Industrial Management

Unit-1 Introduction

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Introduction: Concept and scope of Industrial Management. Productivity: Definition, measurement, productivity index, types of production system, Industrial Ownership.

In This Unit We Cover the Following Topics

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1.1 CONCEPT OF INDUSTRIAL MANAGEMENT

Industrial Management is the combination of two words – *Industrial and Management*. Industry may be defined as "the application of complex and sophisticated methods to the production of economic goods and services". The complex and sophisticated methods refer to the use of machines which improve the quantity and quality of production.

On the other hand, management means planning, organizing, coordinating, motivating, directing, and controlling various activities in an organization.

According to *Henry Fayol*, "Management is to forecast and plan, to organize, to command, to coordinate and to control".

The combination of these two words results in a new branch of engineering, i.e., Industrial Management. *Industrial Management* may be defined as the branch of engineering that deals with the creation and management of systems that integrates people, materials, and energy in productive ways". Industrial Management is the organizational process that includes strategic planning, setting objectives, managing resources, deploying the human and financial assets needed to achieve objectives, and measuring results.

In its most comprehensive meaning, industrial management refers to the systematic management of all aspects of the industry (or factory).

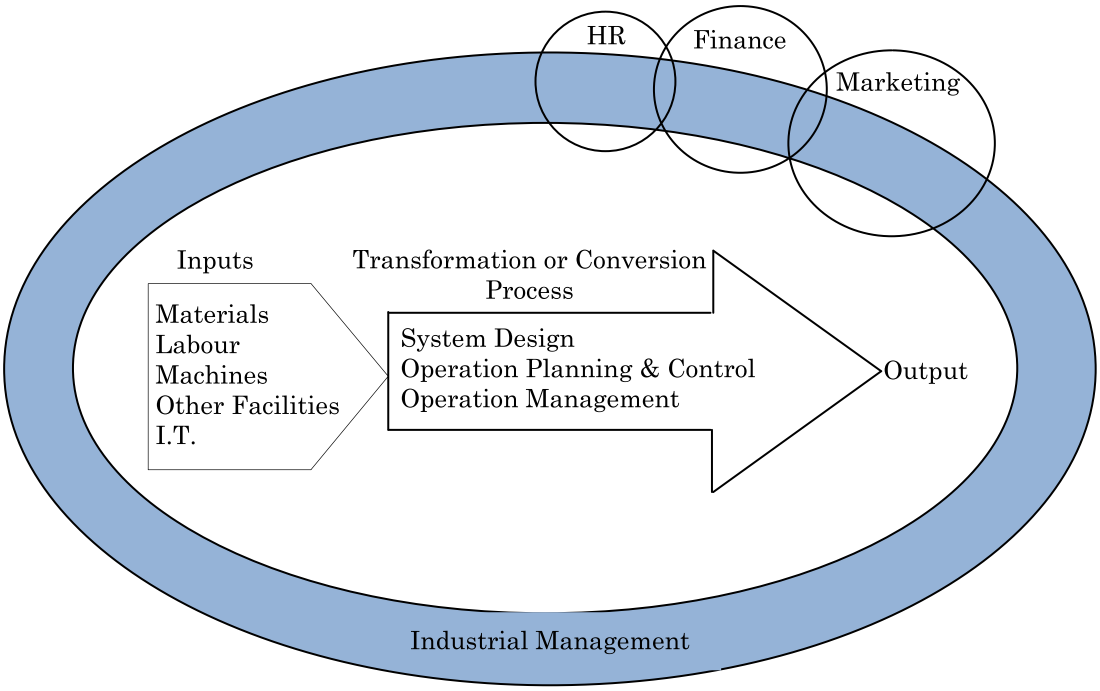


Diagram 1.1 Concept of Industrial Management

Departments in Industrial Organizations

Head of Production Department→ Production head is the supreme officer of production organization. He is called works manager or general manager. He is the person who is responsible for all the function of production department and all the other sub-divisions of production organization is controlled and directed by him.

Manufacturing Department→ Manufacturing Department is that portion of production organization where the actual activities or operations are performed for the transformation of raw material into finished goods. The head of this department is called production manager. The prime responsibility of production manager is to ensure the production according to the predetermined plan and directions received.

Technical Department→ The primary task of this department is to enhance the quality of finished goods by performing research and development on modern techniques of production. Technical director is the head of this department. Development, Design, Research, and Testing section are the sub-sections which are included in this department.

Production, Planning & Control Department→ The main function of this department is preparation of production plan and execution of that plan in order to achieve predetermined goals in a given period of time. This department also controls the other entire department related to production. The head of this department is known as Production Controller.

Quality Control Department→ The main function of this department is to check and ensure the quality of their finished products. Chief Inspector is the head of this department. He has a group of inspectors under him. This department controls the quality at various level of production.

Engineering Department→ This department is headed by Chief Engineer. Maintenance of machinery of firm as well as continuous improvement in machines and tools used in production are included in the function of this department.

Purchase Department→ The main function of this department includes the purchase of raw material, machine tools and other necessary items used in production. This department evaluates the price and quality of purchased material at the point of purchase. Various departments send their requirement to purchase department which purchases the items at favorable prices.

Store Department→ This department is headed by Chief Storekeeper to balance the demand & supply of raw material and finished goods. Availability of required type of material of required quality in adequate quantity, safe handling, disposal of scrap, measurement of material and record of entries related to store in related books are the various functions performed by the store department. Inventory management is also performed by them.

Applications of Industrial Management

Design and Development→ Product Design and Development depend heavily on inputs. If the design of the production is not good, it may require costly adjustments to the production process in terms of equipment, material and manpower. If the design is good, production costs may be low enough to substantially enhance a firm's profit making position.

Plant Layout and Material Handling→ The physical arrangement of manufacturing components and the equipment for handling the material during production process has considerable effect on cost of production. The material handling system and the plant layout should be most efficient for the given situation.

Method Study and Work Measurement→ Method study and measurement techniques are applied to find out the relationship between output of goods & services and input of human and material resources. The measurement should try to find the most appropriate method of performing various operations involved in a production system so as to obtain optimum use of resources and man-machine relationship in increasing productivity.

Production Forecasting→ Forecasting is necessary if the business firm is to anticipate the demand for its products & services. Sufficient time must be allowed to get inputs and transform them into output at right time and right place. Forecasts can be used as an analysis of past data, consideration of current events and future developments. These forecasts become the basis for the plants and schedules for buying, manufacturing, selling and other activities of the firm.

Production Planning & Scheduling→ In order to coordinate different activities and operations of an organization, a master plan of activities and a schedule of their performance is needed. Careful planning anticipates the need for people, materials and equipment so that sufficient time between order and delivery of goods & services is available to make necessary changes in order to utilize the full capacity of the firm to produce.

Proper Inventory Control→ Inventory implies all the materials, parts, supplies, tools and in-process or finished products kept in stocks for some time. The procurement policy of these items requires careful consideration and analysis. The purchases should be planned in economic lot sizes and the time of purchase should be so scheduled that the investment in the inventory is at lowest possible level. This implies determination of economic lot size and re-order level.

Quality Control→ Quality must be designed and manufactured into the product. Although customers may desire higher quality, they may not be willing to pay the resulting price. In such a way, quality standard should be set up that will be acceptable to the customers and yet economically feasible to the product. It is a matter of finding a balance between too much and too little quality.

Production Control→ Though it is the prime responsibility of production manager to control the quantity of the produced goods, proper Industrial Management avoids the situation of over-production and under-production. Because, in case of over-production, the resources which are scarce in nature will be wasted and in the situation of under production, organization will be unable to meet the demand in the market. So both the situations will adversely affect the profitability of the organization.

Method Analysis→ There can be a number of ways in which some operation can be executed. Through Industrial Management, we select the most efficient and economical method to perform the operation. Method analysis improves the productivity of the concern and minimizes the cost of production.

Scope of Industrial Management

Industrial System Designing→ The industrial management work starts as soon the idea of production of a certain commodity comes in the mind of an entrepreneur. Primary task includes preparation of product profile with the help of experts of technological department and market surveys. Plant location and plant layout have to be decided. All these activities come under industrial system designing.

