6

Company Form of Business Organisation

You must be aware that during the second five-year plan period five steel plants were established in India's underdeveloped areas to give a boost to the industrialization of the country. Do you know who owns these steel plants? It is the Government of India. It has set up a Joint Stock Company known as Steel Authority of India Limited (SAIL) for this purpose. You must have also heard the names of State Bank of India (SBI), National Thermal Power Corporation (NTPC), Grasim Industries Limited (GIL), Reliance Industries Limited (RIL) and Tata Steel Limited. These are all big business units and organised in the form of Joint Stock Companies. In this lesson we shall learn in detail about the Joint Stock Company; its merits and limitations; and also discuss the factors that influence the choice of form of business organisation.

Objectives

After studying this lesson, you will be able to:

- explain the meaning and characteristics of Joint Stock Company;
- identify different types of Joint Stock Companies;
- differentiate between Public Company and Private Company;
- explain the merits and limitations of Joint Stock Company and its suitability;
- identify the factors influencing the choice of an appropriate form of business organisation;
- distinguish between Joint Stock Company and Partnership; Joint Stock Company and Cooperatives; and
- explain the concept of Multinational Corporation and identify its merits and limitations.

6.1 Joint Stock Company

In the previous lesson, you learnt in detail about four different forms of business organisation viz., Sole Proprietorship, Partnership, Joint Hindu Family Business, and Cooperative Society. You know that these forms are considered suitable for small and medium sized business. So if you want to set up a cement plant that requires a massive investment of crores of rupees, then what will you do?

You may think of forming a partnership firm for setting up the cement plant. But if you recall the limitations of Partnership form of business organisation, then definitely you will say- 'no'. Partnership may not be the suitable option for the business where huge capital investment is required. You know that there is a restriction on the membership of partnership, so it may not be possible to arrange the required amount of capital to set up a cement plant. Even if the people are capable of arranging the funds, nobody wants to take risk due to unlimited liability of partners. In such a situation company form of business organisation or Joint Stock Company may be the obvious choice whereby we can arrange large amount of capital easily from the members.

A Joint Stock Company or simply a company is a voluntary association of persons generally formed for undertaking some big business activity. It is established by law and can be dissolved by law. The company has a separate legal existence so that even if its members die, the company remains in existence. Its members contribute money for some **common purpose.** The money so contributed constitutes the **capital** of the company. The capital of the company is divided into small units called **shares**. Since members invest their money by purchasing the shares of the company, they are known as **shareholders** and the capital of the company is known as **share capital**.

In India, the joint stock companies are governed by the Companies Act, 1956. According to the Act, a company means 'a company formed and registered under this Act or an existing company'. An existing company means a company formed and registered under any of the previous Companies Acts. This definition is not exhaustive enough to reveal the basic features of the company. However, based on the definition given in the previous Companies Act and various judicial decisions, it can be defined as 'an artificial person created by law, having a separate legal entity, with a perpetual succession'.

6.2 Characteristics of Joint Stock Company

You are now familiar with the concept of a company. Let us now study its characteristics.

(a) **Artificial Person:** A joint stock company is an artificial person in the sense that it is created by law and does not possess physical attributes of a natural person. It cannot eat or walk, smile or marry, read or write. However, it has a legal status like a natural person.

(b) **Formation:** The formation of a joint stock company is time consuming and it involves preparation of several documents and compliance of several legal requirements before it starts its operation. A company comes into existence only when it is registered under the Indian Companies Act. We shall learn in detail about the formation of joint stock company in the next lesson.

(c) **Separate Legal Entity:** Being an artificial person, a company exists independent of its members. It can make contracts, purchase and sell things, employ people and conduct any lawful business in its own name. It can sue and can be sued in the court of law. A shareholder cannot be held responsible for the acts of the company.

(d) **Common Seal:** Since a company has no physical existence, it must act through its Board of Directors. But all contracts entered by them shall have to be under the common seal of the company. This common seal is the official signature of the company. Any document with the common seal and duly signed by an officer of the company is binding on the company.

(e) **Perpetual Existence:** The company enjoys continuous existence. Death, lunacy, insolvency or retirement of the members does not affect the life of the company. It goes on forever. Since it is created by law, it can only be dissolved by law.

