Mgmt ME 6003 UNIT - I 20HS5103 K.P.B

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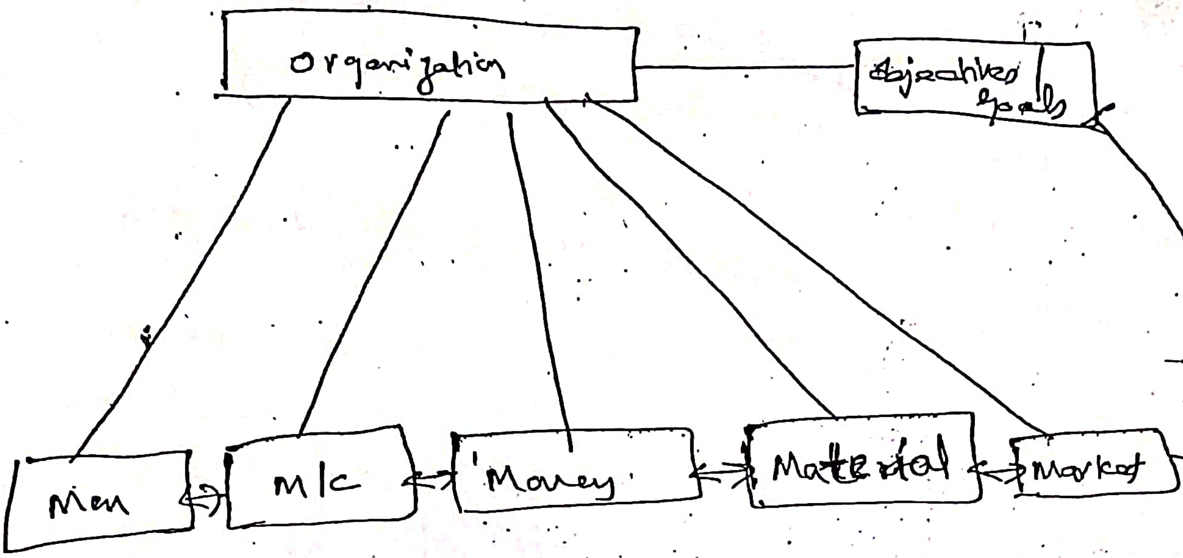
Definition of Mgmt.



Def: It is the art / science of coordinating the Company resources in the most efficient manner inorder to achieve the Organizational goals or objectives

Function of Mgmt.

Planning: Deciding in advance what to do, how to do it when to do it and who is to do it

→ It is a function to decide about what, where, when who why and how a particular activity should be done.

→ Planning defines the goals, sets the policies, Procedures Programmes, develops strategies so that the objectives of the enterprise can be attained most efficiently.

→ planning is rational, economic, systematic way of making decision today which will effect the future.

→ Planning helps to have a optimum utilization of resources

nizing: Involves determining activities ...
objectives
grouping these activities into manageable units or
department and assigning such groups of activities to
managers
Identification and grouping the activities to be performed
dividing them among the individuals and creating
authority and responsibility.

Organizing establishes relationship b/w people, work and resources.

steps in organizing:

(i) Determination of activities
(ii) Division of activities into jobs
(iii) Fitting individuals in terms of authority and
(iv) Developing relationships with qualifying & organization structure
responsibilities.

Staffing: Filling of the position of
Involves filling the position needed in the
Organisation structure by appointing competent and
qualified persons for the jobs.
It involves (i) Recruitment (ii) selection (iii) placement
(iv) Training (v) Development of personnel (vi) Developing
system for renumeration of personnel and evaluating their
Performance.

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Directing: (Guiding and supervising the subordinates
in their activities)

Directing consists of guiding and supervising the
Subordinates in their activities
It involves motivating, guiding and supervising
Subordinates towards company objectives.

Motivating :-

means inspiring people to intensify their desire and willingness to perform their duties effectively and Co-operate for the achievement of Common objectives of the business

→ Motivation is the mental preparation of an individual to do a specific job.

Controlling :-

It means setting ~~st~~ standards, measuring actual Performance and taking corrective action.

→ It measures performance against goals and plans.

→ Indicates where deviation exist and helps accomplishment of objectives.

→ It serves to determine personnel responsible for deviation to take necessary steps to improve performance

Co-ordinating

is the orderly arrangement of group effort to provide unity of action in the persuit of Common purpose

→ Means achieving | developing team spirit and unity of action amongst the subordinates for achieving the Common objectives

Ex: Cricket team

Need for Coordination

(i) Numerous persons at work

(ii) subdivision and Complexity of work

(iii) Delegation of authority and responsibility

(iv) chances of differences b/w executives and specialists

(v) Human nature and their problems

mmunicating :-

is a process by which instructions, ideas, ughts or information are transmitted, received and understand by the persons working in organization

Components of Communication

(Sender)

↓

(message) + feed back = Communication

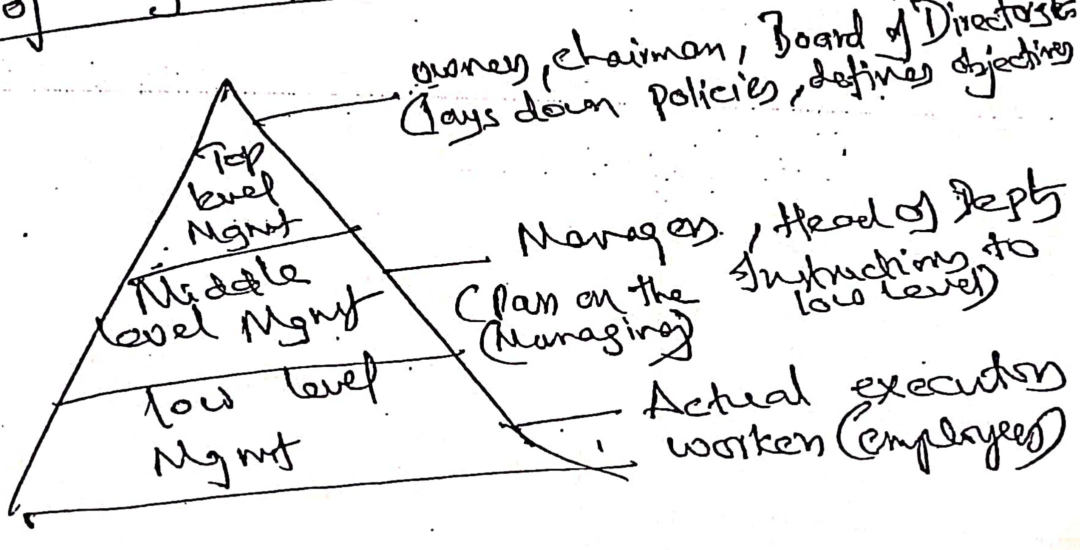
↓

(receiver)

Purpose of Communication is to supply the information necessary to those to whom it is conveyed for better job performance and active cooperation.

