CHAPTER–30

LARGE SCALE BUSINESS ORGANISATIONS

H1R4K9

After studying this chapter you would :

- Recognise the importance and salient features of large scale business organisations.
- Understand the principles, types, merits and demerits of co-operative societies.
- Understand the formation, structure, merits and demerits of Joint-Stock companies.
- Analyse the features, merits and demerits of multinational companies.

Sole Trading concerns, Partnership firms and Hindu undivided family business organizations suffer from the problems of inadequate capital stock of managerial skills, lack of continuity and lack of unlimited liability. To overcome these problems large scale business organizations came into existence. The important large scale business organization are :

1. Co-operative Societies 2. Joint Stock Companies
3. Multi-National Companies.

1. CO-OPERATIVE SOCIETIES

They are one of the business organisations found all over the world. They are voluntary organizations started by economically weaker sections of the society with the motive of organising and rendering service to its members. The first co-operative society was started by Robert Owen in the year 1844 at Rochdale in England. It was a consumer Co-operative society. Generally these societies are started to achieve the economic progress of the people who join on the basis of equality. These societies free their members from economic exploitation. eg. 1) farmers join together and start a Credit Co-operative Society to avail loans at a lower rate of interest and free themselves from the clutches of local money lenders.

2) Co-operative marketing societies are started by small producers in order to save themselves from the clutches of the middlemen. They manage to get due prices for their produce.

Formation of Co-operative societies : In India formation of Co-operative societies is governed by the provisions of Co-operative Societies Act of 1912 or the state government. Acts which are in force in different states.

To form a Co-operative society, there must be a minimum of members. They must live in the same locality or must belong to same class or must have engaged themselves. In same occupation and must have common economic necessity. These members are called promoters. They prepare an application in prescribed form and submit it to the Registrar of Co-operative societies of the District where the society has to be established along with the prescribed fees. The application should contain the following information.

1. Proposed name of the society
2. Address of the society
3. The aims and objectives of the society
4. The area of its operation
5. Particular of share capital proposed to be raised
6. The co-ordination of the members etc., must be written clearly.

These are called Bye -laws of the society and they should be submitted to the Registrar of Co-operative societies of the districts. Receipt of the application the Registrar will thoroughly examine the details and if he is satisfied, will issue a certificate called the Certificate of Registration. On receipt of the Certificate of Registration, the society comes into existence.

General features of Co-operative Societies

1. They are voluntary organizations.
2. The membership is open to all adults (above 18 years) irrespective of caste, religion, creed and gender inequality.
3. There is no upper limit for membership.

4. There is democratic management. All the members attend the General Body Meeting and each member has one vote irrespective of share of capital invested (not less than 6.25%) Profit is distributed inproportion to the share of their capital equally among all the members.
5. Their status and management are supervised by the
6. One portion of the profit is transfered to general fund.

Types of Co-operative societies

1. Credit Co-operative societies.
2. Marketing Co-operative societies.
3. Producers Co-operative societies.
4. Consumers Co-operative societies.
5. Farmers Co-operative societies.
6. House building Co-operative societies.
7. Co-operative societies for different services such as – supply of drinking water, improvement of education, etc.

Advantages of Co-operative societies : It is easy to form Co-operative societies. There is no need for heavy capital. There is no discrimination among the members. All the members have equal rights and responsibilities. It runs on democratic principle. Each member has one vote. The liability of the members is limited. They help the members to develop habits of thrift (savings). The Co-operative societies are via media arrangements between capitalism and socialism. The main motto of the Co-operative societies is "One for all and all for One"

Demerits of Co-operative societies : The societies have limited capital resource. So large scale business is not possible. It is very difficult to get suitable staff. There are chances of mismanagement and misuse of money; corruption and favouritism.

Co-operative Movement in India

The Co-operative Movement was started in India by passing the

Co-operative Act in 1904. An act was passed in 1912 and registration was made compulsory. After independence under Five Year Plans the Co-operative societies came to prominence. Today we have about eight lakh Co-operative societies in our country. In Karnataka state the first Co-operative society was started at 'Kanaginahala' in Gadag Taluk now a District. The Bangalore City Central Co-operative society was started in 1905. Dharwad district of our state gave more importance top prominence to Co-operative movement and hence Dharwad district is called "The cradle of Co-operative movement".