Production Planning→ It includes preparation of short-term production schedules, plan for maintaining the records of raw materials and finished and semi-finished stock, specifying how the production resources of the organization are to be employed over some future time in response to the predicted demand for products & services.

Production Control→ Production control is necessary because production plans cannot be activated unless they are properly guided and controlled. For this purpose, production manager has to regulate work assignment, review work progress and remove discrepancies, if any, in the actual and planned performances.

Quality Control→ Product quality refers to the composite product characteristics of engineering and manufacturing that determines the degree to which the product in use will meet the expectations of the customers. Quality control can be ensured through the techniques of inspection and statistical quality control.

Dependent Services and Departments→ Various services and departments on which production plan is totally dependent is also included in the scope of industrial management such as standardization, simplification, inspection, quality control, inventory control research & development, diversification, pollution control, etc.

1.2 PRODUCTIVITY

Productivity is defined as the ratio of output to input of a production system, i.e.,

$$\text{Productivity} = \frac{\text{Output}}{\text{Inputs}}$$

Productivity of a production system is similar to the efficiency of a machine. Therefore, productivity is an efficiency of the production system. Just as it is desired to increase the efficiency of a machine, it is also aimed to raise the productivity within the available resources.

Hence, to increase productivity we want to make this ratio of output to inputs as large as possible. This can be achieved by:

a) *Either* producing more output with the same inputs.
b) *Or* using fewer inputs for the same outputs.

Measurement of Productivity

Partial Productivity→ It is the ratio of output to one class of input among many factors of production. For example, labor productivity measures the productivity of labor. Similarly, material, machine, land and capital productivities can be defined. Thus,

$$\text{Labor Productivity} = \frac{\text{Output}}{\text{Labor Input}}, \quad \text{Material Productivity} = \frac{\text{Output}}{\text{Material Input}},$$

$$\text{Capital Productivity} = \frac{\text{Output}}{\text{Capital Input}}, \quad \text{and so on.}$$

Total Factor Productivity→ It is the ratio of net output to the sum of associated labor and capital inputs. Net output means output minus material, capital, energy and other input expenses. Thus,

Total Factor Productivity

$$= \frac{\text{Net Output [Output} - (\text{Material} + \text{Capital} + \text{Energy} + \text{other input expense})]}{\text{Labour inputs} + \text{Capital inputs}}$$

Total Productivity→ It is the ratio of total output to the sum of all input factors. Thus, it represents the joint impact of all the input factors in producing the output.

$$\text{Total Productivity} = \frac{\text{Total Tangible output}}{\text{Total Tangible input}}$$

1.3 PRODUCTIVITY INDEX

Productivity index is used to compare the productivity during the current year with the productivity during the base year. Base year is any year which the company uses for comparative study.

$$\text{Productivity Index} = \frac{\text{Productivity during the current year}}{\text{Productivity during the base period}}$$

The three major sources of information for constructing various types of productivity index are:

Product Identification Information→ The product catalogs and drawings serve to provide a framework for identifying the different kinds of products prior to weighting each kind of output in the mix. Only after proper weighting the outputs can be aggregated.

Accounting Information→ Depending on the sophistication of the accounting system in use, the weighting of each kind of output may or may not be feasible from accounting records alone. With a detailed cost accounting system, having data of allocating labor, material, and overhead costs to each kind of product, all the required information may be available.

Work Measurement Information→ It refers to the use of any technique to determine the amount of labor required to produce each kind of output in a current & base period.

Application 1.1: Find the partial productivity, total factor productivity, and total productivity for a company for which the following data is available: Output = ₹15,000, Labor input = ₹4,500, Material input = ₹3,000, Capital input = ₹4,500, Energy input = ₹1,500, Other input expenses = ₹750.

Solution:

$$\text{Labor Productivity} = \frac{\text{Output}}{\text{Labor Input}} = \frac{15000}{4500} = 3.3,$$

$$\text{Material Productivity} = \frac{\text{Output}}{\text{Material Input}} = \frac{15000}{3000} = 5.0,$$

$$\text{Capital Productivity} = \frac{\text{Output}}{\text{Capital Input}} = \frac{15000}{4500} = 3.3,$$

$$\text{Energy Productivity} = \frac{\text{Output}}{\text{Energy Input}} = \frac{15000}{1500} = 10,$$

$$\text{Other Expense Productivity} = \frac{\text{Output}}{\text{Other Expense Input}} = \frac{15000}{750} = 20$$

Total Factor Productivity

$$= \frac{\text{Net Output [Output} - \text{(Material} + \text{Capital} + \text{Energy} + \text{other input expense)]}}{\text{Labour inputs} + \text{Capital inputs}}$$

$$= \frac{15000 - (3000 + 4500 + 1500 + 750)}{4500 + 4500} = \frac{5250}{9000} = 0.583$$

$$\text{Total Productivity} = \frac{\text{Total Tangible output}}{\text{Total Tangible input}}$$

$$= \frac{15000}{4500 + 3000 + 4500 + 1500 + 750} = \frac{15000}{14250} = 1.05$$

Application 1.2: Products *X* and *Y* are being manufactured by a company using materials *A* and *B*. Product *X* is expected to sell at ₹75 per unit and product *Y* at ₹35 per unit. The operating data is given below:

	Material *A*	Material *B*
Output *X*	200 units	400 units
Output *Y*	300 units	200 units
Quantity of raw material usage	1000 kg	1000 kg
Labor usage	300 man-hours	250 man-hours
Electric energy consumption	1000 kWh	1500 kWh
Cost of raw material/kg	₹22	₹33
Labor cost per man hour	₹10	₹10
Electric Energy/kw hr	₹2	₹2

Compare the productivity of material, labor, and electrical energy in using materials *A* and *B*. Comment on the relative advantage of using either of the materials.

Solution: Sales value of output with material *A*

= Output of product *X* in units × rate per unit of *X*

+ Output of product *Y* in units × rate per unit of *Y*

= 200 × 75 + 300 × 35 = 15,000 + 10,500 = 25,500

Sales value of output with material B

= Output of product X in units × rate per unit of X

+ Output of product Y in units × rate per unit of Y

= 400 × 75 + 200 × 35 = 30,000 + 7,000 = 37,000

The partial productivity of different factors of production is as follows:

S. No.	Productivity (type)	Material *A*	Material *B*
1	Productivity of raw materials $= \frac{\text{Sales value of output}}{\text{Value of raw material used}}$	$\frac{25500}{1000 \times 22} = 1.16$	$\frac{37000}{1000 \times 33} = 1.12$
2	Productivity of Labor $= \frac{\text{Sales value of output}}{\text{Value of labor used}}$	$\frac{25500}{300 \times 10} = 8.5$	$\frac{37000}{250 \times 10} = 14.80$
3	Productivity of energy $= \frac{\text{Sales value of output}}{\text{Value of electrical energy used}}$	$\frac{25500}{1000 \times 2} = 12.75$	$\frac{37000}{1000 \times 2} = 12.33$

Hence, we see that the productivities at (1) and (3) by using either material A or B are nearly the same. If labor is the key factor, use of material B is better as it yields higher productivity, *i.e.*, 14.8 > 8.5.

1.4 PURPOSE AND BENEFITS OF INCREASING PRODUCTIVITY

(1) For Management

a) To earn good profit because of reduction in costs.
b) To sell more, to earn profit.
c) To have better utilization of resources.
d) To stand better in the market.
e) Provide overall prosperity and reputation of the company.

(2) For Workers

a) Higher Wages.
b) Better working conditions, improved morale.
c) Higher standard of living.
d) Job security and satisfaction.

(3) For Consumers

a) Better quality of goods at reduced prices which help to raise their standard of living.
b) More satisfaction.

(4) To Government

a) Higher profits earned by factories will bring more revenue to the government by taxation.
b) Export trades may develop bringing more foreign exchange to the nation.
c) It helps to increase the welfare of the nation and development of national economy.
d) It helps better utilization of resources of the nation.
e) It increases per capita income.
f) Development of the nation.

Factors Affecting Productivity

Technological Development→ Technical factors including the degree of mechanization, technical know-how, raw materials, layout and the methods and techniques of work, determine the level of technological development in any industry. The principal factors in technological development affecting productivity are – Size of the Plant, Research & Development, Plant & Job Layout, Machine & Equipment Design, Production Processes, Power, Raw Materials, etc.