Levels of Mgmt / Organization structure

P
O
S
D



8 Evolution of Management Theory

1. HANDICRAFT SYSTEM

As already stated, the history of management goes back to the down of human civilization, when human ing started group activities for the attainment of some common objectives. From approximately the fourteenth ntury until well after the beginning of eighteenth century, the business units were under handicraft system. iere were small privately owned shops which employed tradesman (workers skilled in different trades). The oduction was on a small scale and was carried out to fulfil the needs of the consumers. Consumer goods ch as leather goods, furniture, metalware or other consumer commodities were produced in this manner. ecialization of tasks was not very common. Management was comparatively simple, and the tradesman ere using their own initiative and judgment.

2. FACTORY SYSTEM

During the beginning of eighteenth century there was industrial revolution because of the technological d economic development. To meet the increased demand of the products of better quality, a factory system is developed. The factory system made possible the rise of large scale manufacturing enterprises and created inagerial problems of co-ordinating and controlling the factors of production (men, materials, machines d money) in order to attain the desired quality and quantity of goods economically. The managerial problems re the natural consequences of increased plant size, greater diversity and volume of manufactured products, ricacy of fabrication processes and specialization of labour. At this stage, the development of a formal ory of management both of work and workers became absolutely necessary. It was against this background at the foundation of modern management were laid.

3. STAGES OF EVOLUTION OF MANAGEMENT

The evolution of management theory may be divided into three stages:

1. **The Classical Theory of Management consisting of three streams:**
   (*a*) Bureaucracy
   (*b*) Scientific Management
   (*c*) Administrative Management
2. **The Neo-Classical Theory, having two streams dealing with human factors *viz:***
   (*a*) Human Relations; and
   (*b*) Behavioural Science Approach
3. **The Modern Management Theories.**
   (*a*) Technical and quantitative sciences offering quantitative decision-making through operation research and with the help of computer and information system.
   (*b*) System approach to organisation and management.
   (*c*) Contingency approach to organisation and management.

Bureaucracy. Max Webel, a German Sociologist offered bureaucratic model. He considered bureaucracy the most efficient form for complex organisation. His model of bureaucracy included :

(*i*) hierarchy of authority, involving superior subordinate relationship and chain of command.
(*ii*) Clear cut division of work based upon competence and functional specialization.
(*iii*) A system of Rules, Regulations and procedures.
(*iv*) Impersonality of Interpersonal or Mutual Relations (based on positions)

(v) Selection and placement of employees based upon competence.

(vi) Legal authority and power—According to this the power does not belong to an individual; but it is due to position in the organisation.

In this, as the policies, rules and procedures are set and applicable to all, this leads to consistent employee behaviour. The jobs, duties and responsibilities are clearly defined. The overlapping or conflicting job duties are avoided.

Rigidity, impersonality, anxiety due to pressure of conformity to rules and procedures may create frustration, insecurity and dependence on the superior. Moreover, bureaucracy cannot offer satisfaction of higher level wants of employees. There is no human relations, employees are treated like machines and not like individuals.

8.4. SCIENTIFIC MANAGEMENT

As a term scientific management was first used in U.S.A. in 1910 by Louis Brandies. As a process, it was first visualised in U.K. in 1832 by Charles Babbage. The utility of scientific methods to problems of management was first of all introduced by F.W. Taylor in America (1865–1915). He is regarded as a "father of scientific management".

Definition – Scientific management may be defined as the "Art of knowing exactly what is to be done and the best way of doing it".

Scientific management is the result of applying scientific knowledge and the scientific methods to the various aspects of management and the problems that arise from them.

It tries to make the best use of production resources (men, materials, machines, capital etc.). It discovers the economical and efficient methods of production so as to reduce effort and eliminate wastage of time and motions. It provides right man for the right job through scientific selection and training of workers, shop supervisors etc.

8.5. PRINCIPLES OF SCIENTIFIC MANAGEMENT

Taylor through his principles of scientific management initiated a system in which there would be an effective and fruitful co-ordination and co-operation between the management and the workers.

1. **Development of science for each element of work.** Analyse the work scientifically, rather than using thumb rule. It means that an attempt is made to find out what is to be done by a particular worker, how he is to do it, what equipment will be necessary to do it. This information is provided to the worker so as to reduce wastage of time, material etc. and improve the quality of work.
2. **Scientific selection, placement and training of workers.** This principle states that select the workers best suited to perform the specific tasks, and then train them within the industry in order to attain the objectives of the enterprise. This eliminates the possibility of misfits in the organisation and ensures better working. Workers should also be trained from time to time to keep them informed of latest development in the techniques of production.
3. **Division of Labour. (Separation of planning function from doing function).** Division of work in smaller tasks and separation of thinking element of job from doing element of the job. This is the principle of specialisation. It is essential for efficiency in all spheres of activities as well as in supervision work. To be more effective and efficient, Taylor, the founder of scientific management introduced functional organisation, in which one foreman was made in charge for each function.
4. **Standardization of methods, procedures, tools and equipment.** Standardisation helps in reducing time, labour and cost of production. The success of scientific management largely depends upon standardization of system, tools, equipments, and techniques of production.
5. **Use of Time and Motion Study.** Taylor introduced time and motion study to determine standard work. Taylor undertook studies on fatigue incurred by the workers and the time necessary to complete the task.

Taylor suggested that for increasing production rate, the work of each person should be planned in advance and he shall be allotted a definite work to complete by a given time by using a predetermined method.

6. **Differential Wage System.** Taylor's Differential Piece Rate Scheme provides an incentive for a worker to achieve high level of optimum output. It distinguishes the more productive workers from less productive workers and motivates them to produce more. Taylor believed that if labour is suitably rewarded and is satisfied with job, he will work whole heartedly to achieve the objectives of the enterprise.

7. **Co-operation between Labour and Management.** Scientific management also strives to get the thinking of management changed so as to make the management feel that mutual respect and co-operation between the workers and the management helps in providing proper and effective leadership. The labour starts thinking that it is their work and they must put their heart and soul in the work assigned to them. In fact the main job of scientific management is to revolutionize the mind of both workers and management for mutual benefit and also for the benefit of the enterprise.

