UNIT – III

INTRODUCTION TO MARKET AND PRICING STRATEGIES

MARKET

Market is a place where buyer and seller meet, goods and services are offered for the sale and transfer of ownership occurs. Economists describe a market as a collection of buyers and sellers who transact over a particular product or product class (the housing market, the clothing market, the grain market etc.). For business purpose we define a market as people or organizations with wants (needs) to satisfy, money to spend, and the willingness to spend it.

Definition:

According to **Philip Kotler** "Market is a societal process by which individuals and groups obtain what they need and want through creating, offering and freely exchanging products and services of value with others".

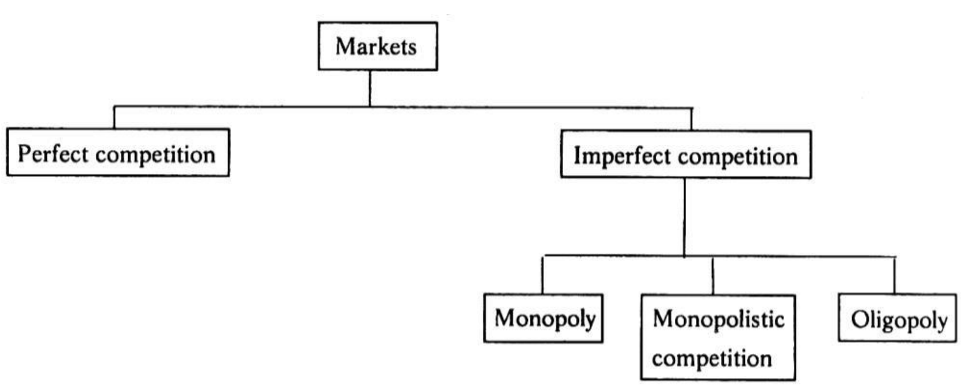
Market Structure

Market structure describes the competitive environment in the market for any good or service. A market consists of all firms and individuals who are willing and able to buy or sell a particular product. This includes firms and individuals currently engaged in buying and selling a particular product, as well as potential entrants. These are the main areas in the market, they are

- Seller contribution
- Buyer contribution
- Product differentiation
- Conditions of entry into the market.(competition)

Types of Competition

The market can be divided into two types.,



Perfect Competition

Perfect competition refers to a market structure where competition among the sellers and buyers prevails in its most perfect form. In a perfectly competitive market, a single market price prevails for the commodity, which is determined by the forces of total demand and total supply in the market

Characteristics/Features of Perfect Competition

The following features characterize a perfectly competitive market:

1. **A large number of buyers and sellers:** The number of buyers and sellers is large and the share of each one of them in the market is so small that none has any influence on the market price.
2. **Homogeneous product:** The product of each seller is totally undifferentiated from those of the others.
3. **Free entry and exit**: Any buyer and seller is free to enter or leave the market of the commodity.
4. **Perfect knowledge**: All buyers and sellers have perfect knowledge about the market for the commodity.
5. **Indifference:** No buyer has a preference to buy from a particular seller and no seller to sell to a particular buyer.
6. **Non-existence of transport costs**: Perfectly competitive market also assumes the non-existence of transport costs.
7. **Perfect mobility of factors of production**: Factors of production must be in a position to move freely into or out of industry and from one firm to the other.

Under such a market no single buyer or seller plays a significant role in price determination.

Imperfect competition

A competition is said to be imperfect when it is not perfect. Based on the number of buyers and sellers, the structure of market varies as outlined below: “poly” refers to seller and “psony” refers to buyer. Imperfect competition has three types, they are,

1. Monopoly
2. Monopolistic competition
3. Oligopoly

Monopoly

The word monopoly is made up of two syllables, Mono and poly. Mono means single while poly implies selling. Thus monopoly is a form of market organization in which there is only one seller of the commodity. There are no close substitutes for the commodity sold by the seller. Pure monopoly is a market situation in which a single firm sells a product for which there is no good substitute.

Features of monopoly

The following are the features of monopoly.

1. **Single person or a firm:** A single person or a firm controls the total supply of the commodity. There will be no competition for monopoly firm. The monopolist firm is the only firm in the whole industry.
2. **No close substitute:** The goods sold by the monopolist shall not have closely competition substitutes. Even if price of monopoly product increase people will not go in far substitute. For example: If the price of electric bulb increase slightly, consumer will not go in for kerosene lamp.
3. **Large number of Buyers:** Under monopoly, there may be a large number of buyers in the market who compete among themselves.
4. **Price Maker:** Since the monopolist controls the whole supply of a commodity, he is a price-maker, and then he can alter the price.
5. **Supply and Price:** The monopolist can fix either the supply or the price. He cannot fix both. If he charges a very high price, he can sell a small amount. If he wants to sell more, he has to charge a low price. He cannot sell as much as he wishes for any price he pleases.
6. **Downward Sloping Demand Curve:** The demand curve (average revenue curve) of monopolist slopes downward from left to right. It means that he can sell more only by lowering price.

Monopolistic competition

When large number of sellers produce differentiated products , monopolistic competition is said to exist. A product is said to be differentiated when its important features vary.

Characteristics of Monopolistic Competition

The important characteristics of monopolistic competition are:

1. **Existence of Many firms:** Industry consists of a large number of sellers, each one of whom does not feel dependent upon others. Every firm acts independently without bothering about the reactions of its rivals. The size is so large that an individual firm has only a relatively small part in the total market, so that each firm has very limited control over the price of the product.

2. **Product Differentiation:** Product differentiation means that products are different in some ways, but not altogether so. These products are relatively close substitute for each other but not perfect substitutes. Consumers have definite preferences for the particular verities or brands of products offered for sale by various sellers. Advertisement, packing,

trademarks, brand names etc. help differentiation of products even if they are physically identical.

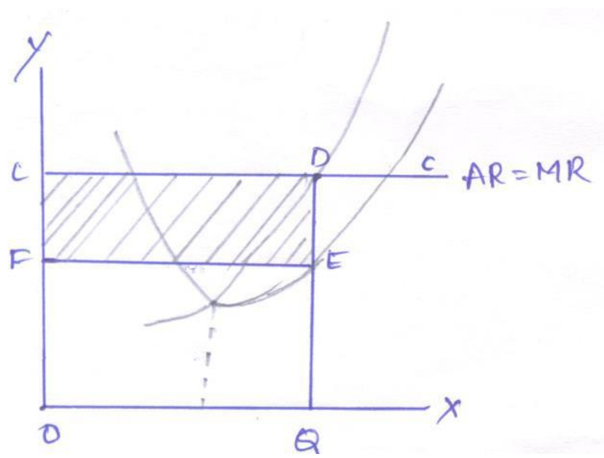
3. **Large Number of Buyers:** There are large number buyers in the market. But the buyers have their own brand preferences. So the sellers are able to exercise a certain degree of monopoly over them. Each seller has to plan various incentive schemes to retain the customers who patronize his products.
4. **Free Entry and Exist of Firms:** As in the perfect competition, in the monopolistic competition too, there is freedom of entry and exit. That is, there is no barrier as found under monopoly.
5. **Selling costs:** Since the products are close substitute much effort is needed to retain the existing consumers and to create new demand. So each firm has to spend a lot on selling cost, which includes cost on advertising and other sale promotion activities.
6. **Imperfect Knowledge:** Imperfect knowledge about the product leads to monopolistic competition. If the buyers are fully aware of the quality of the product they cannot be influenced much by advertisement or other sales promotion techniques. But in the business world we can see that thought the quality of certain products is the same, effective advertisement and sales promotion techniques make certain brands monopolistic.