(f) **Limited Liability of Members:** The company form of business is able to attract large number of people to invest their money in shares because it offers them the facility of limited risk and liability. The liability of a member is limited to the extent of the amount of shares he holds. In other words, a shareholder can be held liable only to the extent of the face value of the shares he holds, and if he has already paid it, which is normally the case, he cannot be asked to pay any further amount. For example, if 'A' holds one share of Rs. 100 and has paid Rs. 75 on that share, his liability would be limited only upto Rs. 25.

(g) **Transferability of Shares:** The members of the company (Public company) are free to transfer the shares held by them to others as and when they like. They do not need the consent of other shareholders to transfer their shares.

Stock Exchange provides ready market for purchase and sale of shares

(h) **Membership:** To form a joint stock company, a minimum of two members are required incase it is private limited company and seven members incase of public limited company. The maximum limit is fifty incase of private limited company. There is no maximum limit of membership for a public limited company.

(i) **Democratic Management:** You know that people of different categories and areas contribute towards the capital of a company. So, it is not possible for them to look after the day-to-day management of the company. They may take part in deciding the general policies of the company but the day-to-day affairs of the company are managed by their elected representatives, called Directors.

INTEXT QUESTIONS 6A

1. If all the members of a joint stock company die in a road accident, then the company will be closed down. Do you agree with this statement? Give reasons in support of your answer.

___

2. Name the following in reference to a joint stock company.

   (a) The smallest unit into which the capital of company is divided.

   (b) The Act that governs the joint stock companies in India.

   (c) The sum total of the money contributed by the members of a joint stock company.

   (d) The official signature of a joint stock company.

   (e) The elected representatives of the members who manage the day to day affairs of the joint stock company.

6.3 Types of Joint Stock Companies

We have a large variety of companies in our country, which differ in respect of their mode of incorporation, jurisdiction of functioning, nationality and limit on membership. Of these, the most important ones are those based on limits on membership, namely, (1) Private Company, and (2) Public Company. Let us learn more about these two types.

(1) Private Company

Under the Companies Act, 1956, by 'Private Company' we mean a company, which has the following features –

(a) It cannot have more than 50 members. Employees of the company are not included in this.

(b) It cannot invite the public to purchase its shares and debentures through open invitation.

(c) It restricts the rights of the members to sell or transfer their shares.

(d) It must have a minimum paid up share capital of One lakh rupees.

The private companies have to follow all these conditions noted above. It is compulsory for these companies to write "Private Limited' after their names. The ownership of these companies is confined only to well-known selected persons. It requires minimum of two persons to start a private limited company. Usually, whenever partnership firms are in need of more money to expand their business, they convert themselves into private Companies. It may be noted that private companies are exempted from various regulations of the Companies Act. Infact they combine the advantages of both the company and the partnership form of business organisation.

(2) Public Company

For starting a business on a large scale, one needs a huge capital, which, even fifty members of a private company cannot provide. In such a situation, a public company is suitable. A public company means a company, which is not a private company. A public company must have the following features.

(a) It can invite the public to subscribe to its shares and debentures by open invitation.

(b) A minimum of seven members is required to establish a public company. There is no limit on the maximum number of its members.

(c) There is no restriction on the transfer of shares i.e., the shareholders are free to sell their shares to the public.

(d) The public company must have a minimum paid up capital of five lakhs rupees.

A public company must write public limited or simply limited after its name. Reliance Industries Limited, Bajaj Auto Limited, Hindustan lever Limited, Steel Authority of India Limited are example of public companies.

In addition to the type of companies discussed above you must have come across many other types of companies like: Government company, Statutory company, Chartered company, Foreign company, Indian company, Multinational corporation, Holding company, and Subsidiary company.

Let us have a brief idea about all these.

(a) **Government Company:** Any company in which at least 51% of the paid up capital is held by the Government is known as government company. Example: Indian Telephone Industry (ITI), Bharat Heavy Electronics Limited (BHEL) etc.

(b) **Statutory Company:** A company created by a special Act of Parliament or state legislature is termed as statutory company. Example: Life Insurance Corporation of India (LIC), Securities Exchange Board of India (SEBI) etc.

(c) **Chartered Company:** A company created under a special charter granted by the king or queen of England. Example- East India Company.

(d) **Foreign Company:** A company which is incorporated in a country outside India and having business operation is India, is known as Foreign company. Example- Citi Bank, G.E. Capital, Honda Moters etc.

(e) **Indian/Domestic Company:** A company registered in India as per the Indian Companies Act is known as Indian/domestic company. Example- Associated Cement Company (ACC), Tata Iron and Steel Company (TISCO) etc.