8. **Principle of Management by Exception.** In order to make effective utilisation of time of top managers, Taylor suggested that only major or significant deviations between the actual performance and standard performance should be brought to the notice of top management. Top management should pay more attention to those areas of work where standards and procedures could not be established and where there is a significant variation between standard performance and actual performance.

8.6. ADMINISTRATIVE MANAGEMENT THEORY (HENRI FAYOL AND OTHERS)

Administrative theory of management was initiated by H. Fayol, a French Engineer-cum-Manager in Europe. Sheldon, Mooney and Reiley, H. Simon, L.F. Urwick, L. Gulic, C.Barnard were the followers of Fayol and they contributed a lot to the administrative theory of management. H. Fayol is called as a father of Modern Management. He established the pattern of management and the pyramidal form of organisation. He pointed out that technical ability is more dominating on the lower level of management whereas managerial ability is more important on the higher level of management.

Henri Fayol analysed the process of management and divided the activities of an industrial undertaking into six groups :

1. Technical activities (production, manufacture, adaptation)
2. Commercial activities (purchasing, selling and exchange)
3. Financial activities (optimum use of capital)
4. Security (protection of property and persons)
5. Accounting (stock taking, balance sheet, costing, statistics)
6. Managerial (planning, organising, commanding, co-ordinating and controlling)

In 1916, H. Fayol described a number of Management/Organisation principles in his book–General and Industrial Management. These principles constitute the theory of management or administration of business enterprises. They are as described below :

1. **Division of Work.** This is the principle of specialization. Division of work should be according to work, department, job etc. Both technical and managerial activities can be performed in the best manner only through division of labour and specialization. It can ensure maximum productivity and efficiency in all spheres of activity.

2. **Authority and Responsibility.** The right to give order, the right to command, is called authority. The obligation to accomplish objectives or expected results or performance is called responsibility. They are inter-related and exist together. In any management process, delegation of power, utilisation of authority and fixation of responsibility are key to success.

3. **Discipline.** No organisation can work smoothly without discipline, it is the very core of administration. The rules, regulations, policies and procedures must be honoured by all the members

of organisation. Discipline is imposed by administration. It requires good superiors at all levels, clear and fair agreement on rules, regulations, procedures. There must be penalties (punishment) for non-obedience or indiscipline.

4. **Unity of Command.** In order to avoid confusion and conflict, each individual should receive orders and instructions only from one superior and should be accountable to one superior only. Unity of command provides responsible leadership, better guidance and direction, good co-ordination and disciplined performance.

5. **Unity of Direction.** All members of an organisation must work together to accomplish common or same objectives. Their efforts shall be directed towards one common super goal.

6. **Emphasis on Subordination of Personal Interest to General or Common Interest.** It means that the common interest of the organisation must be given more importance than the interest of the individual. The organisation will collapse when personal interest become supreme than the general interest.

7. **Adequate Remuneration to Personnel.** The persons working in the organisation should be paid suitably and adequately. This will help to maintain their interest in the work and the enterprise. Exploitation of employees in any manner must be eliminated. A wage policy should be based on adequate financial and non-financial incentives.

8. **Centralisation.** The decision for centralisation would naturally vary from organisation to organisation. However, there must be a good balance between centrilisation and decentralization of authority and power. Extreme centralization and decentralisation must be avoided.

9. **Scaler Chain or Line of Authority.** An organisation chart should be prepared for better communication and effective co-ordination. It shows the flow of authority and responsibility from top to bottom.

10. **Order.** "A place for everything and everything in its place" is a best norm for material management, which also holds goods from management of men also, that is, 'a place for everyone and everyone in his place'. This is essential for successful execution of orders received from the top. Order or system alone can create a sound organisation and efficient management.

11. **Equity.** An organisation consists of human beings, a group of people working together for some common objectives of the enterprise. Hence, there should be equity, justice and kindness on the part of managers to create loyalty and devotion among subordinates. Unbiased, meaningful and equal treatment should be the motto of a management in its relations with employees.

12. **Stability of Workers.** Security of income and employment is a pre-requisite of sound organisation and management. This will reduce unnecessary labour turnover, and increase efficiency by having stable working force.

13. **Initiative.** This principle allows subordinates to utilize their initiative. Initiative is a freedom to think plan and to execute. The employees should be allowed to take initiative, of course, under watchful eyes. Initiative brings self-confidence in a worker which is essential for improving efficiency of the organisation.

14. **Esprit de Corps (Team spirit).** According to this principle "Union is strength". Management should not adhere the principle of 'divide and rule' instead it should try to achieve co-operation and team spirit in the employees. Pride, loyalty, and sense of belonging is essential for efficient working and the prosperity of the organisation.

8.7. CONTRIBUTION OF FRANK GILBRETH

1. Frank Gilbreth and Lillian Gilbreth (1868–1924) did a lot of work in order to improve work methods and thus to discover best way of doing a job.
2. In 1917 Gilbreth defined motion study, "as the science of eliminating wastefulness resulting from

3. FORMS OF BUSINESS ORGANISATION

Ownership of business is represented by the right of an individual or a group of individuals to acquire legal title to assets for the purpose of controlling them and to enjoy the gains or profits from such possession and use. This right to acquire, enjoy and dispose property of business vests in private individuals or groups for firms in the private sector and in Government or other public bodies in the public sector.

The chief forms of ownership organization are :

(1) Sole Proprietorship,

(2) Partnership,

(3) Joint stock company.

3.1. SOLE PROPRIETORSHIP:

Sole proprietorship is a form of business Organisation in which an individual introduces his own capital, uses his own skill and intelligence in the management of its affairs and is solely responsible for the results of its operations. The individual may run the business alone or may obtain the assistance of employees. It is the first stage in the evolution of the forms of Organisation and is, thus, the oldest among them.

The following are the features of individual or sole-proprietorship :

1. Single ownership.
2. One-man control.
3. Undivided risk.
4. Unlimited liability.
5. No Government regulation.
6. No separate entity of the firm.

Evaluation : This form of Organisation is quite popular for a small-scale business, though for a large business the other forms are generally preferred. The reasons for this can be found in its merits and limitations.

MERITS :

1. **Ease of formation and dissolution:** It is, the most easily formed of all the forms of business Organisation. Any person enjoying the capacity to contract can set up such an Organisation. Dissolution, termination, or sale of the business is equally simple in the case of a sole-proprietorship. There are no legal formalities in this regard and all that the businessman has to arrange for is the satisfaction of creditor's claims. A sole proprietor may wash his hands off his business selling his interest to another person or association of persons.

