June 2022

ECO-01 Business Organisation

Note : (i) Attempt any five questions.

(ii) All questions carry equal marks.

1. Describe the requisites of an ideal form of business organisation. (10)

Ans: Features of an ideal form of business organisation are:

i) Ease of formation: An important factor for preferring a particular form of organisation to another is the ease with which a business can be brought into existence. The comparative ease of difficulty in forming a particular form of organisation mainly depends on three factors: {i) formation expenses by way of registration fee, stamp duty, fees of legal experts, charges involved in the drafting of documents, obtaining licenses, etc., (ii) legal formalities, and (iii) procedural delays, etc. Unless necessary, it is better to go for an organisation which is easy to form.

ii) Scope of raising capital: The choice of organisation mainly depends on the amount of capital required which is determined by the nature of business and the scale of operations. Ideal form of organisation is one which provides scope for raising the amount of capital as and when required. For example, the amount of capital needed will not be much for opening a retail shop in groceries than to set up a sugar factory.

iii) Extent of liability: limited liability is considered as an important feature of a good form of organisation.

iv) Flexibility of operations: The form of organisation should be very flexible and adaptable to changing business conditions without much difficulty or complication. For example, if you want to expand your business, diversify or modernise the plant and equipment, the organisation should be able to meet all requirements.

v) Stability and continuity: Stability and long life of business is desirable from the point of view of owners, employees, and customers. Employees always prefer a stable and continuous employment. If the business is stable, the owner should be able to formulate plans for the future and to make investments paying for a considerable length of time.

vi) Effectiveness of management: The success of any business enterprise depends on the efficiency of management. Managerial efficiency depends on skills, motivation, flexibility, adaptability, etc. It is difficult for an individual to possess all these qualities.

vii) Extent of government control and regulations: If the governmental control and regulations are too many, the enterprise may have to divert a lot of time, money and energy for complying with legal formalities and instructions. In some cases there may be too much interference by the government officials in the day-to-day business of the firm. But too much government interference is not favoured by the entrepreneurs because it mars their initiative and disrupts the working of their business.

viii) Business secrecy: In business, it is important to maintain business secrets without leaking them out to competitors. Therefore, a form of organisation which enables ,retention of business secrets is preferred to the one wherein business secrets are difficult to preserve.

2. Discuss main features of sole trader organisation. State briefly its merits and limitations. (5+5)

Ans: The sole trader organisation (also called proprietorship) is the oldest form of organisation and the most common form of organisation for small business even today. It is the simplest and easiest to form.

The main features of sole trader organisation is as follows:

i) One man ownership: The ownership lies with one person only. There are no associates or partners. He invests his own money or borrows from friends and relatives.

ii) No separation of ownership and management: The owner himself manages the business. Therefore, the separation of ownership and management which is quite common in big business is not present in this form of organisation. Since the proprietor himself manages the business, he exercises a high degree of supervision and control in the working of his business.

iii) No separate entity: The business does not have an entity separate from the owner. The proprietor and the business enterprise are one and the same.

iv) All profits to proprietor: Since there are no partners, all the profits are enjoyed by the sole proprietor.
v) Individual risk: All losses in the business are borne by the proprietor himself.

vi) Unlimited liability: The proprietor has an unlimited liability. This means that in case of loss even the personal property of the owner can be utilised for clearing the business obligations and debts,

vii) Less legal formalities: To set up sole proprietorship, no legal formalities are required. There are some legal restrictions for the setting up of a particular type of business.

Merits:

i) Easy formation: There are no legal formalities to be observed while starting this form of organisation. Therefore, its formation is very easy and simple. The expenditure involved in the process of formation is also negligible.

ii) Quick decision: The proprietor does no1 depend on others for decision making. Since there are no partners, he is not required to consult others. This enables the proprietor to take quick decisions on numerous matters concerning his business.

iii) Flexibility in operations: Being a small organisation it is easy to bring changes if situation so demands. In a large sized organisation to bring changes is difficult.

iv) Secrecy: Since the whole business is handled by the proprietor his business secrets are known to him only. He is not bound to publish his accounts. Therefore, the degree of secrecy is the highest in this form of organisation.

