Marks: 40	FYJC Subject: Organisation of Commerce Topic –Forms of Business Organisation -II (Chp. -5)	Time: 1.5 Hrs.

Q.1. Fill in the blanks **(5 Marks)**

1. A **Statutory corporation** is an autonomous corporate body created by the Special Act of the parliament or state legislature.
   a) Statutory corporation
   b) Government Company
   c) MNC

2. In Government Company minimum **51** paid up capital is held by government.
   a) 51 b) 41 c) 31

3. The shares of Government Company are purchased in the name of the **President of India**
   a) President of India
   b) Chief Minister
   c) Defense Minister

4. A Government company is a **Legal** entity separate from the Government.
   a) Natural b) Legal c) human

5. **Government** Company has public accountability.
   a) MNC b) Private c) Government

Q.2. Give one word. **(5 Marks)**

1. The sector which aims at providing reliable services to customers.

Ans. Public Sector

2. The Organisation which is owned, managed, controlled and financed by government.

Ans. Departmental Organisation

3. The Organisation which performs it's all activities as an integral part for government only.

Ans. Departmental Organisation

4. An autonomous corporate body created by the Special act of the parliament or state legislature with defined powers, functions and duties.

Ans. Statutory Corporation

5. An Organisation which is not subject to the budget, accounting and audit controls by the Govt.

Ans. Statutory Corporation

Q.4. Explain the terms or concepts. (Any 2) (4 Marks)

1. Multinational corporation.

Ans. Meaning: The term multinational' is the combination of two different words, viz. 'multi' means many and 'national' means nations. Accordingly, a company which has business operations in several other countries is called a multinational corporation.

In the words of **W. H. Moreland**, "Multinational corporations or companies are those enterprises whose management, ownership and controls are spread in more than one foreign country."

Thus, the field of activities of a multinational company is spread over the entire world. They have factories, offices in many countries and have a head office from where they co-ordinate their global management. Therefore, it is also called a Global Enterprise. Transnational Corporation, World Enterprise or International Enterprise. Some of the examples of multinational companies are Unilever Ltd. Coca-Cola, Pepsi, Sony, IBM Computers, Microsoft, Infosys, Samsung, Philips, Honda Corporations, etc.

2. Statutory Corporation.

Ans. Meaning: A Statutory Corporation is an autonomous corporate body created by the Special Act of the Parliament or State Legislature. It has well defined powers, functions and duties. State helps statutory corporation by subscribing to its capital, i.e. Life Insurance Corporation of India (LIC), Reserve Bank of India (RBI). A statutory corporation is also called a public corporation or statutory company. The Act, creating a statutory corporation, prescribes and defines its aims, powers, functions, rules and regulations, objectives and relationship with the concerned government department. The corporation, being a separate legal entity and an autonomous body, prepares its own budget.

3. Departmental Organisation.

Ans. Meaning: A departmental Organisation is a public sector enterprise which is owned, financed, managed and controlled wholly by the central government and organised as a department under a ministry. The departmental Organisation is under the ultimate control of the cabinet minister of the concerned department who is accountable to Parliament or state legislatures. All departmental organisations function through the officers of the government and employees working there are called Government employees. It is the oldest and traditional form of public sector Organisation. Some examples of departmental organisations are : Indian Railways, Post Office, Public Utility Services, All India Radio, Defense, Atomic Energy, etc.

4. Public Sector Organisation.

Ans. All the undertakings owned, managed and controlled by the central government or by the state government are called Public Sector Organisations or Public Sector Undertakings IPSU). According to **Encyclopedia Britannica**: "An undertaking that is owned by a central, state or local government, supplies services or goods at a price and is operated on more or less self-supporting basis is called as Public Sector Organisation" e.g. Hindustan Petroleum Corporation Limited (HPCL), Bharat

Petroleum Corporation Limited (BPCL), etc. These organisations include : (1) Departmental Organisation (2) Statutory Corporations and (3) Government Companies. These enterprises are financed by the government through shares, debentures, bonds, loans, subsidies, etc. Their revenues go to the government treasury

(2) These enterprises are subject to the normal budgeting, accounting and audit procedures as prescribed by the government. Public enterprises are accountable to Parliament for all their actions. Such accountability ensures proper utilisation of funds. If anything goes wrong with the functioning of an undertaking, the questions are asked in Parliament and the concerned minister or departmental head is supposed to reply to them.