2. **Direct Motivation:** The direct relationship between effort and reward serves as a powerful incentive to the proprietor to manage the concern efficiently. It encourages and induces him to put forth his best in the management of the business. He knows that any lapse on his part will mean loss of profits.

3. **Facility of co-ordination:** There is no problem of co-ordination. The proprietor himself has to decide everything and, therefore, he will not take a decision by which the various interests of the firm clash. Moreover, he knows his employees personally and, therefore, he is able to ensure that they work as a team.

4. **Promptness in decision-making:** Promptness in decision is another advantage of this form. As pointed out above, an individual entrepreneur need not consult others while deciding the affairs of his concern. This makes for quicker decisions by which he can take advantage of

the opportunities of gain arising from time to time.

5. **Flexibility in management:** If any change in business is called for, he does not have to consult anyone and, therefore, he will be able to make the change without delay. This gives flexibility to this type of Organisation. A good number of giant-size concerns fail on account of their inability to change their policies promptly to meet a change in the situation.

6. **Secrecy:** Secrecy can be maintained about business matters and, therefore, the proprietor will be able to take full advantage of any new ideas that occur to him. There is little risk of the competitors taking advantage of them.

7. **Credit Standing:** If an individual proprietor has enough resources (cash or investments) outside the firm, he will enjoy a favorable credit standing among suppliers and other firms and institutions dealing with him. The creditors will look forward to satisfaction of their claims out of his personal wealth. Thus his private resources will serve as a kind of second line of defense beyond the firm's assets as security for debts.

8. **Freedom from Government regulation:** Sole proprietorship is the least regulated form of business Organisation. "Restrictive laws on sole proprietorship generally are limited to those affecting all citizens as individuals." Of course a sole proprietorship does have to comply with tax and labor laws like other establishments but there is no legal regulation of formation or dissolution for this form of Organisation.

LIMITATIONS:

The advantages of an individual entrepreneur Organisation seem to suggest that one-man control is by far the most convenient and efficient for a business Organisation. But it would be proper to take stock of some of the limitations and drawbacks of this form of Organisation. These are :

1. **Limited finances:** The individual proprietor suffers from the limitation of financial resources. He can depend only on his own savings and it is neither safe nor easy for him to borrow much money from banks or other financial institutions. Therefore, the size of the firm must remain small. He cannot take advantage of a possible expansion in business which may bring him substantial economies.

2. **Limited managerial skill:** The managerial ability of the proprietor is limited. Modern business is full of complications specially due to the ever-changing nature of market, and the various laws that are being enacted. An individual may not be an expert in all matters and, therefore, sometimes his decisions may be unbalanced.

3. **Unlimited liability:** The liability of the owner is unlimited. Not only the assets of the business but also his private assets will be used to pay off the firm's debts. Therefore, when a man starts a business he may not really know the extent to which he is committing his private property. Unlimited liability also discourages the expansion of business.

L.F.
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4. **Uncertainty of duration:** The proprietary business comes to an end if anything happens to the proprietor. If the business is rendering useful service to the society the closure of such a business will be a social loss. Similarly, with the death of the proprietor, the business may pass on to successors who may not possess the same degree of self-reliance, drive and ability.

CONCLUSION:

From the account of the merits and limitations of an individual proprietorship given above, it can be concluded that one-man control of business would be most efficient and profitable if only that one man has the capacity to manage everything indefinitely. Unfortunately such a person does not exist. This form of enterprise is, therefore, suitable in the following cases :

7. **Division of Labour is not possible.** The owner as well as the worker has to perform variety of activities, therefore they cannot be specialized in a particular activity.

8. **No Economies of Large Scale.** Economies of large scale manufacturing buying and selling cannot be obtained on account of small size organisation.

3.4. PARTNERSHIP ORGANISATION

Sometimes the one man business reaches such a stage of development that it becomes impossible for one man to control the business and to contribute the necessary capital. The original entrepreneur may become too old for work. It would seem essential to take a younger person into a partnership to prevent the firm from decaying. Partnership may also be formed to start a new business altogether. Partnership is usually formed to combine capital, labour and varied specialised skills or abilities.

Partnership business is owned by two or more persons (up to 20) who share the powers, responsibilities and profits according to an agreement reached amongst themselves.

A person may possess exceptional business ability, experience, talent but no capital, he can have a financing partner. A financier may need a managerial expert as well as a technical expert and all of them may combine to set up a business with common ownership and management by mutual agreement to form a partnership business.

According to Indian Partnership Act 1932, Partnership is defined as, "the relation between two or more persons who have agreed to share profit of a business, carried on by all or any of them acting for all".

Formation. Partnership can be formed either verbally or by written agreement but to avoid the possibility of conflict at a later stage, it is advisable to enter into written agreement. The written agreement is known as "Partnership Deed". The partnership deed contains the terms and conditions relating to partnership and the regulations governing its internal management. It also lays down the rights and duties of the partners. The deed is a duly stamped and sealed document containing the terms of contract is also registered in a Court of Law. Thus, a partnership deed enjoys legal status and it serves as a legal evidence in future to settle any dispute or differences.

The partnership deed should have the following details :

1. Name of the Firm,
2. Nature of business,
3. Date of starting partnership,
4. Duration of partnership,
5. Rate of interest on capital invested, if any,
6. Money contributed by each partner,
7. Allotment of managerial functions among the partners,
8. Share of profit and losses,
9. Salary if any allowed to managing partners,
10. The basis for the inclusion of any new partners,
11. The amount which can be withdrawn by each partner,
12. The aim of partnership as well as the manner in which it can be dissolved,
13. Accounts of the firm and authority for signing cheques, bills of exchange, etc.
14. Provision for Arbitration for settling the disputes that may arise in future. In absence of any agreement, profits and losses are shared equally as per the provisions of the Indian Partnership Act, 1932.

The partners have to prepare a statement which will have the following particulars :

1. Name of the firm,
2. Place of business — principal place and branches, if any,
3. Name and addresses of all partners,
4. Date of joining the firm in case of every partner,
5. Duration, if any.

The statement should be duly dated and signed by all partners. It is required to be submitted to the Registrar of Firms along with necessary registration fees. All subsequent changes in the constitution of the partnership incoming and outgoing partners etc. will have to be communicated to the Registrar within 14 days of such alterations.

Types of Partners :

1. **General Partners.** All the partners who participate in the working of the firm and are responsible jointly with other partners, for all liabilities, obligations and defects of the firm are the general partners.