Limitations:

i) Limited resources: The capital and other resources of an individual are always limited. The sole trader has to mainly rely on his own money and earnings, or he can borrow, if necessary, from relatives and friends. Thus, the proprietor has a limited capacity to raise funds. This makes it difficult to plan any large scale expansion.

ii) Limited managerial capability: In the modern business, knowledge and skills in various fields like production, finance, marketing, etc., are required. It is not possible for a single individual to possess expertise in all these areas. So, his decisions may not be balanced.

iii) Not suitable for large scale operation: Since the resources of the sole trader are limited, it is suitable only for small business and not for large scale operations.

iv) Less stability: The continuity and stability of the business depends solely on one person. When the man dies, there is a likelihood of closure of the business.

3. Differentiate between advertisement and publicity with suitable example. (10)

Ans: The activity of generating advertisements of products and services to commercialize them is known as Advertising. It is what the company says about its product. Whereas the activity of providing information about an entity, i.e., a product, an individual or a company to make it popular is known as Publicity. It is what others say about the product. There is a huge investment to be made in advertising a single product. On the other hand, Publicity does not require any kind of investment. The key people behind advertising are the company and its representatives. On the contrary, Publicity is done by a third party which is not related to any company. Advertising is under the control of the company. However, publicity is not under the control of the company. Advertising repeatedly occurs to grab the attention of the customers. Oppositely, Publicity is done only one-time act. Advertising is always customer focused, i.e., the more creative the advertisement, the more are the customers attracted to it. On the other hand, publicity is not done keeping customers in mind. Advertising always speaks the goodness about a product, to persuade the target audience to buy it. Oppositely, Publicity, is unbiased, and so it will speak the reality, no matter whether it is goodness or illness. The company has to pay money to the media for the space or time used. There is an identifiable sponsor. Normally a company sponsors it for its product or service. In contrast to this, the company does not make any payment to the media for the time or space used for publicity. There is no identifiable sponsor. Media presents the information voluntarily.

4. Discuss briefly the factors that influence the choice of channel of distribution. (10)

Ans: The channel of distribution is a network of institutions that perform a variety of interrelated and coordinated functions in the movement of goods from producers to consumers.

We can classify the distribution channels into two broad categories: (1) direct channels, and (2) indirect channels (use of middlemen).

1) Direct Channels: When the producers sell their goods directly to the consumers it is called a direct channel. No middlemen are present between the producer and the consumer.

2)Indirect channels: In the case of all the products it is not possible for the manufacturer to supply goods directly to the consumers. So may be middlemen like wholesaler, retailer and mercantile agents may be engaged in the channel of distribution. When the middlemen are engaged, it is called an indirect channel.

The following factors generally influence the choice of the channel of distribution:

1) Distribution policy

2)Characteristics of the product

3) The target customers in view

4)Supply characteristics

5)Types of middlemen in the field

6) Channel competition

7) Potential volume of sales

8) Costs of distribution

9) Profits expected in the long-run

1)Distribution policy: Where the manufacturer is interested in distributing his products through all possible outlets, it is desirable to use more than one channel to reach the target customers. This is known as intensive distribution policy. The purpose in this case is to make the product available as near to the consumers as possible. Consumer goods of frequent use like pens, pencils, paper, soap, hair nil, etc., are distributed through a large number of wholesalers and retail traders. If goods are meant for customers who are very particular about their quality and usefulness, manufacturers adopt a selective distribution policy.

2)Characteristics of the product: The nature of the product influences the choice of channel. For example, perishable products like eggs, milk, etc., are supplied either directly or through the short channels. In the case of heavy and bulky products (e.g., cement, steel) where distribution and handling costs are higher, short channels are preferred. Sophisticated electrical and electronics equipment which require careful handling are also generally distributed directly or through short channels. On the other hand, long channels are found in the case of light-weight and small-size items like dress material, readymade garments, pocket calculators, stationery, toothpaste, toothbrush, etc. Similarly, simple mechanical products like electronic toys, time-clocks, etc., are supplied through long channels for intensive distribution.

3)Characteristics of target customers; If the number of customers is large and geographical area is extensive, long and multiple channels are necessary for intensive distribution of goods. This is also suitable where the consumers are in the habit of making frequent purchases of small quantities at irregular intervals. Short channels and direct selling are possible in the case of few customers who purchase large quantities at regular intervals and they are concentrated in a small area.

4)Supply characteristics: Goods produced by a small number of producers concentrated in one region are generally distributed through short channels. Long channels are suitable if a large number of producers in different regions produce and supply the goods.

5)Types of middlemen: Availability of suitable middlemen in the channel of distribution is another factor in the selection of the channel. This is because different functions like standardisation, grading, packing, branding, storage, after sale servicing, etc., are expected to be performed by middlemen. Efficiency of distribution depends upon the size, location and financial position of middlemen. If the middlemen in a specific channel are dependable and efficient that channel may be preferred by producers.