Individual Factors→ Individual factors such as knowledge, skill and attitude also affect the productivity of industry. Knowledge is acquired through training, education and interest on the part of learner. Skill is affected by aptitude, personality, education, experience, training, etc. Increased knowledge, skill and aptitude certainly increase the productivity.

Organization Factors→ Organization factors include various steps taken by the organization towards maintaining better industrial relations such as delegation and decentralization of authority, participative management, worker's participation in management, organizational efficiency, proper personnel policies relating to selection, placement, promotion, wage salary levels, incentives, merit rating, job evaluation, training and provision for two-way communication, supervision, etc.

Work Environment→ The importance of proper work environment and physical conditions on the job has been emphasized by industrial psychologists and human engineers. Better work environment ensures the greatest ease at work through better ventilation and light arrangement, improved safety devices, reduction in noise, introducing suitable rest-pause, etc.

Natural Factors→ Physical, geographical and climatic conditions influence the productivity at large. Abundance of natural resources affects the productivity and similarly climate affects the efficiency of workers to a great extent.

Managerial Factors→ The industrial productivity is influenced very much through managerial ability and leadership. The managerial ability of utilizing the available resources to the maximum, organizing capacity, foresightedness, decision-making ability and entrepreneurship are certain factors that contribute to productivity.

Government Policy→ Government policies towards industry also contribute to industrial productivity. Taxation policy, financial and administrative policy, tariff policy and protection policy affect the productivity to a large extent.

Methods/Techniques of Increasing Productivity

Proper Use of Materials→ Industries in which the cost of raw material is a big percentage of the cost of finished goods, higher productivity can be achieved through proper use of materials, i.e., by reducing scrap. Productivity of materials can be also be increased by using correct process, properly trained workers, suitable material handling and storage facilities and proper packaging.

Proper Utilization of Labor→ A little change in the design of component parts, so as to facilitate final assembly, can increase the number of products assembled per day with the same amount of labor. Work methods, if improved through work study techniques, can substantially increase the rate of production.

Proper use of Plant Equipment and Machinery→ Productivity can be increased through the use of improved tools, simple attachments and other devices. Total production times can be cut short considerably by improving machine setting up methods, thereby reducing set-up times. Proper maintenance will avoid sudden breakdown and add to the productivity.

Proper Utilization of Land & Buildings→ A suitable plant layout can accommodate more machinery in the same space and thus raise productivity. Proper orientation, construction and inside conditions of a building definitely affect productivity.

Improved Working Conditions→ Bad working conditions force the workers to take more rest. Heating, ventilation, lighting, color, noise level, personal comfort, etc., will have their own effect on productivity. Good working conditions enable the workers to work efficiently to raise productivity.

Method Study→ Method study is a technique to simplify the job and develop more economical methods of doing it. By method study, layout may be improved. The wasted movements caused due to bad layout can be eliminated.
Operator Training→ Through training or re-training of workers, sound and uniform working methods can be ensured. Operator training reduces work content due to bad working methods.
Material Control→ Irregular supply of materials may cause idle time of men and machines. Material control ensures right type of material, at right time, in right quantities and at competitive prices.
Incentives→ In general, workers will not produce on their own upto their capacity. The workers interest in increased production can be stimulated only by rewards that satisfy them. Incentive wage system (amount earned is dependent on the production) arouses interest in an employee to produce more.
Safety→ Unsafe conditions and unsafe acts cause accidents. Accidents results in loss of time. Safety measures will reduce ineffective time due to accidents.

1.5 PRODUCTION SYSTEMS

Production system involves in producing goods with the help of an efficient management, utilizing land, labor, machines, capital and materials. A production system constitutes an efficient process with an organized procedure for accomplishing the transformation of input elements to useful output products. In any production process, there is an organized procedure to produce a unit of output from the several types of inputs as such materials, labor, machines, facilities, energies, information, and technology.

Types of Production Systems

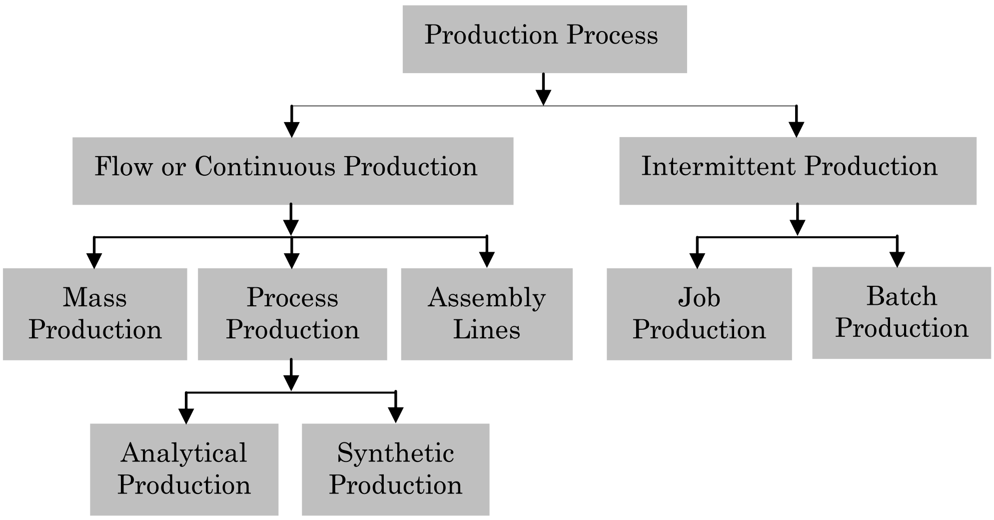


Diagram 1.2 Types of Production System

Flow or Continuous Production

It is most useful for product of repetitive nature. Each work is passed to the next stage immediately after the previous operation is completed without waiting for the finishing of work as a total batch. Since, the whole system is balanced, any fault or error at a particular stage affects not only that stage but also all other stages in the flow line.

Characteristics of Flow Production:

1. Machines & equipments are arranged according to functional layout pattern.
2. Special purpose automatic machines are required to perform standardized operations.

3. The volume of output is generally large (mass production) and goods are produced according to demand.
4. Fixed path materials handling equipment is used because of the predetermined sequence of operations.
5. Machines capacities are balanced so that materials are fed at one end of the process and the finished product is received at the other end.

Types of Flow Production: Flow production can be of following types:

a) ***Mass Production→*** It refers to the manufacturing of standardized parts or components on a large scale. Standardization of materials, machines, products and processes is the basic characteristics of mass production. Items are produced in huge quantity and much emphasis is not given to consumer's order. In this type, one type of product is produced at a time and planning & scheduling of the production is done in advance. Mass production system is employed when production is carried out without interruption. For example, automobiles plant, electronics industry type industry, electricals, etc.

Merits of Mass Production:

1. There is a smooth flow of materials from one work station to another work station.
2. There are small Work-in-Progress (WIP) inventories because output of one becomes input of the other process.
3. Closely spaced work station reduces material handling.
4. Less storage space for temporary storage and WIP.

Demerits of Mass Production:

1. One machine failure results in a stoppage of the whole operation following it.
2. Production speed is determined by the slowest machine.
3. Mass production requires general supervision rather than specific supervision.

b) ***Process Production→*** In this, various processes are inter-linked and production is carried on continuously through a uniform and standardized sequence of operations. This type of production is used in bulk processing of those products whose demand is continuous like petroleum, chemical, medicines, soaps, etc. Single raw material can be transformed into different kinds of product or many raw materials can be transformed into one product. It involves two types of processes:

i) ***Analytical Process→*** Here, a raw material is broken down into different products. For example, crude oil is analyzed into gas, petrol, kerosene, diesel oil, etc.

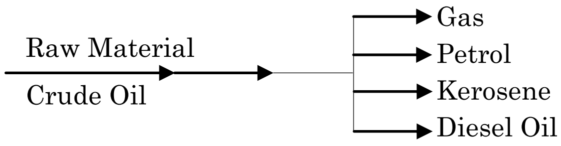


Diagram 1.3 Analytical process

ii) ***Synthetic Process→*** It involves the mixing of two or more materials to manufacture a product. For example, lauric acid, myristic acid, plasmitic acid, stearic acid, linoleic acids are synthesized to manufacture soap.