2. **Limited partners.** The liability for debts of the limited partners is limited to the extent of their contributed capital. They are not entitled to interfere in the administration of the firm.

3. **Active or Managing Partners.** Active partners are those who take active part in the management and formulation of policies. Sometimes they get salaries in addition to the normal profits as partners.

4. **Sleeping and Silent Partners.** They do not take any active part in the business. They simply contribute their capital in the business and get their share in the profit of the firm. They are liable for all liabilities of the firm as partners.

5. **Nominal Partners.** They lend their reputed name for the company's reputation. They do not invest money and do not take any active part in the management.

6. **Minor Partners.** Minor partners are those whose age is below 18 years and associated with the business. Such partners can be allowed only with the consent of other partners. Their liability is limited to their investment only. Within six months of attaining the age of majority, they have to give public notice about their desire to serve or continue their connection with the firm. In such case they will be regarded as full-fledged partners with unlimited liability.

Advantages :

1. **Easy formation.** The formation of partnership is easier as compared to joint stock companies. Voluntary mutual agreement is enough to start the partnership. Procedure for registration is simple and also registration is not compulsory.

2. **More Capital.** Two or more partners combine their resources in partnership, therefore, the amount of capital is larger as compared with individual ownership.

3. **Diverse Talent.** In this type of organisation persons possessing different abilities and skills may come together. Persons having good ideas and experience of business make partnership with rich people. Thus money and knowledge both are combined to earn profit.

4. **Less Possibility of Error of Judgement.** A problem is examined from more than one point of view, therefore the decision arrived at is likely to be sounder than in one man business.

5. **Prompt Decisions.** There are limited number of partners who are in continuous and intimate touch with each other. Therefore prompt decisions can be taken. It can decide on a suitable course of action before it is too late.

6. **Large Economics.** As compared in individual ownership, the advantage of division of labour, specialization standardization and economics of large purchasing are more.

7. **Personal Factor.** Partnership can maintain personal relationship with employees and the customers.

8. **Divisions of Labour.** The partners can divide the work among themselves on the basis of their personal capabilities. Therefore they can run the business more efficiently.

9. **Simple Dissolution.** The partnership business can be dissolved easily. The partnership is purely voluntary association.

It can be dissolved by giving 14 days notice to other partners.

10. **Cautious and Sound Approach.** As the private property of every partner is constantly in danger

of meeting all business obligations of the firm, partners will have to think twice before undertaking any highly speculative/risky business.

The unlimited liability can also act as the best security for raising loans or advances because private property of all partners can be used as additional security in addition to the property and assets of partnership organisation.

Disadvantages :

1. **Unlimited Liability.** Because of unlimited liability any one partner can be held liable for the whole debt of the firm. This frightens away the moneyed people. They are reluctant to join those who have ability, skill but no capital.

2. **Short Life.** After the death or retirement of any one partner, the partnership may come to an end.

3. **Insufficient Capital.** It can raise much less capital as compared to joint stock company. This prevents the expansion of the business to take advantage of increased demand.

4. **Disagreement.** Some times due to misunderstanding friction may arise between the partners which adversely affects the efficiency and expansion of the business.

5. **Less Secrecy.** A partner may withdraw from the firm and establish his own enterprise with the knowledge of the secrets of the business.

6. **Non-Transfer of Partnership.** No partner can transfer his interest in the firm to any body without the unanimous consent of other partners.

7. **No direct relation between efforts and rewards.** The profits are shared by the partners. So, there is no incentive for hard working. Sometimes it encourages lavish expenditure.

8. **Lack of Public Confidence.** As the financial matters are strictly confined to partners only, and in absence of any strict legal control over the affairs of partnership, there is much less Public confidence in partnership. It creates suspension in the mind of the outsiders who are dealing with firm.

Suitability of Partnership. Partnership is an ideal form of organisation for small scale and medium size business where there is a limited market, limited risk of loss and limited capital and limited specialisation in management is needed. Examples are :- wholesale trade, retail trade, commercial forming, small scale industries, local enterprises, warehousing, transport services, professional services, marketing services etc.

3.5. DISTINCTION BETWEEN INDIVIDUAL OWNERSHIP AND PARTNERSHIP

Parameter	*Individual Ownership*	*Partnership*
1. Membership	Individual Owner (One Man Business)	Minimum 2 250 Maximum 50
2. Formation	No agreement is required for its formation.	An agreement (Partnership Deed) is required for its formation.
3. Capital	Limited capital contributed only by the owner.	Comparatively large capital contributed by number of partners.
4. Registration	Not necessary	Registration is necessary under the Partnership Act 1932.
5. Risk/Profit	Individual owner has to bear the risk and enjoys the entire profit.	Risk spread out amongst the partners. Profit is shared according to the agreement reached between themselves.
6. Management	Individual owner has to manage the entire business.	The management of the business is shared by the partners.
7. Secrecy	The individual entrepreneur can easily maintain the secrets of	A partner may withdraw from the firm and establish his own enterprise

		the business.	with the knowledge and secrets of business.
8.	Soundness of decisions	An individual owner may not be expert in all aspects of business hence sometimes his decisions may go wrong.	The problem is examined from more than one point of view hence decisions arrived are likely to be sounder.
9.	Suitability	Suitable for small scale business.	Suitable for small as well as medium scale business.
10.	Division of Labour	Not possible	The partners divide the work among themselves. Division of labour is thus possible to some extent.

3.6. JOINT STOCK COMPANY

The industrial revolution brought about a radical change in the system of production and commerce. With the introduction of factory system, large-scale organisation and mass scale production came into being. With the change in the scale of production from small scale to large scale and with the widening of the market from local to national and international, the individual ownership and partnership firms with their limited capital, short life span, limited managerial skill and unlimited liability failed to meet the needs of the time. This resulted in the evolution of joint stock company. The companies are formed and registered under the Indian Companies Act, 1956.

In this type, capital is contributed by a large number of persons, in the form of shares of different values. Persons who purchase the shares are called shareholders, and the managing body known as "Board of Directors" is elected by the shareholders. The shares are transferable.

A simple but comprehensive definition of the company can be given as under :

"A Company is an artificial person having an independent legal entity and a perpetual succession with a distinctive name and a common seal having a common capital divided into shares of fixed value which are transferable and carry limited liability".