PRICE AND OUTPUT DETERMINATION UNDER PERFECT COMPETITION

Price Determination in the short period

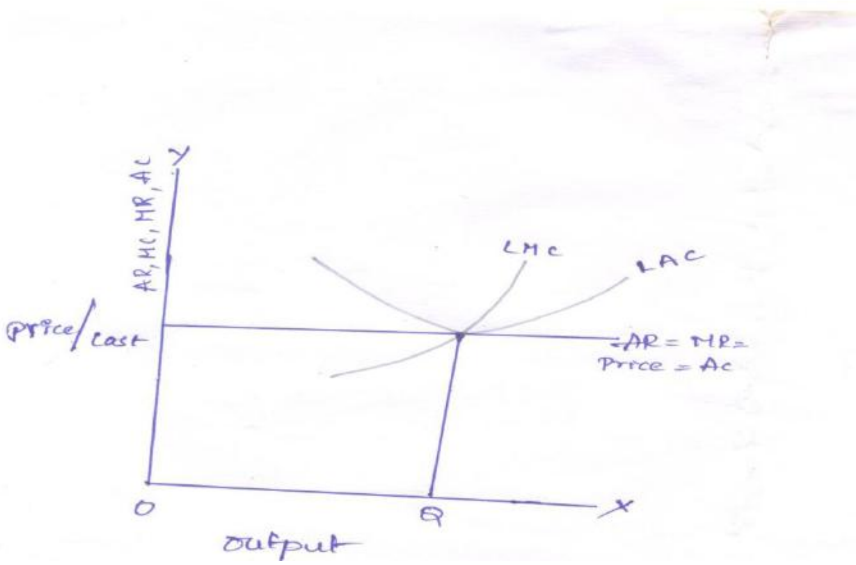
Short period is a period in which supply can be increased by altering the variable factors. In this period fixed costs will remain constant. The supply is increased when price rises and vice versa. So the supply curve slopes upwards from left to right.

The price in short period may be explained with the help of a diagram.



Price Determination in the short period:

"Long-run" period is a period of many years. Long period is the time during which the supply conditions are fully able to meet the new demand conditions. In the long-run both fixed as well as variable factors are variable. In this period, new plants can be installed and new firms can enter into the market and the old firms can leave the market. Long period price is called by Adam Smith as "natural price" and Marshall called it as 'normal price'. According to Marshall, "The normal value or price of a commodity is that which economic forces would tend to bring about in the long-run."



Price – Output Determination under Pricing under Monopoly

Monopoly refers to a market situation where there is only one seller. He has complete control over the supply of a commodity. He is therefore in a position to fix any price. Under monopoly there is no distinction between a firm and an industry. This is because the entire industry consists of a single firm.

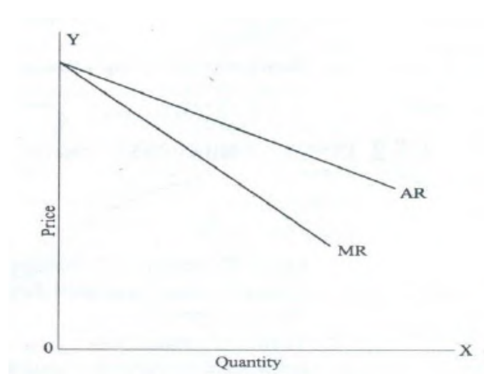
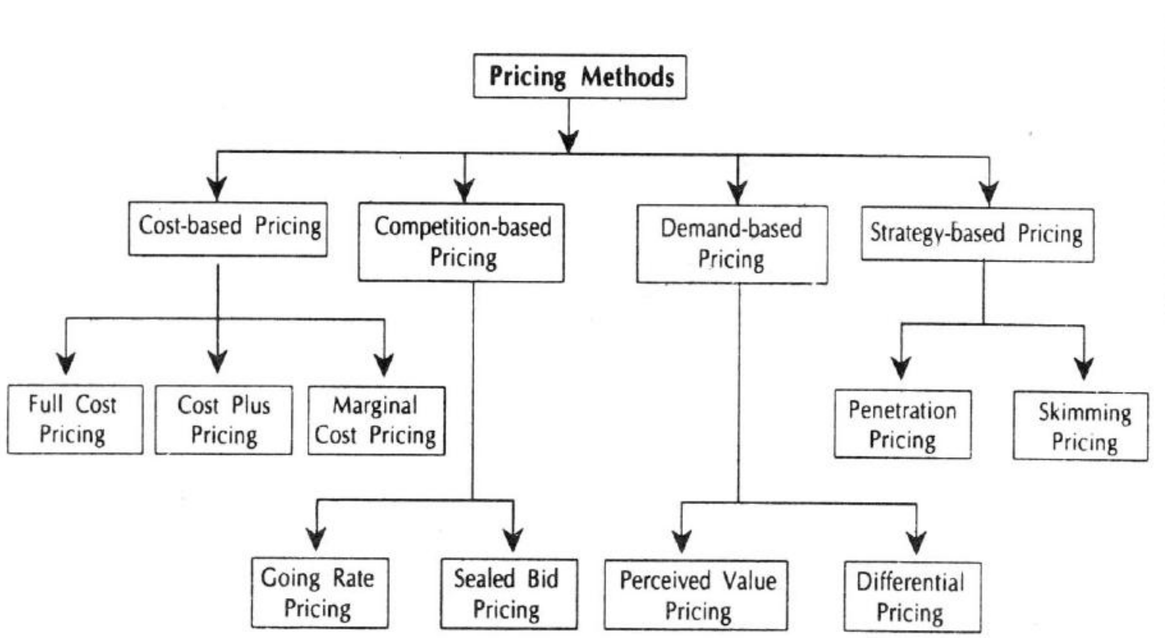


Fig. 6.11

Being the sole producer, the monopolist has complete control over the supply of the commodity. He has also the power to influence the market price. He can raise the price by reducing his output and lower the price by increasing his output. Thus he is a price-maker. He can fix the price to his maximum advantages. But he cannot fix both the supply and the price, simultaneously. He can do one thing at a time. If the fixes the price, his output will be determined by the market demand for his commodity. On the other hand, if he fixes the output to be sold, its market will determine the price for the commodity. Thus his decision to fix either the price or the output is determined by the market demand.

