **Impact of Taxation:** The basis of taxation is different in case of each of the forms of organisation. Some of the business taxes affect all forms of enterprises alike, and need not affect the choice, such as excise duties, sales tax, property tax and customs duties. But direct taxes like income tax that has an important bearing upon the choice of the form of business organisation.

In making the choice of a suitable form of organisation, the factors mentioned above will have to be weighed against each other for good results. These factors are interrelated and cannot be taken into account singly. All of them must be weighed before the final choice can be made.

When the business firm grows in size, it is constantly faced with the problem—whether to stick to the existing form of organisation or change over to some other form of organisation. The answer to these problems lies in answering the following important questions.

1. The additional capital needs because of expansion;
2. The difficulties in controlling the business affairs;
3. The extent or risk involved; and
4. The changes in tax liability.

For instance, where a partnership business expands, the choice lies between increasing the number of partners or converting the firm into a private company. If the expansion is on large scale necessitating huge sums of capital, adding partners would not serve the purpose.

Before making the final decision, it has to consider the expected change in profits because of expansion because this will determine the tax liability. It is only in case of high bracketed income groups, the benefit of lower taxes by forming a company is available.

SOCIAL RESPONSIBILITIES OF BUSINESS

There are significant changes taking place in social, political, economic and other aspects of modern life which make it appropriate to re-examine the role of modern business. Modern view of business is definitely resting on the assumption that business belongs to the people. It emphasizes that business has to create profitable customers. Business has a privilege, not a right, granted by society and this privileged will be continued only as long as it serves social needs and it offers social satisfaction. Today, society insists on the quality of life and freedom from pollution. Business plans and policies as well as programmes are expected to act as instruments of social change and are to be implemented with effective controls to promote maximum public welfare. A socially responsible business firm must respond favourably to the needs, desires and problems of its shareholders such as customers, employees, suppliers, shareholders, bankers, government and the general public. As a social agency, a business enterprise is responsible to deliver a rising standard of living and a standard of life-style to consumers.

Meaning of Social Responsibilities

First of all, the social responsibilities of business may be considered conceptually. The phrase 'social responsibility' is widely used in the literature of sociology, anthropology, economics, politics and business management.

H.R. Bowen has defined the concept of social responsibility as "obligation (of manager) to pursue those policies, to make those decisions, or to follow those lines of action which are desirable in terms of the objectives and values of our society."

Harold Koontz and Cyril O'Donnell say, "Since an obligation can be owed only by one person to another, social responsibility is an interpersonal relationship that exists when people are continuously dependent upon one another in both organised and unorganised way. As a working definition it may be regarded as the personal obligation of people as they act in their own interest to assure that the rights and legitimate interests of others are not impinged."

Thus the business managers must assess the implications and effects of their decisions and policies on the other components of the society and to ensure that the interests are not adversely affected by their actions.

The action taken by a business which help society to achieve more of its objectives, are socially responsible actions which may be classified as internal or external to a business. Internal social responsibilities are concerned with assuring due process, justice, equity and morality in employee selection, training, promotion, increasing employee productivity etc. While external social responsibilities refer to such actions as stimulating minority enter premiership, improving the balance of payments or training and hiring hard core unemployed.

Social responsibilities may also be considered from the point of view of their impact on profits. A company may take socially responsible actions which serve to improve short-run profits. For example, it may install a machine to replace one which is hazardous to workers. In doing so, it may also make new rules concerning workers' bonus and promotion which result in higher productivity as well as social justice. Actions can be taken which clearly reduce profits. For instance, installing expensive anti-pollution devices, the costs of which cannot be passed on to consumers, will reduce profits. But businessman will not take actions which will reduce both short and long-run profits. They may be willing to take an action that reduces short-run profits if they believe that it will somehow increase long-run profits, but rationalization of such actions may lack conviction.

Social responsibility may also refer to an obligation, a liability, social consciousness, corporate legitimacy, charitable contribution, managerial enlightenment, social concern, social programmes, social challenge, social commitment, or concern with public problems. Most businessmen prefer words other than social responsibility because these words cannot a fixed obligation with unclear commitments.