6)Channel competition: There are different situations in which manufacturers compete with each other for availing the services of particular wholesalers. Similarly, wholesalers often compete with each other to deal with particular retailers or carrying particular brands of products. Sometimes producers use the same channel which is used by their competing producers. If any producer arranges exclusive distribution through a particular wholesaler, other producers also do the same. Thus, selection of a channel may depend on the competition prevailing in the distribution system.

7)Potential volume of sales: The choice of the channel depends upon the target volume of business. The ability to reach target customers and the volume of sales varies between different channels. One outlet may not be adequate for achieving the target in which case more channels need to be used. Of course, the competitive situation must be taken into account while examining the potential volume of sale through different channels.

8)Cost of distribution: The various functions carried out in the channel of distribution add to the cost of distribution. While choosing a channel, the distribution costs of each channel should be calculated and its impact on the consumer price should be analysed. A channel which is less expensive is normally preferred. Sometimes, a channel which is convenient to the customers is preferred even if it is more expensive. In such cases the choice is based on the convenience of the customers rather than the cost of distribution.

9)Long-run effect on profit: Direct distribution, short channels, and long channels have different implications with regard to the profits in the short-run and long-run. If demand for a product is high, reaching the maximum number of customers through more than one channel may be profitable. But the demand may decline in course of time if competing products appear in the market. It may not be economical then to use long channels. So, while choosing a channel one should keep in mind the future market implications as well.

5. What are the various types of risks that are associated with any business ? Discuss briefly. (10)

Ans: Different risks pervade all kinds of business activities. The different types of risks associated with any business are:

(i) property and personnel,

(iiii) marketing,

(iii) finance,

(iv) production, and

(v) environment.

(i)Property and Personnel Risks: Every business firm is confronted by potential loss to its property and personnel through common perils such as fire, explosion, wind storm, flood, theft, business liability damage suits, earth quake and death or disability of its personnel. These perils may cause direct loss by damaging property or killing personnel. Losses may occur to business from the occurrence of some of these perils.

(ii) Marketing risks: Marketing Risks: Marketing activity includes all those business activities necessary to move goods from producers to consumers. The major functions include buying, selling, transportation and storage. Activities like standarization, market information and research are also other important functions of marketing activities. There is an element of risk in all these activities. For example, you may not be able to sell your products at the prices you want. Due to market conditions, you may be forced to sell at lower prices and incur losses. Similarly, due to sudden spurt in the raw material prices, your cost of production may go up and you may incur losses. Goods may be stolen, damaged or destroyed in transit from perils for which the transporter is not - liable. Similarly, improper facilities for storage may cause unexpected losses. Normal perils such as fire, floods, storm, explosion, theft, etc., can cause extensive damage to goods in the storage. For example, the fire due to electric short circuit may cause extensive damage to the goods in the storage.

(iii) Finance: All business firms borrow money and also extend credit to customers. There is always scope for loss from both credit received as well as credit extended. Bad debts due to insolvency of customers is a continuous problem in business. Similarly, creditors like banks and financial institutions may fail or cancel the loans due to bad business conditions. This can cause financial loss to the firm due to curtailed operations. Similarly, unexpected rise in interest rates on bank loans may reduce profits. Business firms' investments in stocks and bonds always face risk.

(iv)Production Risks: Manufacturing enterprises face the problems such as production I losses due to breakdown of machinery, defective products due to faulty machinery or poor quality of raw material, under utilisation of installed capacity, inventory build up to levels much higher than current demand, improper plant layout, uneconomical plant capacity, etc. Such production risks may be minimized by careful planning.

(v) Environmental Risks: Business environment is a crucial factor for every enterprise. Environmental factors such as competition, changing tastes and preferences of consumers, technological developments, governmental policies, ecological issues, political developments, etc., have lot of impact on each and every business firm. All these environmental problems pose risks to business firms.

6. In what respect is rail transport superior to road transport? What are the limitations of rail transport ?(10)

Ans: The first benefit that rail transport has that road transport struggles with is larger load size. A single freight train can carry a lot more equipment and materials than any single vehicle on the road. If you travel on the road, you need multiple vehicles to compete with the load capacity of railroad transport. Hiring more vehicles can get costly, especially with larger loads.