PRICING METHODS

Pricing is an exercise, under pricing will results in losses and over pricing will make the customers run away. To determine pricing in a scientific manner. It is necessary to understand the pricing objectives,pricing methods,procedures and policies.



1.COST- BASED PRICING METHODS :

Cost-plus pricing

Cost-plus pricing is the simplest pricing method. The firm calculates the cost of producing the product and adds on a percentage (profit) to that price to give the selling price. This method although simple has two flaws; it takes no account of demand and there is no way of determining if potential customers will purchase the product at the calculated price.

This appears in two forms, Full cost pricing which takes into consideration both variable and fixed costs and adds a % markup. The other is direct cost pricing which are variable costs plus a % markup, the latter is only used in periods of high competition as this method usually leads to a loss in the long run.

Marginal cost pricing

Selling price is fixed in such a way that it covers fully the variable or marginal cost and contributes towards recovery of fixed costs fully or partly, depending upon the market situations. This is also called Break-even pricing or target profit pricing.

2.COMPETITION – ORIENTED PRICING

Sealed bid pricing

Price quotes solicited by governmental and other public agencies to ensure objective consideration of competitive bids. Interested vendors are formally notified in advance of the request for a bid and must meet a bidding deadline as well as stringent bid format requirements. Sealed bids are sometimes opened publicly in the presence of all bidders. The lowest bid is awarded the order.

Going Rate Pricing:

Here the price charged by the firm is in tune with the price charged in the industry as a whole. Eg. When one wans to buy or sell gold, the prevailing market rate at a given point of time is taken as the basis to determine the price.normally the prevailing market rate at a given point of time is taken as the basis to determine the price.

3.DEMAND ORIENTED PRICING

Demand oriented pricing rules imply establishment of prices in accordance with consumer preference and perceptions and the intensity of demand. Thus if seller wishes to sell more he must reduce the price of his product, and if he wants a good price for his product, he could sell only a limited quantity of his good.

Perceived value pricing :

Perceived value pricing considers the buyer’s perception of the value of the product ad the basis of pricing. Here the pricing rule is that the firm must develop procedures for measuring the relative value of the product as perceived by consumers

Differential pricing:

Differential pricing is nothing but price discrimination. In involves selling a product or service for different prices in different market segments. Price differentiation depends on geographical location of the consumers, type of consumer, purchasing quantity, season, time of the service etc. E.g. Telephone charges, APSRTC charges.

4. STRATEGY BASED PRICING

Market skimming:

In most skimming, goods are sold at higher prices, . Skimming is usually employed to reimburse the cost of investment of the original research into the product: commonly used in electronic markets when a new range, such as DVD players,smart phones are firstly dispatched into the market at a high price. This strategy is often used to target "early adopters" of a product or service.

Market Penetration:

This is exactly opposite to he market skimming method.here the price of the product is fixed so low that the company can increase its market share, the company attins profits with increasing volumes and increase in the market share.

Two-Part Pricing:

The firms with market power can enhane profits by the strategy of two part pricing. Under this strategy , a firm charges a fixed fee for the right to purchase its goods, Plus a per unit charge for each unit purchased. Entertainment houses such as country clubs, athletic clubs, golf courses and health clubs usually adopt this strategy. They charge a fixed initiation fee plus a charge, per month or per visit.

Block Pricing:

Block pricing is another way a firm with ,market power can enhance its profits.Six Lux soaps in a single pack or five.by selling a certain no. of units of products as one package.

Commodity bundling:

Commodity Bundling refers to the practice of bundling two or more different products together and selling them as a single bundle price.The package deals offered by the the tourit companies, Airlines hold testimony to this practice.Computer firm offers offer PC’s ,assembling as per the customer specifications and offer them at a bundled Price.

Peak Load Pricing:

This has particular applications in public goods such as public urban transportation, where day demand (peak period) is usually much higher than night demand (off-peak period). By subtracting the marginal costs of operation from the original demands we find the marginal benefits of capacity, which must then be vertically aggregated and equated to the marginal cost of increasing capacity.

Business Organisation

Business Definition:

According to **Dicksee**, "Business refers to a form of activity conducted with an objective of earning profits for the benefit of those on whose behalf the activity is conducted."

Factors affecting the choice of form of business organization

The following are the factors affecting the choice of a business organization:

1. **Easy to start and easy to close:** The form of business organization should be such that it should be easy to close. There should not be hassles or long procedures in the process of setting up business or closing the same.
2. **Division of labour:** There should be possibility to divide the work among the available owners.
3. **Large amount of resources:** Large volume of business requires large volume of resources. Some forms of business organization do not permit to raise larger resources. Select the one which permits to mobilize the large resources.
4. **Liability:** The liability of the owners should be limited to the extent of money invested in business. It is better if their personal properties are not brought into business to make up the losses of the business.
5. **Secrecy:** The form of business organization you select should be such that it should permit to take care of the business secrets. We know that century old business units are still surviving only because they could successfully guard their business secrets.
6. **Transfer of ownership:** There should be simple procedures to transfer the ownership to the next legal heir.
7. **Ownership, Management and control:** If ownership, management and control are in the hands of one or a small group of persons, communication will be effective and coordination will be easier. Where ownership, management and control are widely distributed, it calls for a high degree of professional's skills to monitor the performance of the business.
8. **Continuity:** The business should continue forever and ever irrespective of the uncertainties in future.
9. **Quick decision-making:** Select such a form of business organization, which permits you to take decisions quickly and promptly. Delay in decisions may invalidate the relevance of the decisions.
10. **Personal contact with customer:** Most of the times, customers give us clues to improve business. So choose such a form, which keeps you close to the customers.
11. **Flexibility:** In times of rough weather, there should be enough flexibility to shift from one business to the other. The lesser the funds committed in a particular business, the better it is.
12. **Taxation:** More profit means more tax. Choose such a form, which permits to pay low tax.

Forms of business Organisation

1. Sole proprietorship
2. Partnership
3. Joints tock company
4. Public enterprises

Sole proprietorship:

The sole trader is the simplest, oldest and natural form of business organization. It is also called sole proprietorship. 'Sole' means one. 'Sole trader' implies that there is only one trader who is the owner of the business.