(f) **Multinational Corporation (Company):** A company which is registered in one country but carries on business in a number of other countries. We shall discuss in details about multinational corporations in the last section of this lesson.

(g) **Holding and Subsidiary Company:** If a company controls another company, the controlling company is termed as 'Holding Company' and the company so controlled is called a 'subsidiary company'.

A company may become a subsidiary company of another in the following circumstances:-

(i) When more than 50% of the nominal value of its equity share capital is under the control of another company.

(ii) When another company has control over the appointment of its Board of Directors.

(iii) When it is subsidiary of a company which itself is a subsidiary of another company. For example- Company 'B' is a subsidiary of company 'A" and company 'C' is a subsidiary of Company 'B'. Then company C becomes subsidiary of Company A.

6.4 DISTINCTION BETWEEN A PRIVATE COMPANY AND A PUBLIC COMPANY

Having learnt the meaning of a private company and a public company, you should now be able to distinguish between the two. The following are some of the main points of distinction between a private company and a public company.

	Basis of distinction	**Private Company**	**Public Company**
1.	Minimum number of members	A minimum of two members is required for a private company.	A minimum of seven members is required for a public company
2.	Maximum number of members	The maximum number of members in a private company is 50.	There is no limit on maximum number of members in public company
3.	Minimum paid up capital	A private company must have a minimum paid up capital of Rs. One lakh.	It must have a minimum paid up capital of Rs. Five lakh.
4.	Identification	A private company must suffix 'Private Limited' to its name.	A public company must suffix words 'Limited' to its name.
5.	Transfer of Shares	The shareholders of a private limited company cannot transfer their shares	The shareholders of a public company can freely sell their shares to others.
6.	Invitation to the public to purchase shares and debentures	A private limited company cannot give open invitation to the public to subscribe to its shares and debentures.	A public company can invite the public to purchase its shares and debentures through the issue of prospectus.
7.	Commencement of business	A private limited company can start its business immediately upon its incorporation	A public limited company cannot start its business immediately after its incorporation. It has to obtain a certificate for starting or commencing its business.

INTEXT QUESTIONS 6B

1. 'X' Company controls more than 50% of the nominal value of 'Y' Company's equity share capital. Hence 'X' Company is termed as holding company. State the other circumstances when a company can become a holding company.

 ____

 ____

2. Below are given certain characteristics of Joint stock company. Identify the characteristics of public limited company and private limited company from these statements and put tick mark in the circle of the boxes given after the statements.

 (a) There can be maximum of 50 members.

 (b) It can be started with minimum of seven members.

 (c) Its minimum paid up capital is five lakh rupees.

 (d) The shareholders cannot transfer its share.

 (e) It can invite the public to subscribe to its share.

Private Limited Company	Public Limited Company
(a) ○ (b) ○	(a) ○ (b) ○
(c) ○ (d) ○ (e) ○	(c) ○ (d) ○ (e) ○

3. Complete the following incomplete words by taking clues from the statements given for each. Every blank represents one letter only. First one has been done for you.

 (a) P __ __ L __ __ (PUBLIC)

 (b) F __ R __ __ __ N Company

 (c) ST __ __ UT __ __ Y Company

 (d) __ __ LD __ NG Company

 (e) M __ L __ __ N __ __ IO __ AL Company

 (f) G __ __ E __ N __ ENT Company

Clues

 (a) A Company which requires minimum of seven members.

 (b) A company which is incorporated outside India.

(c) A company created by a special Act of Parliament.

(d) A company that holds more than 50% share capital of another company.

(e) A company which carries on business in more than one country.

(f) A company in which atleast 51% paid up capital is held by the Government.

6.5 MERITS OF JOINT STOCK COMPANY

A company form of business organisation is very popular for undertaking big business. It has the following merits -

(a) **Large Resources:** A joint stock company can raise large financial resources because of its large number of members and it can raise funds through debentures, public deposits, loans from financial institutions without much difficulty.

(b) **Limited Liability:** In a joint stock company the liability of its members is limited to the extent of shares held by them. This attracts a large number of small investors to invest in the company. It helps the company to raise huge capital. Because of limited liability, a company is also able to take larger risks. This helps in making investment decisions easily.

(c) **Continuity of Existence:** A company is an artificial person created by law and possesses independent legal status. It is not affected by the death, insolvency etc. of its members. Thus, it has a perpetual existence.