Assumption of Social Responsibility by Business

Since long there has been a controversy whether business should assume social responsibilities, or it has no such obligations to fulfill. So it will be worthwhile to analyse the arguments offered both in favour and against assumption of social responsibilities by business.

The case for Assuming Social Obligations

The arguments which are offered in favour of business assuming social responsibilities are as follows:

- 1. Response to Social Obligations:** It is a well known fact that business is set up to earn profit by producing goods or rendering services to the members of the society. So the business is the creation of the society in the sense that its primary objective is to fulfill the needs of the members of the society. In case the business fails to do so, the society through people's representatives in government, will either force to do so through laws or may no longer permit them to survive.
- 2. Long-term Self-interest of Business:** There is a growing realization on the part of the enlightened businessman that it is in their self-interest to fulfil the demands and the aspirations of the society because people having a good environment, education and opportunity make better employees, customers and neighbours for business than those who are poor, ignorant and oppressed.
- 3. Moral Justification:** There is a growing feeling among businessmen that if they do not assume the social responsibilities, the government will make them assume such responsibilities through legislation. Such legislative regulation is expensive for business and reduces flexibility and freedom in making decisions and meeting

competition. Therefore it would again be in the interest of business community to voluntarily undertake to fulfil the social responsibilities.

The case against assuming social responsibilities

The arguments against such assumption are as follows:

1. The classical view is that business is an economic institution and as such its primary responsibility is to produce goods and services efficiently and to earn profits for its owners or the shareholders.
2. The doctrine of social responsibility implies acceptance of socialist view that political mechanisms rather than market mechanisms are the appropriate ways to allocate scarce resources to alternative uses. As this process evolves, there will be a possibility of the drive not to use resources efficiently and a loss of the greater productivity of the present economic mechanism.
3. If the market price of a product does not truly reflect the relative costs of producing it, but includes costs for social actions, the market mechanism will be distorted. In other words, either the customer pay a price greater than that necessary to call the goods into the market or the firm's product-mix provides less consumer satisfaction.
4. There is no substitute for the power of self-interest to get people to act. Therefore any replacement of this power will adversely affect the efficiency of the business system.

The arguments against the assumption of social responsibility suffer from one main limitation and that is, they want companies to do something which they can not do, and that is to ignore social responsibilities.

Criteria for determining the social responsibilities of business:

There are some guidelines which may be observed by business in discharging its obligation by way of social responsibility. These are as follows:

1. Business is to be treated mainly an economic institution with a strong profit motive and as such should not be required to meet non-economic objectives of society in a big way without financial incentives.
2. Business should be expected to perform socially responsible actions that might primarily reduce profits in the short-run but are in the ultimate interest of the company in the long run, for example, helping to solve the problems of unemployment, environmental pollution etc.
3. Each business firm must think carefully about the social responsibilities to be with accepted. While deciding this, the values and interests of top managers can serve as guiding force.
4. An individual business has social responsibilities proportionate with its social powers. For example, company 'A' is the major employer in a town and company 'B' is an employer of only 10% of the working people in the town. Therefore, other

things being equal, company 'A' should give more importance to its social responsibilities than should company 'B'.

5. An individual business should choose only those social responsibilities which it can best manage. Conversely, business is able to do a better job when the task involves a minimum of political involvement, deals with a physical problem that can be quantified and measured and is one in which it has experience.
6. Business should internalize most of its external costs. In the past, business enterprises were not responsible to bear such costs as air and water pollution etc., and society held the economic output of business to be of higher priority. But now, priorities are shifting and business is expected to bear more social costs which is a complex problem.

Social Responsibility of Business in India

Since independence, government, educationists, political parties, labour unions and other groups in our society have brought about a lot of changes in the minds of the people about aims and values of life. The government is eager to see that the rate of our national income is increased in order to have a better living standard for the people. For this purpose, Indian business will have to make full use of modern technology and science and encourage the development of innovational personnel.

