

## Chapter 5: Forms of Business Organisation - 2

### EXERCISE 1 [PAGES 112 - 115]

Exercise 1 | Q 1.1 | Page 112

**Select the correct option and rewrite the sentence:**

Departmental Organisation is financed through \_\_\_\_\_ Appropriations made by the legislature.

- Annual budget
- monthly budget
- quarterly budget

#### **SOLUTION**

Departmental Organisation is financed through **Annual budget** Appropriations made by the legislature.

Exercise 1 | Q 1.2 | Page 112

**Select the correct option and rewrite the sentence:**

A \_\_\_\_\_ is an autonomous corporate body created by the special Act of the Parliament or State legislature.

- Statutory corporation
- government company
- MNC

#### **SOLUTION**

A **Statutory corporation** is an autonomous corporate body created by the special Act of the Parliament or State legislature.

Exercise 1 | Q 1.3 | Page 113

**Select the correct option and rewrite the sentence:**

A statutory corporation is answerable to \_\_\_\_\_ Or state assembly whosoever creates it.

- Parliament
- public

- employees

## **SOLUTION**

A statutory corporation is answerable to **Parliament** or state assembly whosoever creates it.

Exercise 1 | Q 1.4 | Page 113

### **Select the correct option and rewrite the sentence:**

In government company minimum \_\_\_\_\_ % paid-up capital is held by the government.

- 51
- 41
- 31

In government company minimum **51** % paid-up capital is held by the government.

Exercise 1 | Q 1.5 | Page 113

### **Select the correct option and rewrite the sentence:**

The shares of government company are purchased in the name of \_\_\_\_\_

- President of India
- Chief Minister
- Defence Minister

## **SOLUTION**

The shares of government company are purchased in the name of **President of India**

Exercise 1 | Q 1.6 | Page 113

### **Select the correct option and rewrite the sentence:**

Government on the advice of \_\_\_\_\_ Appoints auditor of government company.

- Comptroller and Auditor General of India
- auditor
- chartered accountant

## **SOLUTION**

Government on the advice of **Comptroller and Auditor General of India** Appoints auditor of government company.

Exercise 1 | Q 1.7 | Page 113

**Select the correct option and rewrite the sentence:**

A government company is a \_\_\_\_\_ entity separate from the government.

- Natural
- legal
- human

**SOLUTION**

A government company is a **legal** entity separate from the government.

Exercise 1 | Q 1.8 | Page 113

**Select the correct option and rewrite the sentence:**

\_\_\_\_\_ Company has public accountability.

- MNC
- Private
- Government

**SOLUTION**

**Government** Company has public accountability.

Exercise 1 | Q 1.9 | Page 113

**Select the correct option and rewrite the sentence:**

MNCs are powerful \_\_\_\_\_ Entities.

- economical
- political
- social

**SOLUTION**

MNCs are powerful **economical** Entities.

Exercise 1 | Q 2 | Page 113

**Match the pairs.**

Group 'A'	Group 'B'
A) BHEL	1) Special Legislature
B) Statutory Corporation	2) 49% paid up capital by govt.
C) Departmental Organisation	3) Service Motive
D) Private Sector	4) Railway
E) Public Sector	5) Profit Motive
	6) 51% paid up capital by govt.

**SOLUTION**

Group 'A'	Group 'B'
A) BHEL	6) 51% paid-up capital by govt.
B) Statutory Corporation	1) Special Legislature
C) Departmental Organisation	4) Railway
D) Private Sector	5) Profit Motive
E) Public Sector	3) Service Motive

Exercise 1 | Q 3.01 | Page 113

**Give one word/phrase/term.**

Organisations which are owned by individual or group of individuals.

**SOLUTION**

Private sector Organisations

Exercise 1 | Q 3.02 | Page 113

**Give one word/phrase/term.**

Organisations which are owned by the government

**SOLUTION**

Public sector Organisations

Exercise 1 | Q 3.03 | Page 113

**Give one word/phrase/term.**

The sector which aims at profit maximization.