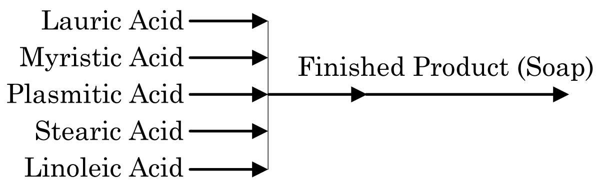


Diagram 1.4 Synthetic Process

c) ***Assembly Lines***→ It was developed in the automobiles industry in USA. Here, two or more components are combined to manufacture a finished product. It is particularly useful when a limited variety of similar products is to be produced on a mass scale or in fairly large batches on a continuous basis.

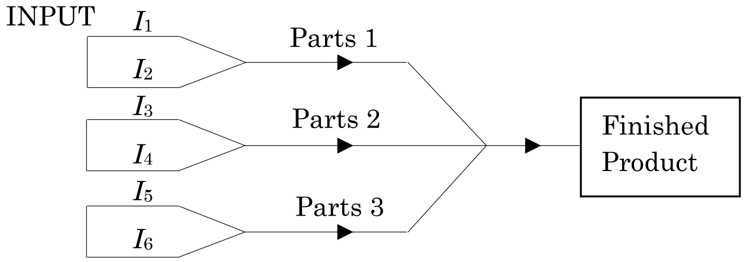


Diagram 1.5 Assembly lines

Intermittent Production

Here, the production is not continuous and is designed only when it is required. There is not a single procedure and the production usually is not uniform and the basic product design changes from time to time. The facilities are flexible to adjust production according to the order or time.

Characteristics of Intermittent Production:

1. General Purpose machines and equipment are used so as to adapt to a wide variety of operations.
2. A wide variety of products are produced.
3. The flow of production is intermittent not continuous.
4. No single sequence of operations is used and adjustments are made after a certain interval to suit different jobs or batches.
5. The volume of production is generally small.

Types of Intermittent Production:

a) ***Job Production***→ Job or 'make complete' production is the system of manufacturing a single complete unit by an operator or a group of operator, i.e., bridge building, dam construction, ship building, etc. Here, whole production is considered as one operation and work is completed on each product before passing on to the next. System requires highly skilled labor and high capital investments. Goods are produced to definite customer's orders. Continuous demand and manufacturing depends on the receipt of orders.

Characteristics of Job Production:

1. A wide range of general purpose machines like grinder, drill press, sharpener, etc. are used.
2. Whole project is taken as a single operation.
3. The product manufactured is customized.
4. Volume of output is generally less.
5. Versatile and skilled labor is needed.
6. High capital investment is required.
7. Firm's can offer the personal touch which some customers prefer.
8. Quality tends to be very high as workers are skilled and well motivated.
9. It is expensive method of production as workforce is skilled.
10. A wide range of tools, machines and equipment is needed which is expensive.

b) ***Batch Production***→ Production schedule can be made according to specific order or on the basis of demand forecast. The items are produced in lots or batches. New batch is undertaken for production only when the work on all items of a batch is completed. After the production of one batch, the plant and machines become available to other batch of similar type of production. More specialized labor and low investment is needed. No schedule is prepared in advance and items are produced for definite customers and not for inventories. This system is adopted by some of the industries like chemical industry, electronics instrument, machine tools, printing press, etc.

Characteristics of Batch Production:

1. Use of specialized skills.
2. Possibility of high equipment utilization.
3. Fewer machines are required, since machine utilization is better.
4. Specialized supervision is possible.
5. Generally, the production time is longer.

1.6 CONCEPT OF OWNERSHIP ORGANISATION

To start an industry or business, money (capital) is required. Who-so-ever provides the money becomes the owner of that particular enterprise. Ownership when applied to an industrial enterprise means *title to* and *possession* of the assets of the enterprise, the power to determine the policies of operation, and the *right to* receive and dispose of the proceeds. Broadly, money can be arranged for an industry in three different ways:

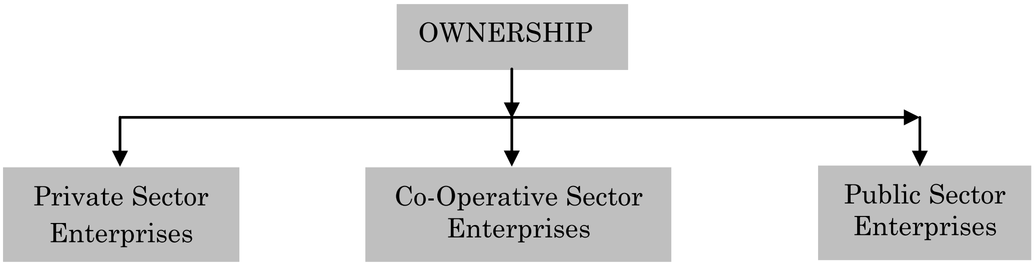
1. If the capital is provided by single individual, it is known as *Individual ownership, Individual entrepreneur organization, Single ownership or Individual Proprietorship Company*.
2. If the capital is supplied by two or more persons, it refers to *partnership* organization.
3. If the capital is provided by many persons in the form of shares to an institute with a legal entity, it is called a *Joint Stock Company*.

A firm is an ownership organisation which combines the factors of production (men, materials and machines) in a plant for the purpose of producing goods or services and selling them at profit. The type of ownership selected depends upon the following factors:

1. Size and nature of the business to be started.
2. Technical difficulties.
3. Market competition and scope of the articles in the market.
4. Capital required to start the business and means to collect funds.
5. Limitations and restrictions put forth by the Govt, in connection with grant of loans, foreign exchange and such other things.

Types of Industrial Ownership

Modern business is carried out by the following types of ownership organisations (forms of business organisation):



Private Sector Enterprises

1. Individual ownership
2. Partnership
3. Joint Hindu Family Business (HUF)
4. Joint Stock Company
   a) Private Limited Co.
   b) Public Limited Co.

Co-Operative Sector Enterprises

1. Producers Co-Operative Society
2. Consumers Co-Operative Society
3. Housing Co-Operative Society
4. Credit Co-Operative Society

Public Sector Enterprises

1. State Enterprise
2. Public Corporations
3. Statutory Corporation
4. Statutory Board/Commission

Diagram 1.6 Types of Industrial Ownership

1.7 PRIVATE SECTOR ENTERPRISES

Salient Features

- Private sector serves personal interests and is a non-governmental sector.
- The main objective is to earn profit rather than service.
- Private sector mainly constitutes consumer's goods industries where profit possibilities are high.
- Private sector does not undertake risky ventures or those having low-profit margin.
- Private enterprises are run by businessmen; capital is collected from the private partners.

Examples of big and famous private sector enterprises are TISCO, TELCO, RIL, etc.

Merits

- The magnitude of profits earned is usually high.
- The efficiency of the private enterprise is high.
- Wastage of material and labor is minimum.
- Decision-making is very prompt.
- There is no interference in its internal affairs by politicians or Government.
- Competent persons occupy high levels.

Demerits

- Private enterprises lead to integration of wealth in few hands.
- They lead to unbalanced growth of industries and sometimes monopolistic market situation arises.
- Profit is the main motive which may lead to exploitation of workers and unfair deal to consumers.

Single Proprietorship or Individual Ownership

This is the simplest and oldest form of business organization. A business owned by one person is called single ownership or sole/individual proprietorship enterprise. Here an individual exercises and enjoys ownership rights in his own interest.

In this type of enterprise the individual entrepreneur supplies the entire capital even if he has to borrow. He organizes and manages the business himself, and takes the entire risk. The entire authority and responsibility in the matter of decision-making, policy making and working belongs to him. All profits and losses are his own. If necessary, he can employ some persons to assist him. It is owned, managed and controlled by only one man; hence, it is also called as one man business. Examples of enterprise run by single owner are printing press, auto repair shop, wood working plant, a small fabrication shop, i.e., retail traders, service industries and small engineering firms.

Legal Liability: His legal liability covers all his possessions. The creditor can collect his personal property.