Another important social responsibility is to increase the rate of new jobs to absorb persons. The development plans should normally create new jobs for engineers, technologists, scientists and other personnel. But business has not increased its absorptive capacity in proportion to the supply of trained personnel. This problem needs to be considered.

An important social responsibility of the entrepreneurs is to develop an organizational culture in business. This will aim at giving a unity of character in thinking and action among all its members and adapts itself to the changes made necessary by other culture. It is the entrepreneurial culture with its distinct aims about ownership, exercise of authority, control and sharing of gains which dominates business. Authority, control and gains are desired by all employees. The contract with entrepreneurial culture naturally brings these desires in these employees, more so when they are competent enough in their functional areas. Such a organisational culture must have a unity of purpose which will make it possible for all members to respond to all human situations in society, to offer a fellow ship to all members in which their life assumes new meaning and direction and to appreciate desires and aspirations of men who have the abilities.

A new social problem in India is the slow alienation of the public from the problems and difficulties of big enterprises in the private sector due to lack of social purpose in the private sector. The business class can bring a considerable change in the attitude of the public by taking suitable measures like developing an organization culture similar to that in the public sector.

Forces Inducing Social Responsibilities

Businessmen are now recognising various social responsibilities due to the following forces:

1. Businessmen have been forced to consider their social obligations because of ever increasing fear of public interference through the government. For instance, in India many acts like Factories Act, Industrial Disputes Act, Companies Act have been enacted to control the functioning of the business undertakings.
2. There is a pressure of organized labour also as participation of labour in the decision-making process is increasing with a demand to consider their view points before taking final decisions.
3. There is recognition of human element in industry leading to enlightened personnel management.
4. Due to spread of education, public opinion about the quality of life and the need to remove all types of pollution is growing.
5. As a result of separation of ownership and control in case of large business professional managers are able to act as trustees and adopt objective attitude in the distribution of surplus among all the interested parties as they are not the owners of the enterprises and so they do not have any vested interest.

Obligations of the business towards different groups

1. To itself: The first duty of any business is to itself i.e. to create conditions which will make it stable, continuing and established. A loss making company is a public as well as private liability. It should be run efficiently and competently so that the minimum inputs generate the maximum output or the surplus. If every business unit in the economy strives for best utilization of resources, the society will benefit and the national dividend will increase.

Earning of profits does not only mean a fair return on investment but also creation of reserves for contingencies which will provide a cushion to the business from jerks generated by economic ups and downs.

This profitability should not lead to profiteering by creating monopolistic tendencies and artificial shortage of supplies in the market, so that the consumers are compelled to pay high prices. In a nutshell the business should avoid adopting unethical business practices. It should be Adam Smith's 'Invisible hand' to distribute each one's due share to each one in a rational way.

2. To its shareholders: The dilemma before the professional manager is that if they do not ensure adequate return consistent with the prevalent interest rates, the sources of capital will dry up and the debt equity ratio will go on deteriorating to the detriment of sound capital gearing. Thus, the first obligation towards the shareholders is to ensure a fair return on capital employed.

Secondly, wider disclosure of information on the part of directors is required.

Thirdly, the company must protect the assets and use these as trustee of the shareholders.

Thus, responsibility of company towards shareholders becomes even greater when we find that:

- (a) Shareholders cannot demand dividend.
- (b) Unorganised shareholders are scattered all over the country.
- (c) The proxy system which makes shareholders control ineffective.

3. To its creditors: A business unit owes its responsibility towards its creditors also who are also part of the society.

- (i) The term of the credit should be observed.
- (ii) Litigation and consequent wastage of company's money should be avoided.
- (iii) Details of trade creditors should be given in annual accounts and report.
- (iv) As the law stands, any person who is knowingly a party to a company carrying on business with intent to defraud creditors may be declared personally responsible without any limitation of liability for all or any of the debts of the company.