It is a one-man form of organization wherein the trader assumes all the risk of ownership carrying out the business with his own capital, skill and intelligence. He is the boss for himself. He has total operational freedom. He is the owner, Manager and controller. He has total freedom and flexibility. Full control lies with him. He can take his own decisions. He can choose or drop a particular product or business based on its merits. He need not discuss this with anybody. He is responsible for himself. This form of organization is popular all over the world. Restaurants, Supermarkets, pan shops, medical shops, hosiery shops etc.

Features

- It is easy to start a business under this form and also easy to close.
- He introduces his own capital. Sometimes, he may borrow, if necessary
- He enjoys all the profits and in case of loss, he lone suffers.
- He has unlimited liability which implies that his liability extends to his personal properties in case of loss.
- He has a high degree of flexibility to shift from one business to the other.
- Business secretes can be guarded well
- There is no continuity. The business comes to a close with the death, illness or insanity of the sole trader. Unless, the legal heirs show interest to continue the business, the business cannot be restored.
- He has total operational freedom. He is the owner, manager and controller.
- He can be directly in touch with the customers.
- He can take decisions very fast and implement them promptly.
- Rates of tax, for example, income tax and so on are comparatively very low.

Advantages

The following are the advantages of the sole trader from of business organization:

1. **Easy to start and easy to close**: Formation of a sole trader from of organization is relatively easy even closing the business is easy.

2. **Personal contact with customers directly:** Based on the tastes and preferences of the customers the stocks can be maintained.
3. **Prompt decision-making:** To improve the quality of services to the customers, he can take any decision and implement the same promptly. He is the boss and he is responsible for his business Decisions relating to growth or expansion can be made promptly.
4. **High degree of flexibility:** Based on the profitability, the trader can decide to continue or change the business, if need be.
5. **Secrecy:** Business secrets can well be maintained because there is only one trader.
6. **Low rate of taxation:** The rate of income tax for sole traders is relatively very low.
7. **Direct motivation:** If there are profits, all the profits belong to the trader himself. In other words. If he works more hard, he will get more profits. This is the direct motivating factor. At the same time, if he does not take active interest, he may stand to lose badly also.
8. **Total Control:** The ownership, management and control are in the hands of the sole trader and hence it is easy to maintain the hold on business.
9. **Minimum interference from government:** Except in matters relating to public interest, government does not interfere in the business matters of the sole trader. The sole trader is free to fix price for his products/services if he enjoys monopoly market.
10. **Transferability:** The legal heirs of the sole trader may take the possession of the business.

Disadvantages

The following are the disadvantages of sole trader form:

1. **Unlimited liability:** The liability of the sole trader is unlimited. It means that the sole trader has to bring his personal property to clear off the loans of his business. From the legal point of view, he is not different from his business.
2. **Limited amounts of capital:** The resources a sole trader can mobilize cannot be very large and hence this naturally sets a limit for the scale of operations.
3. **No division of labour:** All the work related to different functions such as marketing, production, finance, labour and so on has to be taken care of by the sole trader himself. There is nobody else to take his burden. Family members and relatives cannot show as much interest as the trader takes.
4. **Uncertainty:** There is no continuity in the duration of the business. On the death, insanity of insolvency the business may be come to an end.
5. **Inadequate for growth and expansion:** This from is suitable for only small size, one-man-show type of organizations. This may not really work out for growing and expanding organizations.
6. **Lack of specialization:** The services of specialists such as accountants, market researchers, consultants and so on, are not within the reach of most of the sole traders.

7. **More competition:** Because it is easy to set up a small business, there is a high degree of competition among the small businessmen and a few who are good in taking care of customer requirements along can service.
8. **Low bargaining power:** The sole trader is the in the receiving end in terms of loans or supply of raw materials. He may have to compromise many times regarding the terms and conditions of purchase of materials or borrowing loans from the finance houses or banks.

PARTNERSHIP

Partnership is an improved from of sole trader in certain respects. Where there are like-minded persons with resources, they can come together to do the business and share the profits/losses of the business in an agreed ratio. Persons who have entered into such an agreement are individually called 'partners' and collectively called 'firm'. The relationship among partners is called a partnership.

Indian Partnership Act, 1932 defines partnership as the relationship between two or more persons who agree to share the profits of the business carried on by all or any one of them acting for all.

Features

1. **Relationship:** Partnership is a relationship among persons. It is relationship resulting out of an agreement.
2. **Two or more persons:** There should be two or more number of persons.
3. **There should be a business**: Business should be conducted.
4. **Agreement:** Persons should agree to share the profits/losses of the business
5. **Carried on by all or any one of them acting for all:** The business can be carried on by all or any one of the persons acting for all. This means that the business can be carried on by one person who is the agent for all other persons. Every partner is both an agent and a principal. Agent for other partners and principal for himself. All the partners are agents and the 'partnership' is their principal.

The following are the other features:

1. **Unlimited liability:** The liability of the partners is unlimited. The partnership and partners, in the eye of law, and not different but one and the same. Hence, the partners have to bring their personal assets to clear the losses of the firm, if any.
2. **Number of partners:** According to the Indian Partnership Act, the minimum number of partners should be two and the maximum number if restricted, as given below:
3. 10 partners is case of banking business
4. 20 in case of non-banking business
5. **Division of labour:** Because there are more than two persons, the work can be divided among the partners based on their aptitude.
6. **Personal contact with customers:** The partners can continuously be in touch with the customers to monitor their requirements.
7. **Flexibility:** All the partners are likeminded persons and hence they can take any decision relating to business

<u>Partnership Deed</u>

The written agreement among the partners is called 'the partnership deed'. It contains the terms and conditions governing the working of partnership. The following are contents of the partnership deed.

1. Names and addresses of the firm and partners
2. Nature of the business proposed
3. Duration
4. Amount of capital of the partnership and the ratio for contribution by each of the partners.
5. Their profit sharing ration (this is used for sharing losses also)
6. Rate of interest charged on capital contributed, loans taken from the partnership and the amounts drawn, if any, by the partners from their respective capital balances.
7. The amount of salary or commission payable to any partner
8. Procedure to value good will of the firm at the time of admission of a new partner, retirement of death of a partner
9. Allocation of responsibilities of the partners in the firm
10. Procedure for dissolution of the firm
11. Name of the arbitrator to whom the disputes, if any, can be referred to for settlement.
12. Special rights, obligations and liabilities of partners(s), if any.

KIND OF PARTNERS

The following are the different kinds of partners:

1. **Active Partner:** Active partner takes active part in the affairs of the partnership. He is also called working partner.
2. **Sleeping Partner:** Sleeping partner contributes to capital but does not take part in the affairs of the partnership.
3. **Nominal Partner:** Nominal partner is partner just for namesake. He neither contributes to capital nor takes part in the affairs of business. Normally, the nominal partners are those who have good business connections, and are well places in the society.
4. **Partner by Estoppels:** Estoppels means behavior or conduct. Partner by estoppels gives an impression to outsiders that he is the partner in the firm. In fact be neither contributes to capital, nor takes any role in the affairs of the partnership.
5. **Partner by holding out:** If partners declare a particular person (having social status) as partner and this person does not contradict even after he comes to know such declaration, he is called a partner by holding out and he is liable for the claims of third parties. However, the third parties should prove they entered into contract with the firm in the belief that he is the partner of the firm. Such a person is called partner by holding out.