One thing that makes rail transport so good is the lower costs it has on longer trips. Although road transport is better for short trips in terms of cost, rail transport cost significantly less the further they carry a load. For heavy and bulky loads to be carried over long distances as also for goods of small value, road transport is relatively costlier than railway transport due to the limited carrying capacity of motor trucks and high cost of fuel.

Another thing which makes rail transport superior is that, rail transport can always accomplish the job you have. A freight train can carry large loads that vehicles could never manage, making trains superior in that regard.

A variety of services are provided by railways besides transportation of goods, e.g. warehousing of goods, express freight and delivery service, private sidings for factories, dock-sidings for immediate delivery and dispatch, depots at railway terminals, facility for transport of special categories of goods like animals, explosives, valuables, perishable, etc.

Road transport can't work when the weather gets too bad, delaying your shipments. Trains don't have the same risks as road shipment vehicles, so they can work in whatever weather's happening. It provides a dependable service as railway movement is not much obstructed by weather conditions like rain and storm.

Road transport usually has no fixed schedule and can be dispatched according to delivery requests. On the other hand, rail transportation follows a strict preplanned schedule carefully planned by rail authorities.

Transportation by rail has the following limitations:

i. It proves to be a more expensive means of transport for small consignments over short distances. Expenditure on packing and handling are higher than in road transport. The speed of rail transport for short hauls is much slower than that of motor trucks.
ii. Goods are transported by railways only between certain fixed places (i.e. railway stations). Hence it is necessary to carry goods to the railway station by the senders and the receiver has to obtain the goods at railway stations and arrange other modes of transport to carry it from station to his premises.
iii. Railway transport facility is very limited in hilly and mountaineous areas.

7. What is a public enterprise ? How is it different from private enterprise ? (3, 7)

Ans: Government owned enterprises are also called Public Enterprises (PEs). Public enterprise, as a business entity, refers to any industrial or commercial undertaking which is owned and managed by the central, state or local government and of which the output is marketed i.e., not supplied free. Thus, public enterprises include manufacturing, trading as well as service organisations which are essentially business undertakings.

Public enterprises consist of nationalised private organisations as well as new enterprises promoted under government ownership and control. Life Insurance Corporation, Indian Airlines Corporation, Coal India Ltd., etc., are examples of public enterprises established by nationalising private organisations. Hindustan Machine Tools, Hindustan Antibiotics Ltd., Chittaranjan Locomotive Works, etc., are examples of public enterprises promoted by government.

Difference between Public enterprise and Private enterprise: Public enterprise, as a business entity, refers to any industrial or commercial undertaking which is owned and managed by the central, state or local government and of which the output is marketed i.e., not supplied free. Thus, public enterprises include manufacturing, trading as well as service organisations which are essentially business undertakings. Private enterprises, on the other hand, refer to industrial and commercial organisations which are set up under individual or group ownership within the general framework of regulatory laws and rules of the government. These include manufacturing and commercial companies, medium and small firms organised as proprietory and partnership concerns.

Private enterprises are primarily motivated by private profit. Public enterprises are governed by public policies framed by government and aimed at maximising social welfare and upholding public interest. The objectives of public enterprises in India are laid down in conformity with the objectives of the development plans. They are accountable to the government and the parliament or state legislatures regarding the fulfilment of their objectives. Private enterprises are free to set their objectives and to undertake any business activity except those which are illegal. However, private enterprises are also regulated by government controls of different kinds.

Public enterprise	Private Enterprise
Refers to any industrial or commercial undertaking which is owned and managed by the central, state or local government and of which the output is marketed i.e. not supplied free.	refer to industrial and commercial organisations which are set up under individual or group ownership within the general framework of regulatory laws and rules of the government
Include manufacturing, trading as well as service organisations which are essentially business undertakings.	Include manufacturing and commercial companies, medium and small firms organised as proprietary and partnership concerns.
Main objective is to provide service to the general public.	Main objective is profit maximization.
The government has full control over the organisations.	Enjoys less government interference.
Tax collections, excise and other taxes, bonds, treasury bills, etc., provide funding for public enterprises.	Firms obtain money from their owners or through loans, through issuance of shares and debentures, and other sources.
Public enterprises provides a wide range of employee perks, such as job stability, housing, allowances, and retirement benefits.	Private enterprises provides advantages such as higher salary packages, greater opportunities for promotion and recognition, a competitive workplace, and stronger incentives in the form of bonuses and other benefits.
Jobs are particularly steady and secure since the possibilities of being fired for performance are quite low.	Jobs are not secure since poor performance might result in dismissal. Companies can also terminate employees in order to minimise costs or scale back operations.