The implications of the above are:

- (a) Liability of shareholders is limited. The creditors (specially trade creditors) become unsecured creditors.
- (b) The lender has no share in the increased profitability of the company.

4. To its employees: The employees of the business form a major section of the society. The well being of the employee therefore means well being of the society. A business owes certain duty towards its employees also.

The expectation of employees is continuously on the rise. They are no longer satisfied with the conditions of work, increased contributions, to retirement benefits and medical benefits etc. The reason is that employees are human beings and like profit monetary gain is not everything. The business, beside providing the employee's (a) subsidised (i) transport (ii) lunch and canteen facilities (iii) housing and (iv) medical benefits. (b) profit sharing and (c) bonus etc., must also satisfy their self-esteem and ego. This can be done by: (a) Workers participation in decision making, (b) better industrial relations and understanding the worker as a human being, (c) equity-participation by employees and (d) Institution of workers as directors. These will provide a platform of dialogue between the business and the employees. This will result in employees satisfaction. It will mean a happy person and a happy family.

5. To the Society: Business is not an end in itself. It is only a means to achieve an end, that end is person oneself and the individual. Therefore, business has by direct and indirect tests, to contribute to one's happiness, freedom and material moral and spiritual growth. It must be made conscious of its social responsibilities.

Social responsibility is the personal obligation of everyone as one acts in one's own interest, to assume that the rights and legitimate interests of all others are not affected adversely. Social responsibility or business is to pursue those policies to make those

decisions or to follow those lines of action which are desirable in terms of the objectives and values of our society.

In the real sense, the assumption of social responsibilities implies recognition and understanding of the aspiration of a society and determination to contribute to its achievements. As Peter Drucker puts it, “the business enterprise should be so managed as to make the public good become the private good of the enterprise.”

A company should behave like a good citizen in business. The law does not (and cannot) contain or prescribe the whole duty of a citizen. A good citizen takes account of the interest of others besides himself and tries to exercise and form an imaginative ethical judgement in deciding what he should and should not do. This is exactly how companies should seek to behave. It should pay proper regards to the environmental and social consequences of its business activities, and should not sacrifice the safety or efficiency of goods and services in the interest of expediency or competitiveness.

1. In environment matters, it is usually the business unit that is the first to know of a potential hazard. Ecological safeguards are very important. Control of Pollution is now being made obligatory by various enactments in different countries. The Company has a duty in such circumstances not only to take all possible remedial measures but also to inform the responsible authorities. The Company can save the community from the outbreak of a possible epidemic or certain skin allergies, stomach diseases etc. The health of the society can be protected.
2. To give employment to local population is another aspect of its responsibility. The enterprise can create its own township if it is of a giant size. Examples are Tata Nagar, Mohan nagar, Walchand Nagar, Modi Nagar, Piani etc. all set up by industrialists. The company can ask its employees to take interest in the management of these townships. Related to this the facility which it can provide to the society, the subsidized housing scheme or loans to employees for housing.
3. The business owes its duty to educate and improve the education and skill of its employees and the local community. These can be financed by the business. The modes can be training school, opening of technical and customary educational colleges, institution of scholarships and apprenticeship schemes.
A dialogue between the business and the society should be initiated where the two could have an opportunity to discuss the areas of mutual interests and points of disagreement and conflict.
4. As a good citizen the enterprise must not cause damage to amenities of the community. It should bear the social cost of its anti-social conduct, e.g., destruction of the natural beauty of the surroundings, condition of slums and congestion. The Company's management must shed socially irresponsible and self-defeating business policies and balance the claims of the workers, shareholders, community upon the company.

5. Business can help the society by giving charity or donations to different sections of the public. It can help the disabled and the handicapped people by giving the suitable jobs.
6. The company is duty bound to pay taxes and levies etc. to the Government and thus contribute in the economic growth and national revenue.

Thus, to conclude in the complex economic and business life of the country every enterprise has a manifold responsibility viz, to itself, to its customers, workers, shareholders and the community, and it is the task of management to reconcile these separate and sometimes conflicting responsibilities.