6. **<u>Minor Partner:</u>** Minor has a special status in the partnership. A minor can be admitted for the benefits of the firm. A minor is entitled to his share of profits of the firm. The liability of a minor partner is limited to the extent of his contribution of the capital of the firm.

Advantages

The following are the advantages of the partnership from:

1. **Easy to form:** Once there is a group of like-minded persons and good business proposal, it is easy to start and register a partnership.
2. **Availability of larger amount of capital:** More amount of capital can be raised from more number of partners.
3. **Division of labour:** The different partners come with varied backgrounds and skills. This facilities division of labour.
4. **Flexibility:** The partners are free to change their decisions, add or drop a particular product or start a new business or close the present one and so on.
5. **Personal contact with customers**: There is scope to keep close monitoring with customers requirements by keeping one of the partners in charge of sales and marketing. Necessary changes can be initiated based on the merits of the proposals from the customers.
6. **Quick decisions and prompt action:** If there is consensus among partners, it is enough to implement any decision and initiate prompt action. Sometimes, it may more time for the partners on strategic issues to reach consensus.
7. **The positive impact of unlimited liability:** Every partner is always alert about his impending danger of unlimited liability. Hence he tries to do his best to bring profits for the partnership firm by making good use of all his contacts.

Disadvantages:

The following are the disadvantages of partnership:

1. **Formation of partnership is difficult:** Only like-minded persons can start a partnership. It is sarcastically said,' it is easy to find a life partner, but not a business partner'.
2. **Liability:** The partners have joint and several liabilities beside unlimited liability. Joint and several liability puts additional burden on the partners, which means that even the personal properties of the partner or partners can be attached. Even when all but one partner become insolvent, the solvent partner has to bear the entire burden of business loss.
3. **Lack of harmony or cohesiveness:** It is likely that partners may not, most often work as a group with cohesiveness. This result in mutual conflicts, an attitude of suspicion and crisis of confidence. Lack of harmony results in delay in decisions and paralyses the entire operations.
4. **Limited growth:** The resources when compared to sole trader, a partnership may raise little more. But when compare to the other forms such as a company, resources raised in this form of organization are limited. Added to this, there is a restriction on the maximum number of partners.

5. **Instability:** The partnership form is known for its instability. The firm may be dissolved on death, insolvency or insanity of any of the partners.
6. **Lack of Public confidence:** Public and even the financial institutions look at the unregistered firm with a suspicious eye. Though registration of the firm under the Indian Partnership Act is a solution of such problem, this cannot revive public confidence into this form of organization overnight. The partnership can create confidence in other only with their performance.

JOINT STOCK COMPANY

The word ‘ company’ has a Latin origin, com means ‘ come together’, pany means ‘ bread’, joint stock company means, people come together to earn their livelihood by investing in the stock of company jointly.

Lord justice” Lindley” explained the concept of the joint stock company form of organization as “an association of many persons who contribute money or money’s worth to a common stock and employ it for a common purpose”.

Features

1. **Artificial person:** The Company has no form or shape. It is an artificial person created by law. It is intangible, invisible and existing only, in the eyes of law.
2. **Separate legal existence**: it has an independence existence, it separate from its members. It can acquire the assets. It can borrow for the company. It can sue other if they are in default in payment of dues, breach of contract with it, if any. Similarly, outsiders for any claim can sue it. A shareholder is not liable for the acts of the company. Similarly, the shareholders cannot bind the company by their acts.
3. **Voluntary association of persons**: The Company is an association of voluntary association of persons who want to carry on business for profit. To carry on business, they need capital. So they invest in the share capital of the company.
4. **Limited Liability**: The shareholders have limited liability i.e., liability limited to the face value of the shares held by him. In other words, the liability of a shareholder is restricted to the extent of his contribution to the share capital of the company. The shareholder need not pay anything, even in times of loss for the company, other than his contribution to the share capital.
5. **Capital is divided into shares**: The total capital is divided into a certain number of units. Each unit is called a share. The price of each share is priced so low that every investor would like to invest in the company. The companies promoted by promoters of good standing (i.e., known for their reputation in terms of reliability character and dynamism) are likely to attract huge resources.
6. **Transferability of shares**: In the company form of organization, the shares can be transferred from one person to the other. A shareholder of a public company can cell sell his

holding of shares at his will. However, the shares of a private company cannot be transferred. A private company restricts the transferability of the shares.

7. **Common Seal**: As the company is an artificial person created by law has no physical form, it cannot sign its name on a paper; so, it has a common seal on which its name is engraved. The common seal should affix every document or contract; otherwise the company is not bound by such a document or contract.
8. **Perpetual succession**: 'Members may comes and members may go, but the company continues for ever and ever' A. company has uninterrupted existence because of the right given to the shareholders to transfer the shares.
9. **Ownership and Management separated**: The shareholders are spread over the length and breadth of the country, and sometimes, they are from different parts of the world. To facilitate administration, the shareholders elect some among themselves or the promoters of the company as directors to a Board, which looks after the management of the business. The Board recruits the managers and employees at different levels in the management. Thus the management is separated from the owners.
10. **Winding up**: Winding up refers to the putting an end to the company. Because law creates it, only law can put an end to it in special circumstances such as representation from creditors of financial institutions, or shareholders against the company that their interests are not safeguarded. The company is not affected by the death or insolvency of any of its members.
11. **The name of the company ends with 'limited'**: it is necessary that the name of the company ends with limited (Ltd.) to give an indication to the outsiders that they are dealing with the company with limited liability and they should be careful about the liability aspect of their transactions with the company.

Formation of Joint Stock company

There are two stages in the formation of a joint stock company. They are:

- To obtain Certificates of Incorporation
- To obtain certificate of commencement of Business

Certificate of Incorporation: The certificate of Incorporation is just like a 'date of birth' certificate. It certifies that a company with such and such a name is born on a particular day.

Certificate of commencement of Business: A private company need not obtain the certificate of commencement of business. It can start its commercial operations immediately after obtaining the certificate of Incorporation.

The persons who conceive the idea of starting a company and who organize the necessary initial resources are called promoters. The vision of the promoters forms the backbone for the company in the future to reckon with.