Q.5. Distinguish Between (Any 2) **(10 Marks)**

1. Private Sector Organisation and Public Sector Organisation.

Ans.

Private Sector Organization	Public Sector Organization
1.Meaning	
Business organisations which are owned, financed managed and controlled by an individual or a group of individuals are called private Sector Organisations.	Business organisation which are owned, managed and controlled by the central Government or the State Governments or by both are called public Sector Organisation.
2.Main Objective	
Its main objective is to earn the maximum profit with the exception of co-operative society	Its main objective is to provide essential services to the people and thereby promote social welfare. Profit is the secondary objective.
3.Efficiency	
The private sector organisations are more efficient due to professional approach.	The public sector organisation are less efficient due to lack of competitive spirit.
4.Management	
They are managed either by individuals or group of individuals and professional experts and controlled by the owners or shareholders.	They are managed by the employees known as bureaucrats (government officials) or by the Board of Directors representing the government and shareholders.
5.Size of entity	
Private sector organisation usually undertakes the business which is small or medium size in terms of volume of operation due to relatively lower capacity to raise capital and managerial resources.	Public sector organisation usually undertakes the business which is large in capital and volume of operations due to relatively higher capacity to raise capital and managerial resources.
6.Capital provider	
Unser private sector organisation, owners are the contributors of capital. The capital is mainly supplied by the sole proprietors, partners, members or shareholders.	**Under the public** organisations, the entire capital is contributed mostly by the government.

2. Departmental Organisation and Statutory Corporation.

Ans.

Departmental Organization	Statutory Corporation
1.Meaning	
An enterprise which is owned, financed, managed, controlled and operated wholly by the central or the state government and operated as a department under a ministry is called a departmental organisation.	An organisation which is formed or created by a Special Act of parliament or the State Legislature is called a Statutory Corporation.
2.Capital	
The funds required by this organisation come directly from annual budget appropriation of the Government.	The required fund is contributed by the Government at the time of establishment. Additional capital if required can be contributed by the Government.
3. Management	
It is managed by the government officials of the concerned ministry.	It is managed by the Board of Directors Nominated by the government.
4.Autonomy	
It does not enjoy autonomy in decision-making.	It enjoys autonomy in decision-making to a certain extent.
5.Legal status	
It does not have a separate legal status distinct from the government**.**	It has a separate legal existence distinct from the government.
6.Borrowing powers	
Since it is entirely financed by the government through budget appropriations, it cannot borrow funds from the public or the government.	Although its share capital is owned by the government, it can borrow funds from the public and the government by way of bonds.

3. Government Company and Multinational Corporation.

Ans.

Government Company	Multinational Corporation.
1.Meaning	
A company which is formed under the Indian Companies Act, 2013, in which the Government owns at least 51% of the paid up share capital of the enterprise is called a government company.	A company which has business offices in several other countries is called a multinational corporation.
2.Capital	
A Government company can raise 51% or more of the paid-up capital from Government treasury and the rest is collected from private investors through issue of shares.	Multinational corporation can raise very huge capital through the issue of shares and debentures, accepting public deposits, borrowings from international financial institutions.
3.Business activities	
A Government company carries out business activities in its home country in the key sectors to compete with the private enterprise and to bring down monopoly of private sector.	A multinational company carries out business activities in several countries in different forms such as joint ventures, subsidiaries, branches, etc.
4. Management	
A Government company is managed by Board of Directors appointed by the government and the shareholders together.	A multinational company is managed by a Board of Directors elected and appointed by the shareholders or investors.
5.Government interference	
Government interference is the maximum in government company.	Multinational company is subject to minimum interference of host government and foreign government.
6.Examples	
Steel Authority of India Limited, Bharat Heavy Electricals Limited, State Trading Corporation of India Limited, Indian Oil Corporation Limited, etc. are the examples of government companies.	Unilever Ltd, Colgate Palmolive (India) Ltd, Coca-Cola, Pepsi, Sony, IBM, Microsoft, Infosys, Siemens, etc. are the examples of the multinational companies.

4. Statutory Corporation and Multinational Corporation.

Ans.