## **SOLUTION**

Private sector

Exercise 1 | Q 3.04 | Page 113

**Give one word/phrase/term.**

The sector which aims at providing reliable services to customers.

## **SOLUTION**

Public sector Organisation

Exercise 1 | Q 3.05 | Page 113

**Give one word/phrase/term.**

Organisations which are owned, financed, managed and controlled by government or combination of government.

## **SOLUTION**

Public sector Organisation

Exercise 1 | Q 3.06 | Page 113

**Give one word/phrase/term.**

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

## **SOLUTION**

Departmental Organisation

Exercise 1 | Q 3.07 | Page 113

**Give one word/phrase/term.**

The oldest form of business organisation under the public sector.

## **SOLUTION**

Departmental Organisation

Exercise 1 | Q 3.08 | Page 113

**Give one word/phrase/term.**

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

## **SOLUTION**

Departmental Organisation

Exercise 1 | Q 3.09 | Page 113

**Give one word/phrase/term.**

The organisation which is financed through annual budget appropriations made by the legislature.

**SOLUTION**

Departmental Organisation

Exercise 1 | Q 3.10 | Page 114

**Give one word/phrase/term.**

The organisation in which there is direct and absolute control of government over the enterprise.

**SOLUTION**

Departmental Organisation

Exercise 1 | Q 3.11 | Page 114

**Give one word/phrase/term.**

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

**SOLUTION**

Statutory Corporation

Exercise 1 | Q 3.12 | Page 114

**Give one word/phrase/term.**

An organisation which is answerable to parliament or state assembly whosoever creates it.

**SOLUTION**

Statutory Corporation

Exercise 1 | Q 3.13 | Page 114

**Give one word/phrase/term.**

An organisation which is not subject to the budget, accounting and audit controls by the government.

**SOLUTION**

Statutory Corporation

Exercise 1 | Q 4.01 | Page 114

**State True or False.**

Private sector Organisations are owned by individuals or groups of individuals.

- True
- False

**SOLUTION**

True

Exercise 1 | Q 4.02 | Page 114

**State True or False.**

Public sector Organisations are owned by government.

- True
- False

**SOLUTION**

True

Exercise 1 | Q 4.03 | Page 114

**State True or False.**

The private sector aims at providing reliable services to customers.

- True
- False

**SOLUTION**

False

Exercise 1 | Q 4.04 | Page 114

**State True or False.**

The public sector was undertaken as a part of industrial policy, 1956.

- True
- False

### **SOLUTION**

True

Exercise 1 | Q 4.05 | Page 114

### **State True or False.**

Departmental organisation is the oldest form of business organisation under public sector.

- True
- False

### **SOLUTION**

True

Exercise 1 | Q 4.06 | Page 114

### **State True or False.**

Departmental organisation performs its all activities separately from the government.

- True
- False

### **SOLUTION**

False

Exercise 1 | Q 4.07 | Page 114

### **State True or False.**

The Minister-in-charge of ministry is the head of departmental organisation

- True
- False

### **SOLUTION**

True



**State True or False.**

There is always problem of red tapism and bureaucracy in departmental organisation.

- True
- False

**SOLUTION**

True

**State True or False.**

There is large scope for the initiative and skill in departmental organisation.

- True
- False

**SOLUTION**

False

**State True or False.**

In departmental organisation there is flexibility in operations.