(d) **Benefits of Large-scale Operation:** The joint stock company is the only form of business organisation which can provide capital for large-scale operations. It results in large-scale production consequently leading to increase in efficiency and reduction in the cost of operation. It further opens the scope for expansion.

(e) **Liquidity:** The transferability of shares acts as an added incentive to investors as the shares of a public company can be traded easily in the stock exchange. The public can buy shares when they have money to invest and convert shares into cash when they need money.

(f) **Professional Management:** Companies, because of the complex nature of their activities and large volume of business, require professional managers at every level of organisation. Because of the size of their business and the financial strength they can afford to appoint such managers. This leads to efficiency in management of their affairs.

(g) **Research and Development:** A company generally invests a lot of money on research and development for improved processes of production, designing and innovating new products, improving quality of product, new ways of training its staff, etc.

(h) **Tax Benefits:** Although the companies are required to pay tax at a high rate, in effect their tax burden is low as they enjoy many tax exemptions under Income Tax Act.

6.6 LIMITATIONS OF JOINT STOCK COMPANY

Inspite of several merits of a joint stock company as discussed above, this form of business organisation also suffers from many limitations. The important limitations are given below:

(a) **Difficult to Form:** The formation of a company involves compliance with a number of legal formalities under the companies Act and compliance with several other rules and regulations framed by the government from time to time.

(b) **Control by a Group:** Theoretically a company is supposed to be managed by trained and experienced Directors. But practically this is not so in many cases. Most of the companies are managed by the Directors belonging to the same family. Since most of the shareholders are widely dispersed, they have indifferent attitude towards the management of the company. The shareholders holding majority of the shares take all decisions on behalf of the company. Thus, the democratic virtues of a company do not really exist in practice.

(c) **Excessive Government Control:** A company is expected to comply with the provisions of several Acts. Non-compliance with these, invites heavy penalty. This affects the smooth functioning of the companies.

(d) **Delay in Decision Making:** A company has to fulfill certain procedural formalities before making certain decisions, as they require the approval of the Board of Directors and /or the General Body of shareholders. Such formalities are time consuming and therefore, some important decisions may be delayed.

(e) **Lack of Secrecy:** It is difficult to maintain secrecy in many matters as they may require approval of board of directors and/or general body whose proceedings are usually open to public.

(f) **Social abuses:** A joint stock company is a large-scale business organisation having huge resources. This provides a lot of power to them. Any misuse of such power creates unhealthy conditions in the society e.g. having monopoly of a particular business, industry or product; influencing politicians and government in getting their work done; exploiting workers, consumers and investors, etc.

INTEXT QUESTIONS 6C

1. Mr. Mohit has invested Rs. 2 lakh in shares of a public limited company. After one year he noticed that the company does not perform well, and the market value of its shares is going down. He thinks, if this situation continues, he will lose his Rs. 2 lakh rupees and if required his house will be sold out to discharge his liabilities of the company. Is he thinking in the right direction. Give reason in support of you answer.

____

____

2. Below are given certain statement put 'M' in the box given at the end of the sentence, if it is the merit and 'L' if it is limitation of joint stock company.

   (a) The liability of the members of joint stock company is limited. ☐

   (b) The shares of the public limited company can be traded easily in the stock exchange. ☐

   (c) A number of legal formalities have to be complied with in the formation of joint stock company. ☐

   (d) The shareholders holding majority of shares take all decisions of the company. ☐

   (e) A company can spend a lot of money on research and development for improved process of production, designing and innovating new products. ☐

6.7 Suitability of Joint Stock Company

A joint stock company is suitable where the volume of business is large, the area of operation is widespread, the risk involved is high and there is a need for huge financial resources and manpower. It is also preferred when there is need for professional management in its operations. In certain businesses like banking and insurance, joint stock company form is the most suitable. Now-a-days, it is a preferred form for most areas of business because of the preference for operating on large scale.

6.8 Choosing the Right Form of Organisation

You have already learnt about different forms of business ownership, i.e., Sole Proprietorship, Partnership, Joint Hindu Family Business, Company and Cooperative Society. You must have noticed that no particular form of business organisation can meet all kinds of our requirements. Some may require more financial and managerial resources while others involve large risk. That is the reason why we find different forms of business organisations prevailing in our economy. So while selecting a form of business organisation, we analyse different factors and try to choose the most suitable form according to our financial and managerial capabilities. We will now study those factors which may help us in selecting the right form of business organisation.