Statutory Corporation	Multinational Corporation.
1.Meaning	
A company which is formed under a special act of parliament or state legislature is known as Statutory Corporation.	A company which is formed and establishment in one country and has business offices in several other countries is called a Multinational corporation.
2.Capital	
The capital is contributed and owed by the Government. It can borrow funds from the government when required.	The share capital is contributed and owned by the large number of shareholders. It can raise funds if required by issue of debentures, accepting public deposits, borrowing from international financial institutions.
3.Business activities	
Statutory corporation carries out specific business activity in the different parts of a country.	A multinational company carries out business activities in several countries in different forms such as joint ventures, subsidiaries, branches, etc
4. Management	
It is managed by a Board of Directors appointed by the Government.	It is managed by a Board of Directors elected and appointed by the shareholders or investors (owners).
5.Government interference	
Statutory corporation is reasonably free from the government interference.	Multinational company is subject to minimum interference of host government and foreign government.
6.Examples	
Life Insurance Corporation of India. Reserve Bank of India, etc. are the examples of statutory corporation.	Unilever Ltd. Coca-Cola. Pepsi. Sony, IBM Computers. Microsoft. Infosys, etc. are die examples of multinational corporation.

Q.5. Justify the following statements. (Any 2) (6 Marks)

1. MNC helps to end local monopolies.

Ans. (1) A company which is incorporated in one country and has business offices in several other countries is called a Multinational Corporation (MNC). Multinational Corporation offer growth opportunities for domestic industries. They assist domestic producers to enter the global markets through their well-established international network of production, distribution and marketing. The multinationals provide a ready market to raw materials or semi-finished goods produced by the local producers in the host countries.

(2)The entry of Multinational Corporation in the domestic market leads to competition in host countries. To survive in the competition, local monopolies either start improving their products or reduce their prices. Thus, multinational corporations compel domestic industries to improve their efficiency and quality. The multinational corporations tends to break the exploitative monopolies of the selected few domestic companies. As a result, the consumers in the host countries arc benefited.

2. There is direct control of government on departmental Organisation.

Ans. (1) A Departmental Organisation is a public enterprise owned, financed and controlled by the Government in much the same way as any other government department. It is managed by the Government officials who are civil servants with executive powers under the supervision of the head of the department concerned. These organisations are subject to strict budgetary, accounting and audit controls of the government.

(2) The departmental organisations work under the direct and full control of the Government i.e. the concerned ministry (minister) who is responsible to the Parliament or state legislature. Therefore, they are more effective in achieving the objectives of the government. The Departmental organisations are very suitable where complete government control over strategic industries is necessary, e.g. broadcasting, telecommunication, defence, public utilities, etc.

3. There is no political interference in statutory corporation.

Ans. (1) An Organisation which is formed or created by passing a special Act of Parliament or State Legislature is called a Statutory Corporation. Statutory Corporation has a separate legal entity distinct from the government which owns it and manages its activities. The initial capital is provided by the government. The special Act of Parliament or State Legislature prescribes its aims, objectives, functions, powers duties, etc.

(2) Statutory corporation has considerable financial autonomy. It can utilise its earnings to meet expenditure. It can borrow funds from the public as well as from outside the country. It can finance its expansion programmes by reploughing its own profits. Statutory Corporation also prepares its own budgets and recruits employees on the terms and conditions determined by its Board of Directors. Being an autonomous Organisation a statutory corporation is free from the rigid rules and regulations of the government. As far as possible, statutory corporation remains financially independent. Therefore, there is no political (Government) interference

and departmental interference in financial matters and routine workings of these organisations.

4. MNC has worldwide existence.

Ans. (1) A company having its origin and head office in one country and business offices in many other countries is called a multinational company (MNC). The term 'Multinational' is the combination of two words, viz. 'multi' means many and national' means nations. It is a company that operates in many nations through its branches.

(2) The multinational corporations (MNCs) are in a position to exercise massive control over the world economy. This is because they have huge capital resources, latest technology, goodwill, marketing strategy and network of operations all over the world.

(3) The MNCs adopt more aggressive advertising and sales promotion techniques. They face no difficulty in selling their products all over the world as they have a very wide distribution network. They also have production and marketing operations in several countries. They operate through a network of branches subsidiaries and affiliates in host countries. Therefore, they ensure greater availability of products and services lo domestic customers. MNCs in this way have worldwide existence.