2. JOINT STOCK COMPANIES

Joint stock companies Act of 1956. regulates the formation, extension, functioning, and liquidation of Joint stock companies in India. According to Joint Stock Companies Act of 1956 a Joint stock company is defined as a business organization created by law, having a separate legal entity with a perpetual succession and a common seal. Heney defines Joint stock companies as "a voluntary organisation of individuals for profit having its capital divided into transferable shares. The ownership of which is the condition of membership"

Types of Joint Stock Companies

1. Chartered company
2. Statutory company
3. Registered company
4. Companies limited by shares
5. Companies limited by guarantee
6. Unlimited companies
7. Public limited companies and private limited companies.
8. Foreign company
9. Holding Company.
10. Undertaken company.

Promotion of a Joint stock company

The promotion of a Joint stock company includes different stages. They are :

1 Promotion / Formation

2 Registration or Incorporation

3 Capital subscription / Collection of share capital.

4 Commencement of business

1. Promotion stage : It is the first stage in the formation of a Joint stock company. Some persons join together with a view to start a company. They are called Promoters. They collect all the information regarding formation, promotion, financial requirement and others. They prepare necessary documents like Memorandum of Association, Articles of Association and Prospectus for Registration. They submit these documents to the Registrar of companies for Registration. They take necessary steps to pool the share capital in case of public companies. They follow up the process to obtain Certificate of Incorporation. These promoters work as first directors to formulate the company.

2. Registration : For public companies, a name has to be chosen. This name should not be identical to any existing company and should not have the implication of the patronage of the government company. The promoters then submit the requisition letter along with the written documents such as Memorandum of Association and Articles of Association to the Registrar along with prescribed stamp duty. The document must be signed by the first seven directors. It should contain the name of the company, the names of first seven directors, their addresses, their consent to act as first directors along with two witnesses. A Chartered Accountant or practising advocate of supreme court must countersign it stating that all the required formalities are fulfilled. The Registrar of companies verifies all the details and documents and after getting convinced, registers in the Register of corporation of companies and issues the Certificate of Incorporation.

The important documents required for the formation of a Joint Stock company are Memorandum of Association and Articles of Association. In case of public limited companies prospectus is issued to the public to pool the share capital.

The Memorandum of association contains the aims and objectives of the company, the different types of shares, the ways of subscription, etc. The Articles of Association contains the rules and regulations regarding the administration of the company.

3. Capital subscription stage : After receiving the Certificate of Incorporation, the directors issue prospectus to the public. With this the capital subscription to the company starts. A private limited company can not issue prospectus but in lieu of prospectus a statement is submitted to the Registrar.

4. Commencement of business : Even after raising the capital, a public limited company, cannot commence business. In order to commence business it should get a Certificate called "Certificate to Commence the business" from Registrar and only after obtaining this certificate the company can start its business.

Merits of Joint Stock Companies

1. The liability of share holders is limited. That means when company incurs any loss or unable to clear the debts to the creditors, the liability of share holders is limited to the extent of their share amount.
2. There is no limit for share holders in the public limited companies, hence there is a possibility of raising more capital.
3. The shares in public limited companies are freely transferable. It encourages the public to come forward or invest their money in companies.
4. A Public Joint Stock company has a perpetual succession. The death or insolvency of any director or member does not lead to the dissolution of the company for there is legal protection for the company.
5. There is a large capital investment and managerial ability; so it is possible to run large scale business.

6. Large scale production helps for goods to be produced at lower cost and can be sold competitive prices.
7. The public limited companies provide employment to a large number of people. Habits of thrift is also encouraged among the people.
8. The companies contribute to the economic development of a nation by paying taxes and duties to the government.
9. Administration is carried on by the experts.
10. Joint Stock Companies help a country to earn more foreign exchange. It adds to the national income.

Demerits of a Joint Stock Companies.

1. The formation of a joint stock company is expensive and it is required to fulfil many formalities. The process is difficult and cumbersome.
2. The share holders are the real owners of the company. But they do not take active part in the affairs of the company. The Directors only look after the day- to-day affairs. Large number of share holders do not attend the annual general body meetings.
3. There is no personal contact between the owners and the workers.
4. Limited liability may lead the directors to take wrong decisions.
5. The powers of the company are vested with only a few people. Many a time they act like dictators.
6. Many a time these Joint Stock Companies try to control the government also.

3. MULTINATIONAL COMPANIES (MNC's)

Multinational companies took their birth as early as by 1860. It means they became popular after the Second World War. In the early days U.S.A was the homeland of these companies. Later on a large number of such companies emerged in European countries and Japan. Today multinational companies have developed even in developing countries.

South Korea has a number of multinational companies like Samsung and Hyundai; Indian companies such as Tatas, Birla, Infosys, Wipro etc., have become multinational companies.

Meaning and explanation of Multinational companies

A Multinational company owns and manages business in two or more countries. According to ILO (International Labour Organisation) report, the essential management of the multinational enterprises lies in one country and they carry on their business in a number of other countries e.g. Sony (Japan) Coca-cola (USA), Samsung (S. Korea), Hindustan lever (U.K), Philips (Holland), Glaxo (U.K), etc.