The promoters have to file the following documents, along with necessary fee, with a registrar of joint stock companies to obtain certificate of incorporation:

1. **Memorandum of Association**: The Memorandum of Association is also called the charter of the company. It outlines the relations of the company with the outsiders. If furnishes all its details in six clause such as (ii) Name clause (II) situation clause (iii) objects clause (iv) Capital clause and (vi) subscription clause duly executed by its subscribers.
2. **Articles of association**: Articles of Association furnishes the byelaws or internal rules government the internal conduct of the company.
3. The list of names and address of the proposed directors and their willingness, in writing to act as such, in case of registration of a public company.
4. A statutory declaration that all the legal requirements have been fulfilled. The declaration has to be duly signed by any one of the following: Company secretary in whole practice, the proposed director, legal solicitor, chartered accountant in whole time practice or advocate of High court.

The registrar of joint stock companies peruses and verifies whether all these documents are in order or not. If he is satisfied with the information furnished, he will register the documents and then issue a certificate of incorporation, if it is private company, it can start its business operation immediately after obtaining certificate of incorporation.

Advantages

The following are the advantages of a joint Stock Company

1. **Mobilization of larger resources:** A joint stock company provides opportunity for the investors to invest, even small sums, in the capital of large companies. The facilities rising of larger resources.
2. **Separate legal entity:** The Company has separate legal entity. It is registered under Indian Companies Act, 1956.
3. **Limited liability:** The shareholder has limited liability in respect of the shares held by him. In no case, does his liability exceed more than the face value of the shares allotted to him.
4. **Transferability of shares:** The shares can be transferred to others. However, the private company shares cannot be transferred.
5. **Liquidity of investments**: By providing the transferability of shares, shares can be converted into cash.

6. **Inculcates the habit of savings and investments**: Because the share face value is very low, this promotes the habit of saving among the common man and mobilizes the same towards investments in the company.
7. **Democracy in management**: the shareholders elect the directors in a democratic way in the general body meetings. The shareholders are free to make any proposals, question the practice of the management, suggest the possible remedial measures, as they perceive, The directors respond to the issue raised by the shareholders and have to justify their actions.
8. **Economics of large scale production**: Since the production is in the scale with large funds at
    a. **Continued existence**: The Company has perpetual succession. It has no natural end. It continues forever and ever unless law put an end to it.
    b. **Institutional confidence**: Financial Institutions prefer to deal with companies in view of their professionalism and financial strengths.
    c. **Professional management**: With the larger funds at its disposal, the Board of Directors recruits competent and professional managers to handle the affairs of the company in a professional manner.
    d. **Growth and Expansion**: With large resources and professional management, the company can earn good returns on its operations, build good amount of reserves and further consider the proposals for growth and expansion.

All that shines is not gold. The company from of organization is not without any disadvantages. The following are the disadvantages of joint stock companies.

<u>Disadvantages</u>

1. **Formation of company is a long drawn procedure**: Promoting a joint stock company involves a long drawn procedure. It is expensive and involves large number of legal formalities.
2. **High degree of government interference**: The government brings out a number of rules and regulations governing the internal conduct of the operations of a company such as meetings, voting, audit and so on, and any violation of these rules results into statutory lapses, punishable under the companies act.
3. **Inordinate delays in decision-making**: As the size of the organization grows, the number of levels in organization also increases in the name of specialization. The more the number of levels, the more is the delay in decision-making. Sometimes, so-called professionals do not respond to the urgencies as required. It promotes delay in administration, which is referred to 'red tape and bureaucracy'.
4. **Lack or initiative**: In most of the cases, the employees of the company at different levels show slack in their personal initiative with the result, the opportunities once missed do not recur and the company loses the revenue.

5. **Lack of responsibility and commitment**: In some cases, the managers at different levels are afraid to take risk and more worried about their jobs rather than the huge funds invested in the capital of the company lose the revenue.
6. **Lack of responsibility and commitment:** In some cases, the managers at different levels are afraid to take risk and more worried about their jobs rather than the huge funds invested in the capital of the company. Where managers do not show up willingness to take responsibility, they cannot be considered as committed. They will not be able to handle the business risks.

PUBLIC ENTERPRISES

Public enterprises occupy an important position in the Indian economy. Today, public enterprises provide the substance and heart of the economy. Its investment of over Rs.10,000 crore is in heavy and basic industry, and infrastructure like power, transport and communications. The concept of public enterprise in Indian dates back to the era of pre-independence.

Need for Public Enterprises:

- The Industrial Policy Resolution 1956 states the need for promoting public enterprises as follows:
- To accelerate the rate of economic growth by planned development
- To speed up industrialization, particularly development of heavy industries and to expand public sector and to build up a large and growing cooperative sector.
- To increase infrastructure facilities
- To disperse the industries over different geographical areas for balanced regional development
- To increase the opportunities of gainful employment
- To help in raising the standards of living
- To reducing disparities in income and wealth (By preventing private monopolies and curbing concentration of economic power and vast industries in the hands of a small number of individuals)

Forms of public enterprises

Public enterprises can be classified into three forms:

a) Departmental undertaking
b) Public corporation
c) Government company

Departmental Undertaking :

This is the earliest from of public enterprise. Under this form, the affairs of the public enterprise are carried out under the overall control of one of the departments of the government. The government department appoints a managing director (normally a civil servant) for the departmental undertaking. He will be given the executive authority to take necessary decisions. The departmental undertaking does not have a budget of its own. As and when it wants, it draws money from the government exchequer and when it has surplus money, it deposits it in the government exchequer. However, it is subject to budget, accounting and audit controls.

Examples for departmental undertakings are Railways, Department of Posts, All India Radio, Doordarshan, Defence undertakings like DRDL, DLRL, ordinance factories, and such.

Features

1. **Under the control of a government department**: The departmental undertaking is not an independent organization. It has no separate existence. It is designed to work under close control of a government department. It is subject to direct ministerial control.
2. **More financial freedom:** The departmental undertaking can draw funds from government account as per the needs and deposit back when convenient.
3. **Like any other government department**: The departmental undertaking is almost similar to any other government department
4. **Budget, accounting and audit controls**: The departmental undertaking has to follow guidelines (as applicable to the other government departments) underlying the budget preparation, maintenance of accounts, and getting the accounts audited internally and by external auditors.
5. **More a government organization, less a business organization** . The set up of a departmental undertaking is more rigid, less flexible, slow in responding to market needs.

Advantages

1. **Effective control**: Control is likely to be effective because it is directly under the Ministry.
2. **Responsible Executives**: Normally the administration is entrusted to a senior civil servant. The administration will be organized and effective.
3. **Less scope for mystification of funds**: Departmental undertaking does not draw any money more than is needed, that too subject to ministerial sanction and other controls. So chances for mis-utilisation are low.
4. **Adds to Government revenue**: The revenue of the government is on the rise when the revenue of the departmental undertaking is deposited in the government account.