Characteristics of Joint Stock Company

The following are some of the characteristics of joint stock company :

1. A company is created by registering or incorporating an association of persons under the Company Act.
2. It has a separate legal existence as distinct from its members.
3. Artificial personality enabling it to exercise certain legal powers.
4. Perpetual life and a very stable existence.
5. It has a common seal on which its name is engraved and this common seal acts as its signature. It is affixed on all important legal documents and contracts.
6. There is a complete separation of ownership from management.
7. Liability of shareholders is limited.
8. Lower tax liability.
9. Easy transferability of shares.
10. There is a wide distribution of risk of loss.
11. Large membership.
12. Statutory regulations as provided in the Indian Companys' Act, 1956.

Joint Stock Company (Definition) :

The joint stock company is legal business owned by the shareholders having limited liability, and managed by an elected "Board of Directors". The most important type of business organisation today is the joint stock company. Infact, a business on respectable scale can be organised only in this manner.

Formation of Joint Stock Company. An entrepreneur (promoter) prepares a scheme of business, he secures the co-operation of at least six more persons, because the minimum number of persons to form a company is seven. The promoters of the company prepare the following documents :

(a) Memorandum of Association.

(b) Articles of Association.

(c) A List of persons who have consented to be the Directors of the Company along with the consent in writing of such persons.

(d) A declaration by an advocate to the effect that all the requirements of the Act have been fulfilled.

(e) Name and address of promoters.

The memorandum of association contains :

1. The name of the Company.
2. Its aim and objectives.
3. The location of head office.
4. The amount of share capital.
5. The kind and value of each share.
6. A declaration that the liability is limited.

Articles of association contains. Rules and regulations governing the internal management of the company. The rights of the shareholders, Duties, Powers of Directors, Regulations regarding rights to vote and issue of capital etc.

These documents are then submitted to the Registrar of joint stock company. If the Registrar is satisfied that the requirements of the law have been fulfilled, he issues a certificate of incorporation. The company then comes into existence.

Raising Finance. Funds can be taken from banks and finance corporations etc. in the form of loans, or selling shares and debentures.

Managing the Business. The shareholders elect the directors to manage the business on their behalf. The board of directors only lays down the general policy and discusses major issues. The day-to-day business is carried on by the salaried manager or the Managing Director.

Organisation Structure. The organisation structure of the joint stock company is as follows :

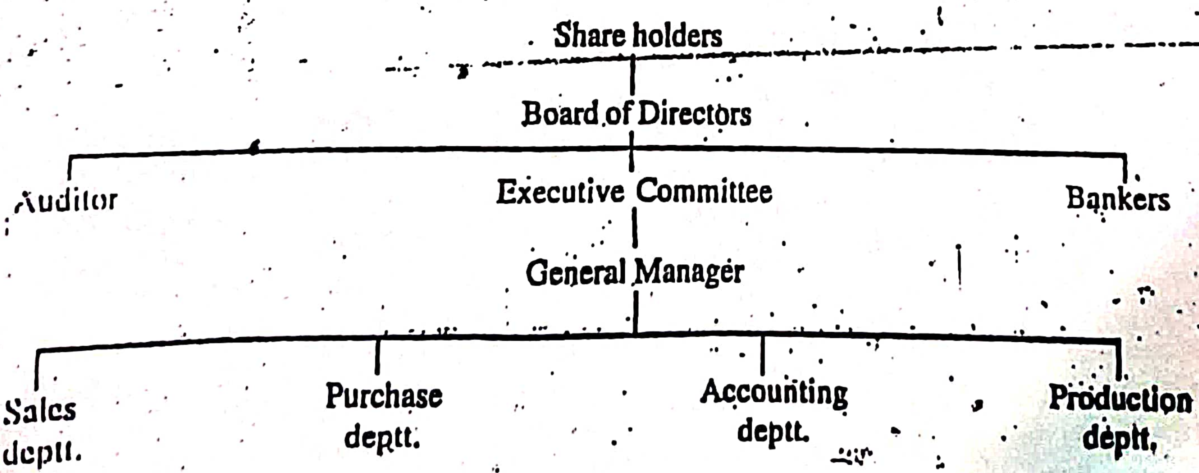

Fig. 3.1. Organisation structure of Joint Stock Co.

Types of Joint Stock Company. There are two types of Joint Stock company :

1. Private Limited Company and
2. Public Limited Company.

Private Limited Company.

This type of company can be formed by two or more members. The maximum number of members is limited to 50 (excluding the employees). The company is registered under the Indian Companys Act, 1956. The transfer of share is limited to members only and general public cannot be invited to purchase shares.

Normally, the members of such company are friends or relatives. In this system persons who want to take the advantage of limited liability and at the same time keep the business as private; forms the private limited company. Most of the middle sized industries are run in this manner.

The company need not circulate the Balance Sheet, Profit and Loss Account etc. among its members; but it should hold its annual general meeting and place such financial statements in the meeting. A Private Ltd. Company enjoys a separate legal status, continuity of life, benefit of limited liability, larger capital raising power, business secrecy to certain extent and above all the number of privileges and exemptions (not possible for public company) as per Companies' Act.

Public Limited Company. As its name indicates, the membership of public limited company is open to general public. The minimum number of persons required to form a public limited company is seven, but there is no upper limit. Such companies can advertise, to offer its shares to general public. Public limited companies are subjected to greater control and supervision of the Government. This control is necessary to protect the interest of the shareholders and the members of the public. Shares are transferable without any prior approval. The affairs of the company are managed by "Board of Directors".

Advantages of Joint Stock Company :

1. **Economies of Large Scale.** Joint stock company can take advantage of internal and external economies in buying and selling, lower overhead charges relating to distribution, publicity and administration, research and experiments etc.

2. **Limited Liability.** The shareholders have a limited liability. It is limited only to the value of their shares. In case the company fails the personal property of the shareholders cannot be attached by the creditors.

3. **Huge Capital.** The capital of the company is raised by the sale of shares. The value of each share is low, this attracts all sorts of people, rich and poor to invest their capital. Therefore, large amount of capital can be raised.

4. **Share Transferable.** When the shareholder needs money he can get it by selling his shares.

5. **Economies Administration.** The directors have not to be paid salaries but just a fee for attending the Board meeting. Thus, the company can get advice of persons of mature wisdom and good experience at a small cost.

6. **Democratic.** The directors are elected by shareholders in case the shareholders feel that the directors are not working properly they can be removed and new directors chosen in their places.

7. **Permanent Existence.** Any number of shareholders may leave it, but the company continues.

8. **Legal Control.** The Government exercises control over working of the company. The object is to prevent fraud and to protect the interest of shareholders and the public at large.