(a) **Ease of formation:** A sole trader can commence and withdraw from business at any time at his own option. In partnership, mutual trust and faith is very much required.

Notes

Company requires many legal formalities for its formation. Sole proprietorship is therefore the easiest to form.

(b) **Availability of Large Resources:** One-man business is the best in the world if the owner has enough resources and ability to manage. This statement shows that a single person is unable to undertake big business mainly because of limited resources and managerial ability. In partnership also the financial resources of partners are limited. Therefore, only a company can raise enough capital and hire expert knowledge required for the management of a big business.

(c) **Liability or Risk:** We know that liability of members is unlimited both in sole proprietorship and partnership and limited in case of a company and cooperative societies. Since members hesitate to undertake big risk they prefer to invest in a company.

(d) **Stability:** Stability is essential for the success of any business. The existence of a company and cooperative society does not depend on the health and wealth of its members. Sole proprietorship and partnership forms are dissolved but company form of an organisation continues irrespective of the death or insolvency of any of its members.

(e) **Flexibility:** An ideal form of business must have flexibility in operations. Decisions must be taken quickly and implemented promptly for its functioning. Any rigidity in its functioning will not be beneficial for the survival and growth of a business.

A company enjoys better flexibility whenever more finances are required. It can raise more capital and include more members whenever needed. In a partnership, the number of members at any time cannot exceed 20. In sole proprietorship there is only one single owner and availability of finances is also limited.

But flexibility in operations is maximum in sole proprietorship. He does not require approval of other members as in partnership or compliance with the provisions of the Act as in a company. Hence, the change in the nature of business or its operations is easiest in the case of sole proprietorship.

(f) **Secrecy:** Sole trader is the master of his entire business. He does not need to share his secrets with any one. Partnership is organised on the basis of mutual agency and therefore all the partners have the right to know everything about the business. A company is required to file a number of documents and publish its annual reports. Therefore secrecy is the least in case of a company.

(g) **Extent of state control:** While it is not possible altogether to avoid compliance with governmental regulations the entrepreneur will always like to choose that form of business organisation which has minimum government interference. A company has to fulfill many legal formalities before it can commence its business. Even after the formation, it has to comply with various legal provisions. In sole proprietorship and partnership, the government control is comparatively less.

Following table presents a summary and comparisons of different characteristics of sole proprietorship, partnership and company. .

	Characteristics	Most advantageous form	Least advantageous form
(i)	Availability of finances.	Company	Sole proprietorship
(ii)	Cost of organising and dissolving.	Sole proprietorship	Company
(iii)	Ease of organising and dissolving.	Sole proprietorship	Company
(iv)	Ease of transferring or withdrawing ownership.	Company	Partnership
(v)	Efficiency in management.	Company	Sole Proprietorship
(vi)	Freedom to operate in any state.	Sole proprietorship	Company
(vii)	Government controls and restrictions.	Sole proprietorship	Company
(viii)	Length of life.	Company	Sole Proprietorship
(ix)	Simplicity of operations.	Sole proprietorship	Company

INTEXT QUESTIONS 6D

1. A Joint Stock Company is suitable where the volume of business is large, the area of operation is widespread and the risk involved is high. What are other conditions under which Joint Stock Company is more suitable. Write any two such conditions.

   (a) ______________________________

   (b) ______________________________

2. There are a number of factors that determine the choice of a particular form of business organization. Name the form of organization i.e., either sole proprietorship or joint stock company which may be preferred keeping in mind the following factors:

   (a) It can raise huge capital and hire expert knowledge to manage a big business.

   (b) Maximum secrecy can be maintained.

   (c) The government controls is very little.

   (d) Death or insolvency of a member does not affect the existence.

   (e) Flexibility in operations is maximum.

6.9 DIFFERENCES BETWEEN VARIOUS FORMS OF BUSINESS ORGANISATION

We have learnt about the various forms of business organisation. If we analyse their characteristics we find that each one is different from the other. Let us try to distinguish between some of these forms of business organisation.