8. Write short notes on any two of the following : 5+5

(a) Departmental organisation

Ans: Departmental form of organisation is the oldest form of organising public enterprises. Under this form of organisation, business activities of the undertakings are conducted under the overall control of one of the departments of the government. In other words, when a public enterprise is organised, financed and controlled in much the same way as any other government department. it is known as 'departmental form of organisation.' This form of organisation is generally, chosen for such undertakings which are important from the view point of public interest and national interest. This form is suitable for mo& of the undertakings which are not run on pure commercial principles. Departmental form of organisation, generally, is suitable under the following situations:

i) Where the basic purpose of an enterprise is to procure revenue for the government.

ii) Where the government desires to have firm control over service sectors keeping in view public interest (e.g., posts and telegraph, broadcasting, etc).

iii) Where maintenance of secrecy is regarded as a matter of strategic importance (e.g. atomic energy, defence industries, etc.).

iv) Where projects are in earlier stage of initial planning and require constant efforts and , continuous funds that can be provided only by the government.

Under this form of organisation, overall responsibility of management rests with the minister under whose ministry the undertaking functions. The employees in the case of departmental organisation are civil servants. The finances of a departmental form of organisation are not independent of the government. They are financed out of the government treasury through the annual budget appropriations and its revenues are paid into the treasury. For example, railways and postal (they are departmental organisations) budgets form part of the government budget. This form of organisation is subject to budget, accounting and audit controls. For this purpose, the undertaking is treated on par with other government organisations. It enjoys the sovereign immunity of the state. Therefore, it cannot be sued without the consent of the government.

The surplus coming from departmental undertakings increases the revenue of the government. Thus, this surplus can be utilised for the economic progress of the nation and the welfare of the masses.

A departmental enterprise is responsible to Parliament even for its day-to-day operations. It is not possible for a departmental enterprise to claim certain privileges from Parliamentary scrutiny. For example, if members of Parliament ask questions regarding the appointment or dismissal or promotion of a particular employee, or regarding a particular sale or purchase transaction, it is a matter of day-to-day operations.

The staff of these departmental undertakings are the civil servants. So it is too close to the bureaucratic system of the government where much importance is attached to rules, regulations and precedents for every decision. Therefore, scope for initiative is limited. Normally a business enterprise needs much flexibility and quickness in decision making which you do not find in the departmental form.

Departmental undertakings are run with the objective of service motive. So, the commercial principles which are necessary for their very success are neglected. Further, due to lack of competition there is little incentive to improve their operational efficiency.

(b) Sales policy of public utilities service institutions.

Ans: The products or services offered by public utilities are 'essential' requirements of the public and have usually large demand from the public. The public utilities do not generally have rivals or competitors. A particular product is supplied by one undertaking in a particular area. So, there is no possibility of different rates being charged by different producers in the same area. So, there is no necessity for price discount. These undertakings are granted franchise by the government. They had the right to interfere with private property as well as right to use public property (roads, land, buildings, etc.). There are no middlemen or intermediaries for sale of their products or services. They sell directly to their consumers or sell through their own distribution network. For example, water supply, electric supply, and transport undertakings come in direct contact with the consumers. Therefore, they have to offer best possible terms to users, of these services. Unlike other commercial concerns, public utility undertakings do not have the problems of credit collection from the customers. In some cases, as in electricity undertakings, the supply is stopped if there is default in payment of bills by a specified date. In some cases, the dealings are on cash basis, as in railways and road transport undertakings. There is no necessity for the public utility undertakings to advertise their goods and services like other business units. However, they have to inform the public about the service which they provide. For example, a transport undertaking has to keep the public informed about the new services introduced from time to time on different routes, changes in the routes, changes in the timings, etc. Such information facilitates the customers in utilising the service which ultimately leads to utilisation of full capacity.

(c) Instruments of government control of private business

Ans: Direct Controls: Direct controls are the measures which are applied at the discretion of government authorities. These controls are also known as discretionary controls because they involve discretions to be made by concerned government officials. Such a control may be used to promote. restrict or limit the activities of private organisations or categories thereof. Examples of these controls are:

i) Licensing of new enterprises or expansion of existing large enterprises.

ii) Control over issue of shares, debentures, etc., by companies for raising capital (control of capital issues).

iii) Import and export control through direct prohibition or quota restriction.

iv) Fixing maximum or minimum prices for particular commodities.

v) Control over distribution of commodities through rationing.

vi) Grant of subsidies for industrial growth.

vii) Incentives for export promotion like grant of subsidy, credit facilities, etc.