9. **Risk spread out.** There are large number of investors and secondly, an individual investor can buy shares of different companies and thus widely distribute his risk of loss.

10. **Mobilization of Scarce saving.** Limited liability, transferability of shares and unlimited membership makes the joint stock company a very effective instrument for mobilization of scarce saving of the society towards industrialization.

11. **Accelerated economic growth of the country is possible through industrialization.**

12. **It creates huge employment possibilities.**

Disadvantages :

1. **Dishonest directors may exploit the shareholders.** The transferability of shares kills the interest of the shareholders, therefore the directors are all in all, they can deceive the shareholders.

2. **Legal Complexities.** Its formation, functioning involves very large legal procedures.

3. **It is democratic in theory only.** Due to small capital of each shareholders, transferability of shares and since the shareholders are in different parts of the country, they do not take active interest in the affairs

of the company. Therefore, the real power to run and manage the business is in the hands of the directors. The directors, self elected at first manage to get themselves re-elected.

4. **Delay in Decisions.** The Board of Directors manages over affairs of a joint stock company and hence quick decisions are not possible. Moreover there may be disagreement among directors which may hamper the business.

5. **Favourisms.** The directors may show favourism by selecting their own persons for high posts.

6. **Difficult labour relations.** The owners of company have no personal touch with the employees. There are often labour troubles. Inspite of these disadvantages, business on a large scale can only be started and run successfully in this manner.

7. **Lack of initiative and personal interest.** Lack of personal interest on the part of salaried managers may lead to inefficiency and waste (because there is no direct relation between effort and income for them).

8. **Concentration of economic power and wealth in a few hands.**

9. **Misuse of internal information.** Misuse of internal information by the managing group in bringing wide fluctuations in the market price of equity shares is possible.

Considering both merits and demerits of the company form of organisation, it can be concluded that in the present day world, this form of business organisation is very essential for the industrial development of a country. In the absence of joint stock principle, the exploration of a country's natural resources and its economic and industrial development would not have been possible.

Liquidation. It becomes difficult to run joint stock company if liability becomes much more than assets and when creditors press for payment of loans. In such circumstances the company has to dissolve or wind up. This is known as liquidation.

Liquidation may be compulsory or voluntary or under the supervision of court. If the resources are not adequate to make the payment; then the assets of the company have to be sold. The amount thus collected is paid to the creditors in proportion of the credit. If some amount is left after payment it is distributed among the shareholders.

.8. COMPARISON BETWEEN PRIVATE AND PUBLIC LIMITED JOINT STOCK COMPANIES

Sr.No.	*Particulars*	*Private Limited Joint Stock Company*	*Public Limited Joint Stock Company*
1.	Membership	The membership is confined to the close friends and relatives of the promoters; they contribute their capital. They cannot invite public to share the capital.	The membership is open to the General Public. Any person interested can contribute and become shareholder.
2.	Limits to membership	The minimum number of members required is two, while the maximum number is limited to 50.	A minimum of 7 members are required to form the company. There is no limit to the maximum number of members.
3.	Election of Directors	There is no need of holding a statutory meeting to elect the director.	The statutory meeting has to be held and the shareholders elect the directors.
4.	Resale of shares	The shares cannot be resold or transferred without the consent of the company.	The shares can be resold or transferred without the consent of the company.
5.	Audit of Accounts.	There is no legal provision of the audit of company's account.	The accounts have to be audited legally and circulated among the members of the company.
	Minimum Capital	Can be started with any amount without any legal binding.	Minimum lay-down capital is legally required before starting the business.

7.	Name	It has to use words "Private Limited" at the end of its name.	It has to use only the word 'Limited' at the end of its name.
8.	Number of Directors	It has to have minimum 2 directors.	It has to have minimum 3 directors.
9.	Legal Control	There are less legal controls.	Regulations are more strict.
10.	Remuneration of Directors	Restrictions are less for Directors' Remuneration.	Remuneration of Directors is restricted to 11% of the net profits.

3.9. DISTINCTION BETWEEN PARTNERSHIP AND JOINT STOCK COMPANY

Partnership	*Joint Stock Company*
1. In a partnership firm, the liability of the members is unlimited.	Liability is limited to the value of their share.
2. Minimum number of partners is 2, and maximum number is 20.	In private limited company minimum number of shareholders is 2 and maximum number is 50. In public limited company minimum number of members is 7 and there is no maximum limit.
3. A partnership firm has no separate legal entity.	A joint stock Co. has a legal existence.
4. Limited capital.	Large amount of capital can be collected.
5. It is managed by the partners.	It is managed by the elected board of directors.
6. The partners cannot transfer his share without the consent of all other partners.	In public limited company the shares are transferable; but not in private limited company.
7. It has short life. The partnership may come to an end due to death or retirement of any partner.	It has permanent/perpetual existence.
8. It can be started very easily. Procedure for registration is simple and moreover registration is not compulsory.	Its formation, functioning involves very large legal procedures.
9. Selfish attitude among partners may create difficulties in business.	Smooth and efficient management is possible as it works on the democratic principles.
10. There are no restrictions of keeping detailed accounts and they are not required to be submitted to Govt.	It has obligation to keep detailed accounts of business and present the balance sheet and audit report (by some authorized Chartered Accountant) to the Government.
11. It is governed by the Partnership Act, 1932.	It is governed by the Indian Companies Act of 1956

3.10. CO-OPERATIVE ORGANISATIONS (SOCIETIES)

Small scale and cottage industries were gradually replaced by large scale industries as a result of Industrial Revolution. The wealth began to concentrate in few hands. It divided the society in to two classes— the capitalists and the poor. The capitalists tried to exploit the poor through long working hours, poor wages, bad working conditions etc. Similarly, with the expansion of market from the local to national and international boundaries, there appeared a very long chain of middlemen and intermediaters in the channel of distribution, trying to link the primary producer and the ultimate consumer. This created extraordinary differences in the two prices, producers price and the price at which ultimate customers get the product. The hardship suffered by exploited class compelled it to unite for their economic uplift through self and mutual help. The co-operative movement was evolved. The industrial co-operative and consumers co-operative societies were developed in Germany. Later on it spread all over the other countries of the world.

Definition of Co-operative Organisation. Co-operation is a form of organisation, wherein persons, irrespective of caste, creed and religion, voluntarily associate together, as human beings, on the basis of equality for the fulfilment of their common economic interests.