Q.6. Long answer (Any - 1) (10 Marks)

1. Explain the Merits & Demerits of departmental Organisation.

Ans. **[A] Merits:**

(1) **Direct control**: Departmental Organisations work under the direct and absolute control of the government, i.e. the concerned ministry. Therefore, they are more effective in achieving the objectives.

(2) **Direct revenue to the government**: These organisations are actually business organisations. Their earnings are deposited in the government treasury. Thus, they are a source of revenue to the government.

(3) **Less overheads**: These organisations are managed and run wholly by the government themselves. Due to strict government control, the administrative overhead charges are less.

(4) **Proper use of funds**: These organisations are subject to strict budgetary, accounting and audit controls. Therefore, there is proper financial discipline over the public funds. The risk of misuse of the public money is minimised.

(5) **Qualified staff**: The various departments of the Government appoint qualified employees to look after the functioning of their departments. Therefore, all departments are properly managed.

(6) **Maintains secretary**: It is easy to maintain maximum secrecy about the policy matters, because the government can avoid disclosure on the ground of public interest. Maintenance of secrecy in some areas like defence is very essential. They also take care of essential goods and services.

[B] Demerits:

(1) **Delay in action**: The departmental organisations are run and controlled by the government. There is excessive centralisation of authority and control. This

results in delay in action which finally results in the loss of business opportunities.

(2) **Red tapism and Bureaucracy**: Generally, there is problem of red tapism and bureaucracy in departmental organisations. The bureaucrats are indifferent to the needs and preferences of die consumers. It affects organisation's trustworthiness.

(3) **Less scope for initiative**: The procedures and policies of departmental organisations are subject to the criticism in the parliament. Hence, there is no scope for initiative and skill. In the absence of competition and profit motive, there little incentive and Initiative for hard work.

(4) **Lack of Flexibility**: These organisations function under strict Parliamentary control and government rules and regulations. The staff does not get opportunity to exercise initiative. Lack of flexibility reduces the efficiency of operations.

(5) **Delayed decisions**: For every business, approval and sanction of the minister or the top executive are required. The subordinate executives or executives at the lower level cannot take any decisions. As a result, there is delay in decision making.

(6) **Absence of professionalism**: Absence of professionalism, fear of public criticism, lack of motivation, frequent transfers of officials and staff adversely affect the efficiency of these organisations.

2. Explain the Merits & Demerits of Multinational corporations.

Ans. [A] Merits:

(1) **Employment generation:** The entry of multinationals in the host countries increases the opportunities for gainful employment to the people in those countries. They create direct and indirect employment in the production, marketing and service activities. The establishment and development of Multinational Corporation is beneficial to those developing countries where there is lot of unemployment

(2) **Inflow of foreign capital**: Developing countries require huge capital investment for their economic development through industrialisation. Multinational corporations provide direct foreign investment by setting up subsidiaries and joint ventures in the host countries. The inflow of foreign capital is helpful for rapid economic development of host country.

(3) **Proper use of idle resources**: Developing countries require modern technology to utilise their idle resources. Multinationals discover new methods of production, and distribution through their research and development. Developing countries ge(modern technology from multinational corporations. As a result, national income of the host country increases rapidly.

(4) **Technical development**: Multinational corporations transfer the merits of technical development from one country to another. The economically poor and developing countries begin to develop technically after establishment of multinational corporations in host countries.

(5) **Managerial development**: Multinational corporations have to increase the specialization, speed up decision-making and improve the operational efficiency. For this purpose, they employ highly sophisticated techniques of management and employ professional managers. They have created revolution in the management culture through product innovation, technology upgradation and total quality management. They have contributed greatly to the growth of institutes imparting education and training in management. This leads to managerial development in host countries.

(6) **End of Local Monopolies**: Multinational corporations widen markets, mobilise resources, increase competition, break local monopolies and equalise the costs of production around the world. Local monopolies of the host countries either reduces the prices or improve the quality of products they sell. Thus, multinational corporations break or put an end to exploitative practices of local monopolies.

(7) **Improvement in standard of living**: With the entry of multinationals in the host countries, new and better quality products enter the market. People in the developing countries change their lifestyles and enjoy a variety of new products and services. This in turn helps to raise their standard of living.

(8) **Promotion of International Brotherhood and Culture**: Multinational corporations help in the integration of national economies into a world economy or global economy. Through the medium of international trade, multinational corporations promote international brotherhood and culture and help to attain world peace and prosperity.