Disadvantages

1. **Decisions delayed**: Control is centralized. This results in lower degree of flexibility. Officials in the lower levels cannot take initiative. Decisions cannot be fast and actions cannot be prompt.
2. **No incentive to maximize earnings**: The departmental undertaking does not retain any surplus with it. So there is no inventive for maximizing the efficiency or earnings.
3. **Slow response to market conditions**: Since there is no competition, there is no profit motive; there is no incentive to move swiftly to market needs.

4. **Redtapism and bureaucracy**: The departmental undertakings are in the control of a civil servant and under the immediate supervision of a government department. Administration gets delayed substantially.
5. **Incidence of more taxes**: At times, in case of losses, these are made up by the government funds only. To make up these, there may be a need for fresh taxes, which is undesirable.

PUBLIC CORPORATION

Public corporation is a 'right mix of public ownership, public accountability and business management for public ends'. The public corporation provides machinery, which is flexible, while at the same time retaining public control.

A public corporation is defined as a 'body corporate create by an Act of Parliament or Legislature and notified by the name in the official gazette of the central or state government. It is a corporate entity having perpetual succession, and common seal with power to acquire, hold, dispose off property, sue and be sued by its name".

Examples of a public corporation are Life Insurance Corporation of India, Unit Trust of India, Industrial Finance Corporation of India, Damodar Valley Corporation and others.

Features

1. **A body corporate**: It has a separate legal existence. It is a separate company by itself. If can raise resources, buy and sell properties, by name sue and be sued.
2. **More freedom and day-to-day affairs**: It is relatively free from any type of political interference. It enjoys administrative autonomy.
3. **Freedom regarding personnel**: The employees of public corporation are not government civil servants. The corporation has absolute freedom to formulate its own personnel policies and procedures, and these are applicable to all the employees including directors.
4. **Perpetual succession**: A statute in parliament or state legislature creates it. It continues forever and till a statue is passed to wind it up.
5. **Financial autonomy** : Through the public corporation is fully owned government organization, and the initial finance are provided by the Government, it enjoys total financial autonomy, Its income and expenditure are not shown in the annual budget of the government, it enjoys total financial autonomy. Its income and expenditure are not shown in the annual budget of the government. However, for its freedom it is restricted regarding capital expenditure beyond the laid down limits, and raising the capital through capital market.
6. **Commercial audit** : Except in the case of banks and other financial institutions where chartered accountants are auditors, in all corporations, the audit is entrusted to the comptroller and auditor general of India.

7. **Run on commercial principles**: As far as the discharge of functions, the corporation shall act as far as possible on sound business principles.

Advantages

1. **Independence, initiative and flexibility** : The corporation has an autonomous set up. So it is independent, take necessary initiative to realize its goals, and it can be flexible in its decisions as required.
2. **Scope for Redtapism and bureaucracy minimized**: The Corporation has its own policies and procedures. If necessary they can be simplified to eliminate redtapism and bureaucracy, if any.
3. **Public interest protected**: The corporation can protect the public interest by making its policies more public friendly, Public interests are protected because every policy of the corporation is subject to ministerial directives and board parliamentary control.
4. **Employee friendly work environment**: Corporation can design its own work culture and train its employees accordingly. It can provide better amenities and better terms of service to the employees and thereby secure greater productivity.
5. **Competitive prices**: the corporation is a government organization and hence can afford with minimum margins of profit, It can offer its products and services at competitive prices.
6. **Economics of scale**: By increasing the size of its operations, it can achieve economics of large-scale production.
7. **Public accountability**: It is accountable to the Parliament or legislature; it has to submit its annual report on its working results.

Disadvantages

1. **Continued political interference**: the autonomy is on paper only and in reality, the continued.
2. **Misuse of Power**: In some cases, the greater autonomy leads to misuse of power. It takes time to unearth the impact of such misuse on the resources of the corporation. Cases of misuse of power defeat the very purpose of the public corporation.
3. **Burden for the government**: Where the public corporation ignores the commercial principles and suffers losses, it is burdensome for the government to provide subsidies to make up the losses.

Government Company

Section 617 of the Indian Companies Act defines a government company as “any company in which not less than 51 percent of the paid up share capital” is held by the Central Government or by any State Government or Governments or partly by Central Government and partly by one or more of the state Governments and includes and company which is subsidiary of government company as thus defined".

A government company is the right combination of operating flexibility of privately organized companies with the advantages of state regulation and control in public interest.

Features

The following are the features of a government company:

1. **Like any other registered company**: It is incorporated as a registered company under the Indian companies Act. 1956. Like any other company, the government company has separate legal existence. Common seal, perpetual succession, limited liability, and so on. The provisions of the Indian Companies Act apply for all matters relating to formation, administration and winding up. However, the government has a right to exempt the application of any provisions of the government companies.
2. **Shareholding**: The majority of the share are held by the Government, Central or State, partly by the Central and State Government(s), in the name of the President of India, It is also common that the collaborators and allotted some shares for providing the transfer of technology.
3. **Directors are nominated**: As the government is the owner of the entire or majority of the share capital of the company, it has freedom to nominate the directors to the Board. Government may consider the requirements of the company in terms of necessary specialization and appoints the directors accordingly.
4. **Administrative autonomy and financial freedom**: A government company functions independently with full discretion and in the normal administration of affairs of the undertaking.
5. **Subject to ministerial control**: Concerned minister may act as the immediate boss. It is because it is the government that nominates the directors, the minister issue directions for a company and he can call for information related to the progress and affairs of the company any time.

Advantages:

1. **Formation is easy**: There is no need for an Act in legislature or parliament to promote a government company. A Government company can be promoted as per the provisions of the companies Act. Which is relatively easier?
2. **Separate legal entity**: It retains the advantages of public corporation such as autonomy, legal entity.
3. **Ability to compete:** It is free from the rigid rules and regulations. It can smoothly function with all the necessary initiative and drive necessary to complete with any other private organization. It retains its independence in respect of large financial resources, recruitment of personnel, management of its affairs, and so on.

4. **Flexibility**: A Government company is more flexible than a departmental undertaking or public corporation. Necessary changes can be initiated, which the framework of the company law. Government can, if necessary, change the provisions of the Companies Act. If found restricting the freedom of the government company. The form of Government Company is so flexible that it can be used for taking over sick units promoting strategic industries in the context of national security and interest.
5. **Quick decision and prompt actions**: In view of the autonomy, the government company take decision quickly and ensure that the actions and initiated promptly.
6. **Private participation facilitated**: Government company is the only from providing scope for private participation in the ownership. The facilities to take the best, necessary to conduct the affairs of business, from the private sector and also from the public sector.