Features

1. They are large companies. Their assets and transactions are also of large scale.
2. They operate their business at least in six countries.
3. They produce goods even in the countries where they operate their business.
4. They have centralised control from head office.
5. They have production, marketing and other facilities in several countries.
6. They play an important role in International Trade.
7. They provide technological facilities in the countries which come under their preview.

Advantages for Home country

1. They obtain raw materials from host countries at low prices.
2. They may also obtain the technological and administrative skills from host countries.
3. They export raw materials and finished products to host countries thus their profit is more.
4. It is possible to earn ample income through profit, royalty and through administrative agreements with host countries.
5. They create more employment opportunities in the home country.

Advantages for depending or host countries

1. The capital investment increases even in host countries.
2. If the host countries are developing countries, the home country provides technology and through administrative procedures, it causes a revolution.
3. The host countries are helped by the increase of exports and decrease of imports.
4. It is possible to produce high quality products.
5. The important opportunities to increase in host countries, Research and developments are promoted in host countries.
6. They help the utilisation of internal resources.

Demerits of Multinational companies.

Home country gets lion's share in the profits. They develop dominance in host countries. The competition in host countries may vanish and monopoly of multinational companies may increase. There are many complaints against these companies that they are not respecting human rights. There is a chance for reduction of natural resources in host countries. Many a time they follow unscrupulous methods to avoid paying taxes. The habits of the people change in host countries. eg - Coca-Cola. They exploit the labour force in host countries. Many a time they do not transfer technology in a proper way. They try to interfere in the political affairs of the nation.

The industrial policy of our government restricted the foreign investment in our country till recent times. But since the economic liberalization policy of India in 1991, many Multinational companies have started their operations in India. At the same time, a number of Indian firms also have become Multinational companies. e.g. WIPRO, INFOSYS, In India, about 40 MNC are working as of now.

So far we have learnt in brief about Sole trading concerns, partnerships, Hindu undivided business firms, Co-operative societies Joint stock companies and Multinational companies which come under private sector. Besides this, we have. Government undertakings, Public sector undertakings and Public utilities.

Government undertakings : These are owned by the government for the public purpose. They are controlled and managed by the government. A Department of government under the control of a minister run these undertakings. They are started either by Central Government or by State Government or Local self Government. e.g. - Mining, Metallurgy, Ship building, Aeronautics, etc.

Public sector undertakings : These are under the control of public and government. eg - Gujarat Fertilizers, Cochin Refineries etc.

Public utilities : These are also government undertakings but they are established to provide essential products or services to the public. They do not intend to earn profits. e.g. - Cooking gas, water, electricity, railways, posts, telegraphs etc.

Stock Exchanges

The capital of a joint-stock company is divided into small units called shares. The joint stock companies can also raise capital through issue of debentures. There is a provision to sell and buy these shares and debentures. The share or debenture holders can sell their shares or debentures at any time. For this purpose Stock Exchanges are established. In India the first share market was started in 1875 at Mumbai and even today, it is one of the prestigious stock markets in the world. The other stock exchanges are secondary share markets. Only the shares and debentures of listed out Joint stock companies can enter into these stock exchanges. Nowadays Kolkata and Bangalore stock exchanges facilitate to carry out their business through electronic media. All the stock exchanges are controlled by a Board called Securities Exchange Board of India (SEBI).

EXERCISES

I Fill in the blanks with suitable words :

1 The formation of co-operative societies is regulated as per The Indian Co-operative Act of _________.

2 The first co-operative society in the world was started by _________in_________(country).

3 The maximum number of members in co-operative societies is _________.

4 The co-operative societies come into existence after receiving _________from____________.

5 The First co-operative society was stated in Karnataka at_________.

6 The first stage of the formation a Joint stock company is_________.

7 The most important documents required to start Joint companies are _________and_________.

8 The Multinational companies were first started in_________ (country).

9 The examples of multinational companies with Indian origin are _________and_________.

10 The first share market was started in India at_________.

II Answer the following questions :

11 Give four examples of public utility service companies.

12 Mention any six features or characteristics of co-operative societies.

13 Mention the different types of co-operative societies.

14 List out the merits and demerits of co-operative societies.

15 Which are the stages to formulate Joint Stock Companies ?

16 Mention the advantages of Joint stock companies.

17 What are the advantages of multinational companies to home country?

18 What are the important functions of stock exchanges?

III Activity :

19 With the help of your teachers start a co-operative society in your school.

✲✲✲