***Features*:** This forms of ownership is most satisfactory in the following cases:

1. Individual ownership and one-man effort.
2. All risks related to business are covered by one owner.
3. All profits after deduction of taxes go to the proprietor.
4. Minimal legal formality to start.
5. Unlimited Liability: In case of loss, the entire debt or loan is recovered from the assets of owner.
6. For small scale business requiring small capital which can be spared by one man, for example, agriculture, small scale industries, cottage industries, retail trade, handicrafts, professional services, commercial shops etc.

Advantages:

1. *Simple and Easy:* This type of ownership is simple in nature and easy to manage. The labour knows for whom they are working and to whom they are accountable.
2. *Least legal formalities:* It does not involve much legal formalities or other complicated procedure to start the business. Only a formal licence from the local authority is necessary.
3. *Quick Decisions and Prompt Actions:* The whole business is controlled by one man, therefore, he can take and implement the decisions quickly and in right time. Quick decisions and prompt action enable the entrepreneur to take advantage of business opportunities for gains.
4. *Quality Production:* Since the owner takes all the risks, he gives personal attention and supervision to the products made. This may result in reduction in waste and better quality products.
5. *Better Labour Relationship:* Since the business is small, the number of workers are less and the owner comes in close contact with the workers. This helps to maintain good employer-employee relationship.
6. *Personal Attention to Customers:* Since the business is small it is possible to pay personal attention to customers and their requirements and to give them entire satisfactions by overcoming their complaints about the product.
7. *Small Capital:* Since capital required is small, talented men of small means can start independent Business of their own and earn living.
8. *Maintenance of Secrecy:* The individual entrepreneur can easily maintain the secrets of the business as he only know everything of his enterprise.
9. *Incentive:* The direct relationship between efforts and rewards acts as an incentive to the owner to put his best efforts to manage the business efficiently and increase his earning. Self-interest can be a driving force to secure economy and efficiency.
10. *Flexibility:* The individual ownership is highly flexible as it is capable of adjustment to the requirements of changing business conditions.

Disadvantages:

1. *Limited Capital:* Due to limited capital it is not possible to expand the business even if it is much profitable.

2. *Unlimited liability:* In case the owner is not able to pay the debts, the same can be recovered out of the sale of his business assets and personal property. The individual owner will have to think twice before adopting new and risky ventures, latest and new methods etc. as his private property is constantly in danger of meeting the debts and obligations of his business.
3. *Personal Limitations:* The individual owner has to control all the aspects of his business alone. He cannot be expert in all techniques like management, sales, engineering, processes etc. Further growth and expansion of business may not be possible due to want of proper and adequate organising power.
4. *Small Income:* Inspite of all efforts, such a business can yield only a small income. The resources are limited. Many profitable ventures are ruled out.
5. Cannot compete with a big business: Since the business is small it cannot compete with a big business producing the same articles.
6. *Short Life:* If the owner dies the business may collapse. Because, his successors may be incapable or not interested in this type of business. Disability, prolonged illness or death of owner may result in the business coming to standstill or its closure unless his successors take the interest and ability to run the business.
7. *Division of Labour is not possible:* The owner as well as the worker has to perform variety of activities, therefore they cannot be specialized in a particular activity.
8. *No Economies of Large Scale:* Economies of large scale manufacturing buying and selling cannot be obtained on account of small size organisation.

Partnership Firms

Partnership is an association of two or more (up to 20) persons to carry on business as co-owners for sharing profit. They put their money, ability, skill, knowledge, etc. for the purpose of running an enterprise and earn profits. Partnerships are based upon a partnership agreement (usually in writing). It defines the authority, rights and duties of each partner including percentage of profit or loss sharing.

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

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

The partnership deed should have the following details:

1. Name of the Firm,
2. Nature of business,
3. Date of starting partnership,
4. Duration of partnership,
5. Rate of interest on capital invested, if any,
6. Money contributed by each partner,
7. Allotment of managerial functions among the partners,
8. Share of profit and losses,

9. Salary if any allowed to managing partners,
10. The basis for the inclusion of any new partners,
11. The amount which can be withdrawn by each partner,
12. The aim of partnership as well as the manner in which it can be dissolved,
13. Accounts of the firm and authority for signing cheques, bills of exchange, etc.
14. Provision for Arbitration for settling the disputes that may arise in future. In absence of any agreement, profits and losses are shared equally as per the provisions of the Indian Partnership Act, 1932.

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

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

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

Types of Partners:

1. *General Partners:* All the partners who participate in the working of the firm and are responsible jointly with other partners, for all liabilities, obligations and defects of the firm are the general partners.
2. *Limited Partners:* The liability for debts of the limited partners is limited to the extent of their contributed capital. They are not entitled to interfere in the administration of the firm.
3. *Active or Managing Partners:* Active partners are those who take active part in the management and formulation of policies. Sometimes they get salaries in addition to the normal profits as partners.
4. *Sleeping and Silent Partners:* They do not take any active part in the business. They simply contribute their capital in the business and get their share in the profit of the firm. They are liable for all liabilities of the firm as partners.
5. *Nominal Partners:* They lend their reputed name for the company's reputation. They do not invest money and do not take any active part in the management
6. *Minor Partners:* Minor partners are that whose age is below 18 years and associated with the business. Such partners can be allowed only with the consent of other partners. Their liability is limited to their investment only. Within six months of attaining the age of majority, they have to give public notice about their desire to serve or continue their connection with the firm. In such case they will be regarded as full-fledged partners with unlimited liability.

Features

1. More than one but less than twenty partners are needed.
2. There must be an agreement among partners which could be written, oral or implied.
3. Joint liability (responsibility) of all partners in case of liquidation (dissolution) which is proportional to their share in partnership deed (agreement).
4. Success of partnership firm is possible when there is full trust and honesty.
5. Registration of the partnership firm is not necessary. However, if registered with the registrar of firms, legal complications are minimized in case of disputes.

6. Time span of partnership firm depends upon the 'will' of all partners. It can be dissolved on death or any time when all partners agree.

Advantages:

1. *Easy formation:* The formation of partnership is easier as compared to joint stock companies. Voluntary mutual agreement is enough to start the partnership. Procedure for registration is simple and also registration is not compulsory.
2. *More Capital:* Two or more partners combine their resources in partnership, therefore, the amount of capital is larger as compared with individual ownership.
3. *Diverse Talent:* In this type of organisation persons possessing different abilities and skills may come together. Persons having good ideas and experience of business make partnership with rich people. Thus money and knowledge both are combined to earn profit.
4. *Less Possibility of Error of Judgement:* A problem is examined from more than one point of view, therefore the decision arrived at is likely to be sounder than in one man business.
5. *Prompt Decisions:* There are limited number of partners who are in continuous and intimate touch with each other. Therefore prompt decisions can be taken. It can decide on a suitable course of action before it is too late.
6. *Large Economics:* As compared in individual ownership, the advantage of division of labour, specialization standardization and economics of large purchasing are more.
7. *Personal Factor:* Partnership can maintain personal relationship with employees and the customers.
8. *Divisions of Labour:* The partners can divide the work among themselves on the basis of their personal capabilities. Therefore they can run the business more efficiently.
9. *Simple Dissolution:* The partnership business can be dissolved easily. The partnership is purely voluntary association. It can be dissolved by giving 14 days notice to other partners.
10. *Cautious and Sound Approach:* As the private property of every partner is constantly in danger of meeting all business obligations of the firm, partners will have to think twice before undertaking any highly speculative/risky business

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

Disadvantages:

1. *Unlimited Liability:* Because of unlimited liability any one partner can be held liable for the whole debt of the firm. This (tightens away the moneyed people. They are reluctant to join those who have ability; skill but no capital.
2. *Short Life:* After the death or retirement of any one partner, the partnership may come to an end.
3. *Insufficient Capital:* If can raise much less capital as compared to joint stock company. This prevents the expansion of the business to take advantage of increased demand.
4. *Disagreement:* Sometimes due to misunderstanding friction may arise between the partners which adversely affects the efficiency and expansion of the business.
5. *Less Secrecy:* A partner may withdraw from the firm and establish his own enterprise with the knowledge of the secrets of the business.
6. *Non-Transfer of Partnership:* No partner can transfer his interest in the firm to any body without the unanimous consent of other partners.