- True
- False

**SOLUTION**

False

**Find the odd word out.**

- Indian Post
- Indian Railway
- Bank of India
- Air India

## **SOLUTION**

Bank of India

Exercise 1 | Q 5.2 | Page 114

### **Find the odd word out.**

- Life Insurance Corporation
- Reserve Bank of India
- Bharat Heavy Electricals Limited
- ONGC

## **SOLUTION**

Bharat Heavy Electricals Limited

Exercise 1 | Q 5.3 | Page 114

### **Find the odd word out.**

- Pepsi
- Coca Cola
- Dabur
- Proctor & Gamble

## **SOLUTION**

Dabur

Exercise 1 | Q 5.4 | Page 114

### **Find the odd word out.**

- Tata Motors
- Hindustan Aeronautics Limited
- Steel Authority of India Limited
- Gas Authority of India Limited

## **SOLUTION**

Tata Motors

Exercise 1 | Q 6.1 | Page 114

**Complete the sentence.**

A Government company is a \_\_\_\_\_ entity separate from the government.

**SOLUTION**

A Government company is a **Legal** entity separate from the government.

Exercise 1 | Q 6.2 | Page 114

**Complete the sentence.**

\_\_\_\_\_ is owned, managed, controlled, and financed by government.

**SOLUTION**

**Departmental Organisation** is owned, managed, controlled, and financed by government.

Exercise 1 | Q 6.3 | Page 114

**Complete the sentence.**

A \_\_\_\_\_ has defined powers, functions and duties.

**SOLUTION**

A **statutory corporation** has defined powers, functions and duties.

Exercise 1 | Q 6.4 | Page 114

**Complete the sentence.**

All government companies are registered under \_\_\_\_\_ Act, 2013.

**SOLUTION**

All government companies are registered under the **Companies** Act, 2013.

Exercise 1 | Q 6.5 | Page 114

**Complete the sentence.**

MNCs are powerful \_\_\_\_\_ entities.

**SOLUTION**

MNCs are powerful **economical** entities.

Exercise 1 | Q 7.1 | Page 114

**Answer in one sentence.**

What is Government Company?

**SOLUTION**

The Company which is registered under Companies Act, 2013 having a minimum 51% of paid-up share capital held by central government or any state government or partly by the central government and partly by one or more state governments is known as Government company.

Exercise 1 | Q 7.2 | Page 114

**Answer in one sentence.**

What is a Departmental Organisation?

**SOLUTION**

It is the oldest form of business organisation. Departmental Organisation performs its all activities as an integral part of government only.

Exercise 1 | Q 7.3 | Page 114

**Answer in one sentence.**

What is Statutory Corporation?

**SOLUTION**

Statutory Corporation is an autonomous corporate body created by the special act of the parliament or state legislature with defined powers, functions and duties.

Exercise 1 | Q 7.4 | Page 114

**Answer in one sentence.**

What is Multinational Corporation?

**SOLUTION**

A multinational corporation is a business organisation that operates in many different countries at the same time.

Exercise 1 | Q 7.5 | Page 114

**Answer in one sentence.**

What is Public Sector?

**SOLUTION**

Public sector organisations are those organisations which are set up by the government with the main object of providing essential services to the general public.

**Answer in one sentence.**

What is Private Sector?

**SOLUTION**

Private sector business which is owned by private individuals or groups of individuals is termed as private sector organisation.

**Correct the underlined word and rewrite the following sentence.**

Statutory Corporation is a natural person created by special Acts.

**SOLUTION**

Statutory Corporation is an **artificial person** created by a special act.

**Correct the underlined word and rewrite the following sentence.**

A Statutory Corporation is not answerable to parliament or state assembly.

**SOLUTION**

A statutory corporation is **answerable** to parliament or state assembly.

**Correct the underlined word and rewrite the following sentence.**

MNC have existence only in single country.

**SOLUTION**

MNC have an existence in **many countries**.

**Correct the underlined word and rewrite the following sentence.**

Departmental Organisation has separate existence from the government.

**SOLUTION**

Departmental Organisation **has no separate** existence from the government.

**Correct the underlined word and rewrite the following sentence.**

Private sector aims at providing essential services to customers.

**SOLUTION**

**Public** sector aims at providing essential services to customers.

**EXERCISE 2 [PAGE 115]**

Exercise 2 | Q 1 | Page 115

**Explain the following term/concept.**

Public Sector Organisation.