Disadvantages

1. **Continued political and government interference** : Government seldom leaves the government company to function on its own. Government is the major shareholder and it dictates its decisions to the Board. The Board of Directors gets these approved in the general body. There were a number of cases where the operational polices were influenced by the whims and fancies of the civil servants and the ministers.
2. **Higher degree of government control**: The degree of government control is so high that the government company is reduced to mere adjuncts to the ministry and is, in majority of the cases, not treated better than the subordinate organization or offices of the government.
3. **Evades constitutional responsibility**: A government company is creating by executive action of the government without the specific approval of the parliament or Legislature.
4. **Poor sense of attachment or commitment**: The members of the Board of Management of government companies and from the ministerial departments in their ex-officio capacity. The lack the sense of attachment and do not reflect any degree of commitment to lead the company in a competitive environment.
5. **Divided loyalties**: The employees are mostly drawn from the regular government departments for a defined period. After this period, they go back to their government departments and hence their divided loyalty dilutes their interest towards their job in the government company.
6. **Flexibility on paper:** The powers of the directors are to be approved by the concerned Ministry, particularly the power relating to borrowing, increase in the capital, appointment of top officials, entering into contracts for large orders and restrictions on capital expenditure. The government companies are rarely allowed to exercise their flexibility and independence.

Liberalisation

Liberalization means elimination of state control over economic activities. It implies greater autonomy to the business enterprises in decision-making and removal of government interference. It was believed that the market forces of demand and supply would automatically operate to bring about greater efficiency and the economy would recover.

The major aspects of liberalization :

1.Abolition of licensing :. This would encourage setting up of new industries and shift focus to productive activities. They include alcohol, cigarettes, industrial explosives, defense products ,drugs and pharmaceuticals, hazardous chemicals and certain others reserved for the public sector.

2.Liberalization of Foreign Investment : While earlier prior approval was required by foreign companies, now automatic approvals were given for Foreign Direct Investment (FDI) to flow into the country. A list of high-priority and investment-intensive industries were delicensed and could invite up to 100% FDI including sectors such as hotel and tourism, infrastructure, software development .etc. Use of foreign brand name or trade mark was permitted for sale of goods.

3.Relaxation of Locational Restrictions : There was no requirement anymore for obtaining approval from the Central Government for setting up industries anywhere in the country except those specified under compulsory licensing or in cities with population exceeding1 million. Polluting industries were required to be located 25 kms away from the city peripheries if the city population was greater than 1 million.160

4.Liberalization of Foreign Technology imports : In projects where imported capital goods are required, automatic license would be given for foreign technology imports up to 2 million US dollars. No permissions would be required for hiring foreign technicians and foreign testing of indigenously developed technologies.

5**.Phased Manufacturing Programmes** :Under PMP any enterprise had to progressively substitute imported inputs, components with domestically produced inputs under local content policy. However NIP'1991 abolished PMP for all industrial enterprises. Foreign Investment Promotion Board (FIPB) was set up to speed up approval for foreign investment proposals

. **6.Public Sector Reforms** : Greater autonomy was given to the PSUs (Public Sector Units) through the MOUs (Memorandum of Understanding) restricting interference of the government officials and allowing their managements greater freedom in decision-making.

7.MRTP Act : The Industrial Policy 1991 restructured the Monopolies and Restrictive Trade Practises Act. Regulations relating to concentration of economic power, pre-entry restrictions for setting up new enterprises, expansion of existing businesses, mergers and acquisitions .etc. have been abolished.

PRIVITISATION:

Privatization is the transfer of control of ownership of economic resources from the public sector to the private sector. It means a decline in the role of the public sector as there is a shift in the property rights from the state to private ownership.

The public sector had been experiencing various problems , since planning, such as low efficiency and profitability, mounting losses, excessive political interference, lack of autonomy, labour problems and delays in completion of projects.

The main aspects of privatization in India are as follows;

1.Autonomy to Public sector : Greater autonomy was granted to nine PSUs referred to as 'navaratnas' (ONGC, HPCL, BPCL, VSNL, BHEL) to take their own decisions.161

2.Dereservation of Public Sector : The number of industries reserved for the public sector were reduced in a phased manner from 17 to 8 and then to only 3 including Railways, Atomic energy, Specified minerals. This has opened more areas of investment for the private sector and increased competition for the public sector forcing greater accountability and efficiency.

3.Disinvestment Policies : Till 1999-2000 disinvestment was done basically through sale of minority shares but since then the government has undertaken strategic sale of it's equity to the private sector handing over complete management control such as in the case of VSNL , BALCO .etc.

GLOBALISATION:

Globalization essentially means integration of the national economy with the world economy. It implies a free flow of information, ideas, technology, goods and services, capital and even people across different countries and societies. It increases connectivity between different markets in the form of trade, investments and cultural exchanges

The main elements of globalization are :

- To open the domestic markets for inflow of foreign goods, India reduced customs duties on imports
- The amount of foreign capital in a country is a good indicator of globalization and growth. The FDI policy of the GOI encouraged the inflow of fresh foreign capital by allowing 100 % foreign equity in certain projects under the automatic route. NRIs and OCBs (Overseas Corporate Bodies)may invest up to 100 % capital with repatriability in high priority industries
- Foreign Exchange Regulation Act (FERA) was liberalized in 1993 and later Foreign Exchange Management Act (FEMA) 1999 was passed to enable foreign currency transactions.

- India signed many agreements with the WTO affirming it's commitment to liberalize trade such as TRIPs (Trade Related Intellectual Property Rights), TRIMs (Trade Related Investment Measures) and AOA (Agreement On Agriculture)

Impact of Globalization:

1. Free flow of capital and technology enables developing countries to speed up the process of industrialization and lay the path for faster economic progress.
2. Products of superior quality are available in the market due to increased competition, efficiency and productivity of the businesses and this leads to increased consumer satisfaction.
3. Free flow of finance enable the banking and financial institutions in a country to fulfill financial requirements through internet and electronic transfers easily and help businesses to flourish.
4. MNCs bring with them foreign capital, technology, know-how, machines, technical and managerial skills which can be used for the development of the host nation.
5. There is a decline in the number of people living below the poverty line in developing countries due to increased investments, trade and rising employment opportunities.
6. There is an improvement in various economic indicators of the LDCs (Less Developed Countries) such as employment, life expectancy, literacy rates, per capita consumption etc.

Disadvantages of Globalisation

- Domestic companies are unable to withstand competition from efficient MNCs which have flooded Indian markets since their liberalized entry.
- It may lead to shut down of operations, pink slips and downsizing. Moreover skilled and efficient labour get absorbed by these MNCs that offer higher pay and incentives leaving unskilled labour for employment in the domestic industries. Thus there may be unemployment and underemployment.
- Globalization leads to fusion of cultures and inter-mingling of societies to such an extent that there may be a loss of identities and traditional values. It gives rise to mindless aping of western lifestyles and mannerisms however ill-suited they may be.