7. *No direct relation between efforts and rewards:* The profits are shared by the partners. So, there is no incentive for hard working. Sometimes it encourages lavish expenditure.
8. *Lack of Public Confidence:* As the financial matters are strictly confined to partners only, and in absence of any strict legal control over the affairs of partnership, there is much less Public confidence in partnership. It creates suspension in the mind of the outsiders who are dealing with firm.

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

Difference between Individual Ownership and Partnership

Basis	Individual Ownership	Partnership
Members	Individual Owner (One Man Business)	Minimum 2 Maximum 20
Formation	No agreement is required for its formation.	An agreement (Partnership Deed) is required for its formation.
Capital	Limited capital contributed only by the owner.	Comparatively large capital contributed by number of partners.
Registration	Not necessary	Registration is under the Partnership Act 1932.
Risk/Profit	Individual owner has to bear the risk and enjoys the entire profit.	Risk spread out amongst the partners. Profit is shared according to the agreement reached between them.
Management	Individual owner has to manage the entire business.	The management of the business is shared by the partners.
Secrecy	The individual entrepreneur can easily maintain the secrets of the business.	A partner may withdraw from the firm and establish his own enterprise with the knowledge and secrets of business.
Soundness of decisions	An individual owner may not be an expert in all aspects of business. Hence sometimes his decisions may go wrong.	The problem is examined from more than one point of view. Hence decisions arrived are likely to be sounder.
Suitability	Suitable for small scale business only.	Suitable for small as well as medium scale business.
Division of Labour	Not possible	The partners divide the work among themselves. Division of labour is thus possible to some extent.

Joint Hindu Family Business (HUF)

It is a form of family business governed by the Hindu Law. Two systems of inheritance are common:

a) ***Dayabhaga***→ Both male and female members of the family can become co-partners in the family business or property. It is only found in West Bengal in India.
b) ***Mitakashara***→ This system is found in India at places other than West Bengal. Only the male members of the family can become the co-partner in the family business.

Features

1. The management of business is handled by Karta of the family.

2. Membership is granted by birth of a child. In case of mitakashara system, only male child gets automatic membership after the birth.
3. Minors can become full-fledged members.
4. There is no limit on numbers of members. However, the lower limit is two members.
5. There is no need for the registration of the family business.
6. Any member can ask for his share of account from the Karta.
7. The liability of Karta is unlimited, while the liability of other members is limited to the share of their property.

Joint Stock Company

The most important feature of a joint stock company is that it is an association of individuals called shareholders who join together. They agree to supply capital divided into shares and want to share profit. It is that form of business activity, which is most suited for large-scale business. It does not suffer from limitations of capital & management as in case of partnership firms. Sufficient number of skilled persons and experts may be employed to run the business professionally. The company is managed by a Board of Directors elected by the shareholders who make policies, take decisions and run the company. The companies are formed and registered Under the Indian Companies Act, 1956.

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

Characteristics of Joint Stock Company:

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

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

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

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

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

The memorandum of association contains:

1. The name of the Company.
2. Its aim and objectives.
3. The location of head office.
4. The amount of share capital.
5. The kind and value of each share.

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

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

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

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

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

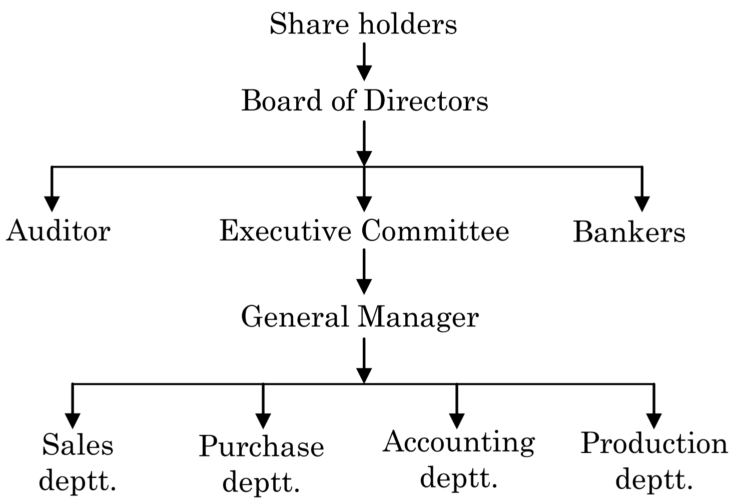


Diagram 1.7 Organisation structure of Joint Stock Co.

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

a) ***Private Limited Company***→ It is established by an Article of Association, which has the following main features:
   - ➢ Restriction on the right of the members in transferring the shares.
   - ➢ Decides the number of its members which can be between 2 to 50.
   - ➢ Restricts involvement of public, other than its member, to subscribe its shares or debenture.
   - ➢ A private company must get its accounts audited.
   - ➢ The company need not circulate the Balance Sheet, Profit and Loss Account etc. among its members; but it should hold its annual general meeting and place such financial statements in the meeting.

- A Private Ltd. Company enjoys a separate legal status, continuity of life, benefit of limited liability, larger capital raising power, business secrecy to certain extent and above all the number of privileges and exemptions (not possible for public company) as per Companies Act.

b) ***Public Limited Company***→ It is also established by an Article of Association, which has the following main features:
   - No restriction on the right of the members in transferring the shares.
   - Puts no upper limit on the number of members. Minimum number of shareholders is seven.
   - Keeps the company free to invite public to subscribe its shares or debentures.
   - It has to hold a general meeting of its shareholders every year.
   - The company must gets its account audited every year by registered auditors.
   - Public limited companies are subjected to greater control and supervision of the Government. This control is necessary to protect the interest of the shareholders and the members of the public.
   - Shares are transferable without any prior approval.
   - The affairs of the company are managed by "Board of Directors".

Advantages of Joint Stock Company:

1. *Economies of Large Scale:* Joint stock company can take advantage of internal and external economies in buying and selling, lower overhead charges relating to distribution, publicity and administration, research and experiments etc.
2. *Limited Liability:* The shareholders have a limited liability. It is limited only to the value of their shares. In case the company fails the personal property of the shareholders cannot be attached by the creditors.
3. *Huge Capital:* The capital of the company is raised by the sale of shares. The value of each share is low, this attracts all sorts of people, rich and poor to invest their capital. Therefore, large amount of capital can be raised.
4. *Share Transferable:* When the shareholder needs money he can get it by selling his shares.
5. *Economies Administration:* The directors have not to be paid salaries but just a fee for attending the Board meeting. Thus, the company can get advice of persons of mature wisdom and good experience at a small cost.
6. *Democratic:* The directors are elected by shareholders in case the shareholder feel that the directors are not working properly they can be removed and new directors chosen in their places.
7. *Permanent Existence*: Any number of shareholders may leave it, but the company continues.
8. *Legal Control*: The Government exercises control over working of the company. The object is to prevent fraud and to protect the interest of shareholders and the public at large.
9. *Risk Spread Out:* There are large number of investors and secondly, an individual investor can buy shares of different companies and thus widely distribute his risk of loss.
10. *Mobilization of Scarce Saving:* Limited liability, transferability of shares and unlimited membership makes the joint stock company a very effective instrument for mobilization of scarce saving of the society towards industrialization.
11. Accelerated economic growth of the country is possible through industrialization.
12. It creates huge employment possibilities.

Disadvantages of Joint Stock Company:

1. *Dishonest directors may exploit the shareholders:* The transferability of shares kills the interest of the shareholders, therefore the directors are all in all, they can deceive the shareholders.
2. *Legal Complexities:* Its formation, functioning involves very large legal procedures.
3. *It is democratic in theory only:* Due to small capital of each shareholders, transferability of shares and since the shareholders are from different parts of the country, they do not take active interest in the affairs of the company. Therefore, the real power to run and manage the business is in the hands of the directors. The directors, self elected at first manage to get themselves re-elected.
4. *Delay in Decisions:* The Board of Directors manages over affairs of a joint stock company and hence quick decisions are not possible. Moreover there may be disagreement among directors which may hamper the business.
5. Favourisms: The directors may show favourism by selecting their own persons for high posts.
6. *Difficult Labour Relations*: The owners of company have no personal touch with the employees. There are often labour troubles. Inspite of these disadvantages, business on a large scale can only be started and run successfully in this manner.
7. *Lack of Initiative and Personal Interest:* Lack of personal interest on the part of salaried managers may lead to inefficiency and waste (because there is no direct relation between effort and income for them).
8. Concentration of economic power and wealth in a few hands.
9. *Misuse of Internal Information:* Misuse of internal information by the managing group in bringing wide fluctuations in the market price of equity shares is possible.