[B] Demerits:

(1) **Danger for domestic industries**: Multinational corporations being financially very strong, adopt aggressive strategies to eliminate local industries who are still in the process of development. They restrict the growth of local research and development projects and kill indigenous entrepreneurship. Local firms, being unable to withstand the monopoly power of the multinationals, are compelled to close down.

(2) **Repatriation of profits**: Repatriation of profits means sending back the profits and earnings by multinational corporations to their home countries. The growing success of the multinationals in the form of branches, subsidiaries, etc. result in a heavy payment liability on the host countries. These corporations earn huge amount of profits. This leads to the drainage of foreign exchange and adverse balance of payments for host country.

(3) **Interference**: Multinational Corporations through their financial and other resources directly or indirectly dominate the political system of the developing countries. They interfere with the working of the host countries in number of ways-There are cases where the multinationals influence political leadership for their economic gain and destabilise the governments.

(4) **Disregard of the national interests of the host country**: Multinationals are capitalist organisations with the sole objective of earning the maximum profits at any cost. They do not work for the economic development of the host countries They do not care for the development of backward regions and never

care to solve the chronic problems such as poverty, unemployment, etc. of host countries.

(5) **Misuse of mighty status**: Multinational corporations being financially powerful economic entities can easily drive away domestic industries and achieve monopoly. They can afford to bear losses and sustain for longer period in order to earn profit. Their unfair strategies and misuse of mighty status create economically adverse effects on the host countries.

(6) **Exploitation of natural resources**: With the aim of securing the maximum profits from the developing countries, the multinational corporations try to indiscriminately exploit labour and natural resources of the host country. They always use natural resources of host country carelessly causing rapid depletion of some of non-renewable resources. Thus, they cause permanent damage to development of host country.

(7) **Selfish promotion of alien culture:** The multinational corporations introduce new products in the developing countries and with that they introduce new and alien cultural trends in the society. They also use their marketing techniques to change the consumer habits and pattern of the people in the host country. For instance, the culture of fast food, soft drinks, etc. are the gifts of the multinational corporations. People tend to forget their own culture and heritage. This promotion of alien culture by multinational corporations is injurious to health of the people in the host country.

(8) **Exploitation of people:** Multinational corporations tie up with the big business houses of the host country. Gradually, they enrich themselves by exploiting poor people and working class of the host country.

3. Explain the Merits & Demerits of Government Company.

Ans. [A] Merits:

(1) **Easy formation**: A government company can be formed with certain legal formalities under the Companies Act and an executive decision of the government. No special Act is necessary for the registration of this company.

(2) **Internal autonomy**: A government company is relatively free from bureaucratic control and political interference in its day-to-day functioning. There is no direct ministerial control. It can manage its affairs independently on commercial principles.

(3) **Easy to alter** : A government company can alter the objects, powers and organisational set up so as to suit the changes in the market conditions or government policies, simply altering the relative clauses of Memorandum of Association of the company There is no need to amend any statute It has only to observe the provisions of the Companies Act.

(4) **Discipline**: The government company is required to follow and observe the provisions made under the Companies Act. 2013. It makes the management of the company more active, alert and disciplined.

(5) **Professional Management**: A government company can appoint professional managers in the same manner as private sector companies.

(6) **Public accountability**: Though a government company has autonomy in financial matters. Its annual reports and working can be discussed and debated in Parliament. Therefore, it is indirectly accountable to the public. This makes its management more alert and cautious.

[B] Demerits:

(1) **Autonomy only in name**: Although a Government company has independent character, in actual practice ministers, politicians, government officials interfere excessively in its day-to-day management and working. This ultimately adversely affects efficiency and operational flexibility.

(2) **Fear of exposure**: The .annual reports of the government companies are placed before and discussed in Parliament. Poor performance, wrong decisions are severely criticised and even given publicity in the press. Therefore, the management becomes demoralised and may not to take initiative to enter the new areas of activity. This has a negative effect on the efficiency, profitability and growth of the company.

(3) **Lack of expertise**: The key personnel of a government company are appointed by the government. Such persons are civil servants and politicians. They may not possess the necessary skill and professional experience to manage a Commercial enterprise. Hence, the efficiency of the Organisation suffers.

(4) **Lack of professional view**: Often there is lack of professional view whenever the board takes decisions. This is because the government companies are more obliged to fulfil social objectives of the business.