Difference between Partnership and Joint Stock Company

Basis	Partnership	Joint Stock Company
1. Formation	It is easy to form as registration is not compulsory.	It requires many legal formalities to be completed before the company comes into existence.
2. Operation	Governed by the Partnership Act, 1932.	Governed by the Companies Act, 1956.
3. Membership	Minimum is two, maximum is 10 in banking business and 20 in other business.	In case of Private Company minimum is 2, maximum is 50; in case of Public company minimum is 7 and there is no maximum limit.
4. Legal Status	No separate legal entity.	Separate legal entity from that of its members.
5. Liability	Joint and several to an unlimited extent.	Limited to the face value of shares held.
6. Management	All or any one on behalf of all partners are entitled to manage.	Board of Directors is authorised to manage.
7. Transfer of Shares	Consent of all partners is required.	Shares are freely transferable.
8. Existence	Dissolves with the death, retirement or insanity of a partner.	Perpetual existence; unaffected by death, retirement, insolvency etc. of the shareholders.
9. Finance	Relatively limited scope for raising finance.	Vast and unlimited scope for raising finance.

Difference between Joint Stock Company and Co-operative Society

Basis	Joint Stock Company	Co-operative Society
1. Formation	Comes into existence when registered with the Registrar of Companies.	Comes into existence when registered with the Registrar of Co-operative Societies.
2. Membership	Members can be from the whole country or from any other country of the world. Minimum number of members for a Private company is 2 and for a	Members are mostly from a particular locality or a region. The minimum membership is 10 and maximum is not fixed.

	Public company it is 7. The maximum membership for the former is 50 and for the latter is not fixed.	
3. Purpose	Usually run a business to earn profit.	To render services to its members in particular and to the society in general.
4. Operation	Governed by the Companies Act, 1956	Governed by the Co-operative Societies Act, 1912, Multi-state Cooperative Societies Act 2002 and State Co-operative Societies Acts.
5. Management	Managed by Board of Directors, elected by the shareholders. Each shareholder has as many votes as the number of share holders.	Managed by a Managing Committee elected by members on the basis of one member, one-vote.
6. Transfer of Interest	Shares are freely transfer-able and passed on to the legal heirs (except in case of private company).	Shares are not easily transferable, but can be passed on to legal heirs or reverted back to the society at the Member's discretion.
7. Liability	Liability of its members is limited to the value of shares held.	Liability of its members is limited but the society may opt for unlimited liability.
8. Payment of Dividend	The rate of dividend is decided by the company every year and it may vary.	A fixed rate of dividend is payable to its members as per the provisions of the Cooperative Societies Act.

6.10 MULTINATIONAL CORPORATION

In our day-to-day life we use different goods of Indian as well as foreign origin. The foreign goods are either imported to our country or these goods are produced in our country by the foreign companies. You must be thinking why foreign companies are coming to our country. Actually they came to India to produce goods and services and/or to sell their products. Similarly, Indian Companies are also extending their business operations across the boundaries of our country. This is called globalization, which means extension of economic activities across the boundaries of a country in search of world wide market.

6.10.1 Meaning of Multinational Corporation

Simply speaking, a multinational corporation (also termed as multinational companies) is one which is registered as a company in one country but carries on business in a number of other countries by setting up factories, branches or subsidiary units. Such a company may produce goods or arrange services in one or more countries and sell these in the same or other countries. You might have heard about many Multinational Corporations (MNCs) running business in India, Hyundai Motor Company, Coca Cola Company, Sony Corporation, McDonald's Corporation, Citi Bank, etc.

All these corporations generally have production, marketing and other facilities in several countries. Their volume of sales, profits earned, and also the value of assets held by them are generally very large. They have set up their branches and subsidiary units in our country and also in other countries. They are controlled from the headquarters of these companies in the home country, which lay down broad policies to be pursued.

6.10.2 Advantages of Multinational Corporation

The Multinational Corporations enjoy several advantages by way of huge earnings due to large-scale production and distribution activities across national borders. Besides, the host countries in which the Multinational Corporations operate also derive a number of advantages. These are:

(a) **Investment of Foreign Capital:** Direct investment of capital by multinational corporation helps under-developed countries to speed up their economic development.

(b) **Generation of Employment:** Expansion of industrial and trading activities by multinational corporation leads to creation of employment opportunities and raising the standard of living in host countries.

(c) **Use of Advanced Technology:** With substantial resources multinational corporation undertake Research and Development activities which contribute to improved methods and processes of production and thus, increase the quality of products. Gradually, other countries also acquire these technologies.

(d) **Growth of Ancillary Units:** Suppliers of materials and services and ancillary industries often grow in host countries as a result of the operation of multinational corporation.

(e) **Increase in Exports and Inflow of Foreign Exchange:** Goods produced in the host countries are sometimes exported by multinational corporation. Foreign exchange thus earned contributes to the foreign exchange reserves of host countries.