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

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

Difference between Joint Stock Company and Partnership

Basis	Joint Stock Company	Partnership
Members	In pvt. Ltd. co. minimum no. of shareholders is 2 and maximum no. is 50. In public ltd. co., minimum no. of members is 7 and there is no maximum limit.	Minimum 2 Maximum 20
Liability	Liability is limited to the value of their share.	The liability of the members is unlimited.
Capital	Large amount of capital can be collected.	Limited capital.
Management	It is managed by the elected board of directors.	It is managed by the partners.
Transfer of shares	In Public ltd. co., the shares are transferable, but not in private limited company.	The partner cannot transfer his share without the consent of all other partners.
Life	It has short life. The partnership may	It has permanent or perpetual

	come to an end due to death or retirement of any partner.	existence.
Formation	It can be started very easily. Procedure for registration is simple and moreover registration is not compulsory.	Its formation, functioning involves very large legal procedures.
Acts	It is governed by the Partnership Act, 1932.	It is governed by the Indian Companies Act, 1956.

Difference between Private & Public Limited Joint Stock Companies

Basis	Private Limited Co.	Public Limited Co.
Members	Minimum – 2 members Maximum – 50 members	Minimum – 7 members Maximum – No limit
Membership	The membership is confined to close friends and relatives of the promoters; they contribute their capital. They cannot invite public to share the capital.	The membership is open to the general public. Any person interested can contribute and become shareholder.
Election of Directors	There is no need of holding a statutory meeting to elect the director.	The statutory meeting has to be held and the shareholders elect the directors.
Resale of shares	The shares cannot be resold or transferred without the consent of the company.	The shares can be resold or transferred without the consent of the company.
Audit of Accounts	There is no legal provision of the audit of company's accounts.	The accounts have to be audited legally and circulated among the members of the company.
Name	It has to use words 'Private Limited' at the end of its name.	It has to use only the word 'Limited' at the end of its name.
No. of Directors	It has to have minimum 2 directors.	It has to have minimum 3 directors.
Minimum Capital	Can be started with any amount without any legal binding.	Minimum lay-down capital is legally required before starting the business.
Legal Control	There are less legal controls.	Regulations are more strict.
Remuneration of Directors	Restrictions are less for Directors' Remuneration.	Remuneration of Directors is restricted to 11% of the net profits.

1.8 CO-OPERATIVE SECTOR ENTERPRISES (SOCIETIES)

Co-operative or societies is a form of organization, wherein persons voluntarily associate together on the basis of equality for the fulfillment of their common economic interests. The basic aim of cooperative organization is self-help through mutual cooperation.

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

"A Co-operative organisation is an association of persons, usually of limited means, who have voluntarily joined together to achieve a common economic end through the formation of a democratically controlled organisation, making equitable contributions to the capital required, and accepting a fair share of risks and benefits of the undertaking".

"A co-operative society is a voluntary association of economically weak persons who work for achievement of their common economic objectives on the basis of equality and mutual service.

The definitions given above clearly illustrate the distinctive characteristics or the principles of cooperative organisation. Thus, if we have (1) Common need (2) its full realization by all, and (3) Willingness to seek the common objective by joint action, the only method is co-operation. Co-operative spirit is the heart of a co-operative society. "Each shall work for all and all for each" is the motto of co-operation.

The members supply the capital, manage the business and share all profits and losses. The main object of co-operative society is to promote self help and mutual assistance among men of moderate means and income, having needs and interest in common. Such men are industrial workers, small artisans, agriculturists and members of middle class. Mutual trust, mutual supervision, self-reliance, spontaneity and equality are the five pillars of a cooperative organisation and co-operative spirit is the backbone.

Distinctive Features/Characteristics of Cooperative Organisation

Main characteristics of co-operative organisation are as follows:

1. *Voluntary Organisations:* Co-operative society is a voluntary organisation. A member can contribute his membership as long as he desires and can withdraw his capital and discontinue his membership by giving a notice.
2. *Open Membership:* There is no limit to its members. Membership is open to all adults, whether man or woman, rich or poor without any distinction of caste, creed and religion. Value of each share is quite less which a poor can also afford.
3. *Economic and Democratic Management:* The management is based on democratic lines of equality. Every member can cast only one vote irrespective of the number of shares he may hold. A man having only one share can become the president of the cooperative organisation. Generally, the management is honorary.
4. *Profit is not Important:* The objective of co-operative society is to promote self-help and mutual assistance and thus to serve the members and not to earn profit.
5. *Spirit of Co-operation:* Under co-operation service is of primary importance and self-interest is of secondary importance. "Each for all and all for each" is the motto of co-operative organisation.
6. *Unity:* Unity of joint action is the basis of co-operation.
7. *Common Interest:* The members come together to fulfil their common interest. If may be a so or economy activity such as agriculture trade, finance, manufacturing etc.
8. *Co-operative Status:* A co-operative society has to be registered under separate legislation. It gives a separate legal status and certain exemptions and privileges under the act.

Aims and Objectives of Industrial Co-operatives

As already described the main objective of co-operative society is to promote self-help and mutual assistance and fulfil their common economic interest. However, some of the objectives of industrial cooperatives may be as follows:

1. To purchase and supply raw-materials, tools and equipment to members.
2. To secure contracts and execute them with the help of members.
3. To market the finished goods of members.
4. To purchase machinery for giving on hire to members.
5. To borrow funds from members and non-members.
6. To grant loans and advances to members on the security of raw-materials and finished goods belonging to them.

7. To undertake all such activities as are conductive or incidental to the accomplishment of the aforesaid objectives and secure material and social progress of all members.
8. From the social point of view, the industrial co-operatives are expected to safeguard the interest of the poorer sections of community against exploitation by the capitalists and lead to equitable distribution of wealth and income.

Formation of Co-operative Societies

In our country there is a special legislation governing the registration, working and management of co-operative organisations. To start a co-operative society an application is submitted to the Registrar of Co-operative Societies. The application for registration should provide all essential information e.g. name and address of the society, its aims and objectives, particulars of share capital etc. The application should be signed by at least 10 members. The application should accompany duplicate copies of Bylaws, i.e. rules and regulations governing the internal organisation and management of the society. The Registrar after the scrutiny of the application, if satisfied with the soundness will issue a certificate of registration and the society will be formed. Once the society is duly registered, it can admit new members and also issue it shares.

Types of Co-operative Societies

There are basically four types of societies:

1. *Producer cooperatives* which work for group buying and selling such items as grains, fruit, dairy products, etc. In this form of co-operative, the workers wish to be their own masters the business is owned by them. They elect their own managers. They are their own employees. The profit instead of enriching the few individuals, goes to the actual workers. The workers are supposed to put in very hard work. There are no strikes and lock-outs. It prevents the workers from being exploited; and teaches them how to work in team spirit. This type of ownership is suitable where large capital and much technical and expert knowledge is not needed.
2. *Consumer's cooperatives* which work in retail trade and services. The consumers living in a particular area combine together. Each contributes a small capital. A store is opened in which articles of common use are stocked and sold at reasonable prices. Such co-operative stores are found in many colleges and schools in India.
3. *Housing cooperatives* which work for constructing and providing houses to the members. Housing Co-operative societies are formed for the purpose of getting plots or constructing houses for the needy persons, Government provides great facilities (Providing loans at low rate of interest etc.) for this purpose.
4. *Credit cooperatives* which provide loans to its needy members. A credit co-operative society may be formed by persons working in the same organisation to provide loans to the members in case of financial difficulties or for purchasing necessities of their life such as cloth, wheat etc.

Advantages and Disadvantages of the Co-operative Organisation

In general the advantages and disadvantages of the co-operative organisation are as follows:

Advantages:

1. Co-operative societies protect the interest of the weaker section of the community as under:
   a) Provide better methods and tools of production to small manufacturers and craftsmen.
   b) Help the farmers in farming and marketing their products efficiently.

c) Provide financial assistance at moderate rate of interest.
d) Opening of super bazaar types of stores gives relief to the weaker section of the society and helps in establishing price level.