Indirect Controls: These indirect controls affect private business firms in an indirect manner. Indirect controls are also known as non-discretionary controls. Government authorities do not have any discretionary power to apply the measures to particular firms and not to others in the same category The following are some common examples of indirect controls:

i) Changes of tax rates: Tax rates may be lowered to encourage the business or raised to discourage the business.

ii) Changes in import and export duties: Import duties may be raised so as to increase the prices of certain goods. This may be aimed at discouraging imports of those goods or to protect domestic industries from foreign competition. Import duties may be lowered to allow large imports of certain products. Similarly, export duties may be raised or lowered so as to influence the domestic demand and supply. For instance, if the export duty is raised, exports may be discouraged and domestic supply may increase to meet higher domestic demand. If it is lowered, exports may rise.

iii) Changes in interest rates on bank loans: Government can change its monetary policy to control the prices. For instance, interest rates on bank loans and credit may be raised so as to prevent excessive borrowing and expenditure by business enterprises and to reduce new investment by business firms. On the other hand, interest rates on bank loans may be reduced to induce business firms to borrow and expand their business activities,

(c) Instruments of government control of private business

Ans: Government regulation of private business does not necessarily mean only restriction of private activities. Government measures of control may have inducive as well as restraining effects on business. Measures may have inducive effects if the objective is to stimulate, encourage, facilitate or induce a particular type of trade or industrial activity through technical and financial assistance, tax concessions, subsidy, bank credit, supply of foreign exchange for imports of raw materials or machinery, protection against foreign competition, etc. On the other hand, certain measures may have restraining effects if they are aimed at limiting or restricting private trade and industry by means of legal enactment and administrative orders. These may include licensing requirements for starting or expanding industries, control over capital issues, fixation of maximum price, etc. However, some of the measures may have both the effects. For example, industries which require imported raw materials may be adversely affected if imports of such raw materials are restricted or stopped. At the same time, due to such restriction on imports, the producers of competing goods may have a positive effect and earn more profit. There is another way of distinguishing between the instruments of control. Thus, controls may be classified into two categories depending on whether the measures are directly applicable or indirectly applicable. Accordingly, the two broad types of control measures may be: i) direct controls and ii) indirect controls.

Direct Controls: Direct controls are the measures which are applied at the discretion of government authorities. These controls are also known as discretionary controls because they involve discretions to be made by concerned government officials. Such a control may be used to promote. restrict or limit the activities of private organisations or categories thereof. Examples of these controls are:

i) Licensing of new enterprises or expansion of existing large enterprises.

ii) Control over issue of shares, debentures, etc., by companies for raising capital (control of capital issues).

iii) Import and export control through direct prohibition or quota restriction.

iv) Fixing maximum or minimum prices for particular commodities.

v) Control over distribution of commodities through rationing.

vi) Grant of subsidies for industrial growth.

vii) Incentives for export promotion like grant of subsidy, credit facilities, etc.

(d) Government company

Ans: A government company is a company in which 51 per cent or more of the total paid-up capital is held by the central government or any state government or by many state governments or partly central government and partly by one or more state governments. Any company which is subsidiary of such a company is also considered a government company. Thus a government company is an enterprise wherein government is a predominant shareholder having the bulk of controlling interests, Government company is registered under Indian Companies Act. A government company is a legal entity. It is an 'artificial person' which exists in the eyes of law. Like a living being it can file a suit in a court of law or be sued, can enter into contract and acquire property in its own name.

It is managed by the Board of Directors. All the directors or the majority of them, depending on the extent of private participation, are appointed by the government. While constituting the Board the government may give representation to various interests like technocrats, labour, consumers, foreign . collaborators, etc.

Government company can use and reuse the revenue derived from the sale of its goods and services. If necessary, it can borrow money from the financial institutions and the general public.

Its employees are not civil servants. They are appointed by the company on its own terms and conditions. It regulates its personnel policies according to its Articles of Association.

The government company can be created without specific approval of Parliament. Parliament does not discuss the reasons for setting up a government company or its constitution. Thus it evades constitutional responsibility. The directors of a government company are mostly appointed by the government. So, these enterprises fail to achieve business efficiency found in similar enterprises in the private sector.

These companies are exempted from the accounting and audit rules and procedures. An auditor is appointed by the central government. By providing goods and services at reasonable prices these companies are able to control the market and curb unhealthy business practices.