(f) **Healthy Competition:** Efficient production of quality goods by multinational corporations prompt the domestic producers to improve their performance in order to survive in the market.

6.10.3 LIMITATIONS OF MULTINATIONAL CORPORATION

The advantages discussed above are no doubt beneficial to host countries. But there are several limitations of multinational corporation, which we should take note of:

(a) **Least Concern for Priorities of Host Countries:** Multinational corporation generally invest capital in the most profitable industries and do not take into account the priorities of developing basic industries and services in backward regions of the host country.

(b) **Adverse Effect on Domestic Enterprises:** Due to large-scale operation and technological skills, multinational corporations are often able to dominate the markets in host countries and tend to acquire monopoly power. Thus, many local enterprises are compelled to close down.

(c) **Change in Culture:** Consumer goods, which are introduced by multinational corporations in the host countries, do not generally conform to the local cultural norms. Thus, consumption habits of people as regards food and dress tend to change away from their own cultural heritage.

INTEXT QUESTION 6E

1. State the general features of Multinational Corporation.

____

____

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2. Following points distinguish a joint stock company, partnership and cooperative society from each other. Joint the points with the relevant form of business organization given in the circle by drawing arrows.

(a) The different forms of business organization being governed by different Acts passed in the year –

(i) 1932 (ii) 1956 (iii) 1912

Joint Stock Company — Cooperative Society — Partnership

(b) Minimum number of members required to firm:

(i) 2 (ii) 7 (iii) 10

Public Ltd. Company — Cooperative Society — Partnership

(c) Maximum number of members:

(i) 50	(ii) 20	(iii) No limit
Cooperative Society	Private Limited Company	Partnership

(d) Management

(i) Managed by an Elected committee	(ii) Managed by one or more members	(iii) Managed by elected board of directors
Joint Stock Company	Cooperative Society	Partnership

6.11 What You Have Learnt

- A joint stock company is an artificial person, having a separate legal entity, with a perpetual succession.
- Characteristics of joint stock company:
  - It is an artificial person
  - Its formation involves a lot of legal procedures and it is time consuming.
  - It has a separate legal entity
  - It has an official signature known as common seal
  - It has perpetual existence
  - The liability of its members is limited
  - The members are free to transfer their shares
  - Joint stock company is managed in a democratic way
- Types of company
  - Private company
  - Public company
  - Government company
  - Statutory company
  - Chartered company

- Foreign company
- Indian company
- Multinational corporation (company)
- Holding company
- Subsidiary company

- Merits of joint stock company: A joint stock company can arrange large resources. Its members enjoy the benefits of limited liability. It has perpetual existence. The benefits of large scale business operation can only be derived from this form of organization. Its shares are easily transferable. It derives the benefit of professional management in its operation.
- Limitation of joint stock company: The formation of a joint stock company involves compliance with a number of legal formalities. It suffers from the limitations of excessive government control. It is very difficult to maintain secrecy in the business. All important decisions require the approval of Board of Directors or General body of the shareholders. So it takes more time in taking certain decisions. The joint stock companies are practically managed by a specific group of people. The shareholders who are scattered all over the country, generally do not take keen interest in each and every matter of their company.
- Suitability of joint stock company: A joint stock company is suitable where volume of business is large, area of operation is widespread, risk involved is high and there is a need for huge financial return and manpower.
- Choosing the right form of organisation: The following factors may be considered while choosing a suitable form of business organization:

  a) Ease of formation
  b) Availability of resources
  c) Liability or risk
  d) Stability
  e) Flexibility
  f) Secrecy
  g) Extent of state control

- Multinational corporation: A business unit that is registered as a company in one country but carries on its business in a number of other countries by setting up factories, branches and subsidiary units is called a multinational corporation.
- Merits of Multinational corporation

  a) Investment of foreign capital

   b) Generation of employment
   c) Use of advanced technology
   d) Growth of ancillary units
   e) Increase in exports and inflow of foreign exchange
   f) Healthy competition with domestic companies

- Limitations of multinational corporations
   a) Least concern for priorities of host countries
   b) Adverse effect on domestic enterprises
   c) Change in culture of the people.