2. *Elimination of Middleman:* The commodities are purchased directly from the manufacturers and supplied to the members. If thus eliminates the profit of middlemen; and the goods can be sold at cheaper rates.
3. *Services Motive:* The co-operative sector is based on service motive and therefore, ther$, is no question of profit making, black marketing etc.
4. *Democratic Nature:* Its management is democratic, elected by shareholders.
5. *Sense of Co-operation:* It promotes a sense of co-operation among the members and also among the people of the locality. Thus it serves the social purpose also.
6. *Socially Neglected Class:* Provides occupation and means of earning to socially neglected class like widows, physically handicapped or poor section of the community.

Disadvantages:

1. *Lack of Co-ordination:* It may suffer due to lack of co-ordination between various members. Conflict may arise in sharing of duties and responsibilities and also in sharing produce and profit.
2. *Chances of Undue Advantages:* Some of the forceful members sometimes try to take undue advantages and succeed in it.
3. *Favourism:* The executive committee and the employees favour their friends and relatives at the cost of other members.
4. *Limited Capital:* Co-operatives are generally association of low income group people. They cannot finance expanding business.
5. *Inefficient Management:* The lack of educated and trained persons practically in villages badly affects the successful working of the Co-operative Organisation.
6. *Political Influence:* Many a time co-operatives are exploited by the politicians for their selfish gains.

Difference between Co-operative and Joint Stock Company

Basis	Co-operative Society	Joint Stock Co.
Formation	Under co-operative society Act.	Under companies Act.
Members	Minimum – 10 members	Minimum members are 2 for Pvt. Ltd. Co. and 7 for Public Ltd.
Fundamental Principles	(i) Spirit of co-operation. (ii) Promote self help and mutual assistance among members. (iii) Unity of purpose. (iv) Community interest. (v) Socialist bias.	Spirit of competition. No need for unity of purpose capitalistic bias. Large number of shareholders.
Membership	Generally local or regional territory (from limited area)	Wide spread membership.
Capital	Limited.	Large Capital.
Transfer of Shares	A member can withdraw his share capital, shares are not transferable.	Shares are transferable (public limited company)
Distribution of Profit	(i) Maximum dividends on shares 12 p.c. (ii) Its main purpose is to serve members profit is not important.	Profit motive.

Privileges	Govt. gives special privileges to encourage co-operative movement.	No such special privileges. On the other hand, Govt. exercises strict legal control.
Management	Democratic with equal voting rights (One Man – One Vote)	Democratic unequal voting rights (One Share – One Vote)
Contact	Members are generally known to each other. They come together to fulfill their common needs.	Shareholders have no contact with each other. They invest money to earn profit.
Life	Life is short. It may be dissolved if the common need is fulfilled, members lose their interest.	Perpetual or permanent existence.

1.9 PUBLIC SECTOR ENTERPRISES

Faster and planned economic development cannot be fulfilled by private sector alone. Hence, the public sector has to play a key role to accomplish quick industrialisation and rising standard of living of the people through developing key and basic industries, e.g. Iron and steel industries, aircraft, defence industries, fertilizer industries etc. In our country, the expansion of the public sector was in accordance with Industrial Policy Resolution, 1948 and 1956 and as per the directives of our Five-Year Economic Plans.

A pubic sector enterprise is owned and managed by the State (government). The aim of such enterprises is not to earn profit but to prevent unbalanced growth of industries and ultimately attain self-reliancy. Such enterprises are accountable for their results to Parliament and State Legislature. Public enterprises are mostly operated in case of public utility services like water supply, electricity, transportation, etc. Public sector includes (i) State Enterprises and (ii) Public Corporations.

Objectives of Public Sector

1. Equitable distribution of wealth and income by preventing concentration of economic power in few hands.
2. Balanced economic development through spreading of industrial location.
3. Adequate employment opportunities.
4. Speedy agricultural and industrial development without the growth of monopolies.
5. Self-sufficiency of the nation in modern technology and managerial skills so that in due course, the country need not depend on foreign collaboration in capital technology, skill, etc.
6. To act as role-model for private sector by avoiding exploitation of workers and consumers.

Advantages and Disadvantages of the Public Sector

Advantages of Public Sector

1. Public sector helps in the growth of those industries which require huge amount of capital and which cannot flourish under the private sector.
2. Due to the absence of profit motive in the public sector, the consumers are benefited by greater, better and cheaper products.
3. Public enterprises prevent the concentration of wealth in the hands of a few and make the way for equitable distribution of wealth among different sections of community.
4. Public sector enterprise encourages industrial growth of under-developed regions in the country.

5. Profits earned by public sector may be used for the general welfare of the community.
6. Public sector offers equitable employment opportunities to all.
7. Capital, raw material, fuel, power and transport are easily made available to them.

Disadvantages of Public Sector

1. Public sector can rarely achieve the efficiency of a private enterprise; wastage & inefficiency can hardly ever be reduced to a minimum.
2. Due to heavy administrative expenses, state enterprises are mostly run at a loss leading to additional burden of taxation on the people.
3. There is too much interference by the Government and Politicians in the internal affairs of the public enterprises. As a result, inefficiency increases.
4. Delay in decisions is a very common phenomenon in public enterprises.
5. Incompetent persons may occupy high levels.
6. Workers avoid work unlike in private concerns

Difference between Private Sector and Public Sector

Basis	Private Sector	Public Sector
Objective	The main objective is to earn more & more profits.	Social benefit is of primary importance while profit motive is given secondary importance.
Management	The enterprise is owned & managed by individual or a group of individuals.	It is owned & managed by the Central or State Government.
Capital	There is a limit to the capital which can be raised by private sector.	Govt. has sufficient funds and can borrow more if needed, in the money market at lower rate. Hence, large amount of capital can be collected.
Distribution of wealth	It causes concentration of wealth in the hands of few capitalists.	It leads to equitable distribution of wealth and income.
Competition	Private sector has to face competition in the market.	There is absence of competition. Generally the projects undertaken needs huge capital and private sector is not attracted to them.
Domination on goods	It dominates in the production of consumer goods.	It generally dominates in the production of producer goods.
Exploitation of public	There are chances of exploitation of general public (workers & consumers)	They are subjected to greater control and it helps to protect the workers & consumers from exploitation.
Growth of industries	It leads to unbalanced growth of industries.	It encourages industrial growth of under-developed regions in the country.
Wastage	Wastage of material & labor is minimum.	It can rarely achieve the efficiency of a private enterprise; wastage & inefficiency can hardly ever be reduced to a minimum.

1.10 COMPARATIVE EVALUATION OF DIFFERENT FORMS OF BUSINESS OWNERSHIP

Forms of Ownership	Sole proprietorship	Partnership	Private Ltd. Co.	Public Ltd. Co.	Co-operative Society
Ease of formation	Easiest, no legal formalities	Easy, only an agreement required	Difficult some legal formalities are to be followed	Very difficult, several legal formalities	Easier legal formalities
Registration	Not necessary	Optional	Compulsory	Compulsory	Compulsory
Membership	Single membership	Minimum - 2 Maximum - 20	Minimum - 2 Maximum - 50	Minimum - 7 Maximum No limit	Minimum - 10
Legal Status	No separate legal existence	No separate legal status	Separate legal status	Separate legal status	Separate legal status
Liability of members	Unlimited, full risk	Unlimited	Limited	Limited	Limited
Capital & Suitability	Limited Capital, small scale business	Moderate Capital, Suitable for small & medium size business	Large Capital, Suitable for medium scale industries	Very Large, Suitable for large scale industries	Limited Capital, Suitable for small and medium size business
Management and Control	Quick decisions, Individual owner controls the business	Unanimous decisions Limited specialization. Partners controls the business	Board decisions, Greater specialization. Ownership and control goes together management.	Board decisions, Greater specialization, Divorce ownership and management.	Divorce between ownership and management
Transferability of Interest	At will	With mutual consent	Restricted as Articles of Association	Freely transferable	Restricted
Stability	short life	Less stable may be dissolved by death, insolvency of Partner.	Perpetual existence	Perpetual existence	Comparatively short life.
Business Secrecy	Perfect Secrecy	Secrets limited to partner	Secrets shared by members	Secrets shared with public.	Secrets limited to members.