The International Labour Organisation gave a comprehensive definition of a co-operative organisation as follows :

Co-operative Society

Meaning

Any ten persons can form a co-operative society. It functions under the Cooperative Societies Act, 1912 and other State Co-operative Societies Acts. A co-operative society is entirely different from all other forms of organization. discussed above in terms of its objective. The co-operatives are formed primarily to render services to its members. Generally it also provides some service to the society. The main objectives of co-operative society are: (a) rendering service rather than earning profit, (b) mutual help instead of competition, and (c) self help in place of dependence. On the basis of objectives, various types of co-operatives are formed

a.Consumer co-operatives : These are formed to protect the interests of ordinary consumers of society by making consumer goods available at reasonable prices. Kendriya Bhandar in Delhi, Alaka in Bhubaneswar and similar others are all examples of consumer co-operatives

b. Producers co-operatives : These societies are set up to benefit small producers who face problems in collecting inputs and marketing their products. The Weavers co-operative society, the Handloom owners cooperative society are examples of such co-operatives.

c. Marketing co-operatives : These are formed by producers and manufactures to eliminate exploitation by the middlemen while marketing their product. Kashmir Arts Emporium, J&K Handicrafts, Utkalika etc. are examples of marketing co-operatives.

d. Housing Co-operatives : These are formed to provide housing facilities to its members. They are called co-operative group housing societies.

e. Credit Co-operatives : These societies are formed to provide financial help to its members. The rural credit societies, the credit and thrift societies, the urban co-operative banks etc. come under this category.

f. Forming Co-operatives : These are formed by small farmers to carry on work jointly and thereby share the benefits of large scale farming.

Besides these types, other co-operatives can be formed with the objective of providing different benefits to its members, like the construction co-operatives, transport co-operatives, co-operatives to provide education etc.

Characteristics:

1.Voluntary association : Individuals having common interest can come together to form a co-operative society. Any person can become a member of such an organisation and leave the same.

2. **Membership** : The minimum membership required to form a co-operative society is ten and the maximum number is unlimited. At times the cooperatives. after their formation fix a maximum membership limit.

3.**Body corporate** : Registration of a society under the Co-operative Societies Act is a must. Once it is registered, it becomes a body corporate and enjoys certain privileges just like a joint stock company. Some of the privileges are:
(a) The society enjoys perpetual succession.
(b) It has its own common seal.
(c) It can own property in its name.
(d) It can enter into contract with others.
(e) It can sue others in court of law.

4. **Service Motive** : The primary objective of any co-operative organization is to render services to its members in particular and to the society in general.

5. **Democratic Set up** : Every member has a right to take part in the management of the society. Each member has one vote. Generally the members elect a committee known as the Executive Committee to look after the day to day administration and the said committee is responsible to the general body of members.

6. **Sources of Finances** : A co-operative organisation starts with a fund contribute by its members in the form of units called shares. It can also raise loans and secure grants from the government easily. One fourth of the profits of the co-operative are transferred to its fund every year.

7. **Return on capital** : The return on capital subscribed by the members is in the form of a fixed rate of dividend after deduction from the profit.

Advantages of Co-operative Society:

1. **Easy Formation** : Formation of a co-operative society is easy as compared to a company. Any 10 persons can voluntarily form an association and get themselves registered with the Registrar of Co-operative societies.

2. **Limited Liability** : The liability of the members is limited to the extent of capital contributed by them.

3. **Open Membership** : There is no restriction on any individual to be a member of any co-operative.

4. **State Assistance** : Co-operatives get a lot of patronage in the form of exemptions and concessions in taxes and financial assistance from the state governments which no other organisation gets.

5. **Middleman's Profit Eliminated** : Through the co-operative the consumers

control their own supplies and by this means the middleman's profit is eliminated.

6. Management : A co-operative functions in a democratic manner. Each member has only one vote.

estable like

7. Winding up : The dissolution of a co-operative firm is quite difficult. It does not cease to exist in case of death, or insolvency or resignation of a member. It has thus a fairly stable life.

Disadvantages of Co-operatives :

1.Limited Capital : The amount of capital that a co-operative can generate is limited because of the membership remaining confined to a locality or region or a particular section of people.

2. Problems in Management : Generally it is seen that co-operative do not function efficiently due to lack of managerial talent.

3. Lack of Motivation : Co-operatives are formed to render service to its members than to earn profit. This does not provide enough motivation to manage the co-operatives effectively.

4. Lack of Co-operation : Co-operatives are formed with the very idea of co-operation. But, it is often seen that there is lot of friction and bickering among the members due to personality differences, ego clash etc.

5. Lack of Secrecy : Maintenance of business secrecy is one of the important factors for the success of enterprise which the co-operatives always lack.

6. Dependence on Government : The inadequacy of capital and various other limitations make co-operatives dependant on the government for support and patronage in terms of grants, loans and subject themselves to interference.

PUBLIC SECTOR

The Public Sector is usually comprised of organizations that are owned and operated by the government and exist to provide services for its citizens. Similar to the voluntary sector, organizations in the public sector do not seek to generate a profit.

Funding for public services are usually raised through a variety of methods, including taxes, fees, and through financial transfers from other levels of government (e.g. from a federal to a provincial or state government).

Different governments from around the world may employ their own unique method of funding for public services.

For example, in Canada a Crown corporation is an enterprise owned by the Crown (or Queen) but still has the ability to function like a private enterprise. The BC Lottery Corporation is a provincial Crown corporation and in 2013/14 generated $1.17 billion dollars of net revenue that it was able to directly invest back into BC's provincial economy.

Sometimes the public sector will partner with an organization in the private sector to create a public-private partnership. These hybrid organizations (named *P3s*) work together to jointly deliver a service or business venture to a community (see examples).
Through the process of outsourcing, public sector organizations will often engage private enterprises to deliver goods and services to its citizens.

Examples of the Public Sector

Examples of organizations in the public sector include:

- ~~Education (Schools, Libraries)~~
- Electricity
- Emergency Services
- Fire Service
- Gas and Oil
- Healthcare
- Infrastructure
- Law Enforcement
- Police Services
- Postal Service
- Public Transit
- Social Services
- Waste Management

Levels of Government

Public sector organizations usually exist at three levels:

- Federal or National
- Regional (State or Provincial)
- Local (Municipal or County)

Trends in the Public Sector

In the United States, researchers Keith Hall and Robert Greene state that since the beginning of the Great Recession, the private sector has been shrinking while the public sector has been growing in most states
In Canada, the public sector is also 'crowding out' private job growth.
In the United Kingdom, the opposite seems to be true: the private sector is growing while the public sector is shrinking. private sector is growing while the public sector is shrinking.