6.12 Key Terms

Artificial person	Indian company	Share
Chartered company	Multinational corporation	Share capital
Common seal	Perpetual existence	Shareholder
Foreign company	Private company	Statutory company
Government company	Public company	Subsidiary company
Holding company	Separate legal entity	

6.13 Terminal Questions

Very Short Answer Type Questions

1. In joint stock company what is meant by the term 'share'?
2. State the meaning of the term 'Company' as per the Companies Act 1956.
3. What is meant by multinational corporation?
4. State the difference between a public company and a private company as far as the commencement of business is concerned.
5. How do you identify a public company and a private company just by seeing their names?

Short Answer Type Questions

6. State how the company is as artificial person.
7. Enumerate the features of a public company.
8. Distinguish between private company and public company on the basis of members and paid up capital.

9. State the suitability of joint stock company form of business organisation.
10. What conditions are required to be fulfilled by a private company?

Long Answer Type Questions

11. Explain, why the joint stock company form of business organisation is advisable to undertake huge and risky projects.
12. Describe any five characteristics of joint stock company.
13. You were running your business in partnership, but now you have formed a joint stock company. What difference did you notice in respect of
    (a) legal status,
    (b) liability, and
    (c) finance
14. Explain any five advantages of multinational corporation for the host country.
15. State any five factors required to be considered while choosing the right form of business organisation.

6.14 Answers to Intext Questions

6A

1. No, since the company has perpetual existence. It can continue working with new members.
2. (a) Share (b) Companies Act 1956 (c) Share capital
   (d) Common seal (e) Directors

6B

1. (a) If the company has control over the appointment of the Board of Directors of another company (b) When its subsidiary company is the holding company of another company.
2. Private limited company (a) (d)
   Public limited company (b) (c) (e)
3. (b) FOREIGN (c) STATUTORY (d) HOLDING
   (e) MULTINATIONAL (f) GOVERNMENT

6C

1. No. The liabilities of the shareholders is limited. Again, he has the option to transfer or sell the shares to avoid further loss.

2. (a) M (b) M (c) L
   (d) L (e) M

6D

1. (a) Need for professional management
   (b) Huge financial requirement
   (c) More manpower requirement
2. (a) Joint stock company (b) Sole proprietorship (c) Sole proprietorship
   (d) Joint stock company (e) Sole proprietorship.

6E

1. (a) International Operation (b) Large size (c) Centralised control
2. (a) (i) 1932 – Partnership (ii) 1956 – Joint Stock company
   (iii) 1912 – cooperative society
   (b) (i) 2 - Partnership (ii) 7 – Public limited company
   (iii)10 – cooperative society
   (c) (i) 50 – Private limited company (ii) 20 – Partnership
   (iii) No limit – Cooperative society
   (d) (i) Managed by elected committee – Cooperative society
   (ii) Managed by one or two members – Partnership
   (iii) Managed by elected board of directors – Joint stock

DO AND LEARN

1. Collect various information about atleast five multinational corporations and prepare a chart as given below

Name of the company					
Country where its head office is located					
Other countries it has operations in					
Goods and/or services it deals in					

ROLE PLAY

Sudhir and Sushil are two friends and belong to the same village. They met after a long time in a festival. Both of them used to be partners of a firm. But Sushil left the firm five year back and joined a public limited company as a director.

The following conversation took place between them.

Sudhir : Hello Sushil. How are you? How is your company going on?

Sushil : Hi Sudhir. I am fine. Our company is also doing very good business. This year our profit crossed five crore rupees.

Sudhir : That's good. But to earn such profit, your company must have invested huge amount in its activities. Isn't it? But from where did you get all this money?

Sushil : Actually in a public limited company, it is possible to collect large amount of money because the number of members is large. Another thing, they invest money without any risk because their liability is limited

Why don't you convert you partnership business in to a joint stock company, atleast a private limited company. (Sudhir was keen to know about the features, merits, limitations and suitability of joint stock company. Sushil explained to him. The conversion between both the friends was going on).

(Place yourself as Sudhir and one of your friends as Sushil. Enact these roles and make your study interesting).

Chapter at a Glance

6.1 Joint Stock Company
6.2 Characteristics of Joint Stock Company
6.3 Types of Joint Stock Companies
6.4 Distinction Between a Private Company and a Public Company
6.5 Merits of Joint Stock Company
6.6 Limitations of Joint Stock Company
6.7 Suitability of Joint Stock Company
6.8 Choosing the Right Form of Organisation
6.9 Difference Between Various Forms of Business Organisation
6.10 Multinational Corporation
- 6.10.1 Meaning of Multinational Corporation
- 6.10.2 Advantages of Multinational Corporation
- 6.10.3 Limitations of Multinational Corporation