**SOLUTION**

1. It is owned, managed, controlled, and financed by the government.
2. It includes Departmental Organisation, Statutory Corporation, and Government Companies.
3. Its main objective is to provide services to society.
4. It is managed by government officials or the Board of Directors.
5. It is large in size and operates on a large scale.

Exercise 2 | Q 2 | Page 115

**Explain the following term/concept.**

Private Sector Organisation.

**SOLUTION**

1. It is owned, managed, controlled, and financed by individuals or groups of individuals.
2. It includes Sole Trading Concern, Joint Hindu Family Firm, Partnership Firm, Joint Stock Company, and Cooperative Society.
3. Its main objective is to maximise profit.
4. It is managed by the owner himself or by their elected representatives.
5. It generally operates in industrial and commercial areas only.

Exercise 2 | Q 3 | Page 115

**Explain the following term/concept.**

Departmental Organisation.

**SOLUTION**

1. It is owned, managed, controlled and financed by the government.
2. It is managed by government officials of the concerned ministry.

3. They do not have autonomy in decision making.
4. They do not have separate legal entity distinct from government.
5. It is funded through the annual budget of the government.

Exercise 2 | Q 4 | Page 115

**Explain the following term/concept.**

Statutory Corporation.

**SOLUTION**

1. It is formed under a Special Act of Parliament or State Legislature.
2. It is managed by the Board of Directors who is appointed by the government.
3. They enjoy autonomy in decision making.
4. They have separate legal entity distinct from the government.
5. It is funded by the government initially and also in need of additional capital.

Exercise 2 | Q 5 | Page 115

**Explain the following term/concept.**

Government Company.

**SOLUTION**

1. It is a company where 51% of the paid up capital is held by the Central Government or State Government jointly or individually.
2. It is managed by the Board of Directors appointed by Government and Shareholders.
3. It is formed and registered under the Companies Act, 2013.
4. They can borrow funds by issuing shares to the public or through debentures, deposits, etc.

Exercise 2 | Q 6 | Page 115

**Explain the following term/concept.**

Multinational Corporation.

**SOLUTION**

1. It is a business organisation that operates in many different countries.
2. It conducts business activities in more than one country.
3. It is controlled through a centrally located head office.
4. They are also called as transnational or international corporations.
5. Example: Bata India, Infosys, Tata Motors, etc.

**EXERCISE 3 [PAGE 115]**

Exercise 3 | Q 1 | Page 115

**Study the following case/situation and express your opinion.**

There is X company in which capital contribution by different entities is as follows: Madhya Pradesh Government 35%, Maharashtra Government 35%, and Government of India 30% of the company.

1. Find out the type of this company.
2. Tell any two features of this company.
3. Give an example of this type of company.

**SOLUTION**

1. 'X' company is a Government Company.
2. Separate legal entity and Registration under the Companies Act, 2013 are the features of 'X' Government Company.
3. Hindustan Machine Tools (HMT), State Trading Corporation (STC), are examples of the Government Company.

Exercise 3 | Q 2 | Page 115

**Study the following case/situation and express your opinion.**

There is a company which is having a registered office in Singapore and such a company is having branch offices in Varanasi (India) and Hambantota (Sri Lanka). This company provides cellular services to host countries through their respective branch offices.

1. Find out the type of organisation.
2. Comment on it.

**SOLUTION**

1. This type of organisation is called Multinational Corporation.
2. Multinational Corporation means the companies which undertake business activities in more than one country. So this company is registered in Singapore and having branches in India and Sri Lanka.

Exercise 3 | Q 3 | Page 115

**Study the following case/situation and express your opinion.**

1. Name the business organisation, which is self-financed, delegates authority, and run by the government as an integral part of it.
2. State any two merits of this organisation.

**SOLUTION**

1. It is a Departmental Organisation.
2. No separate legal entity and Government employees are the merits of the Departmental Organisation.

Exercise 3 | Q 4 | Page 115



### Study the following case/situation and express your opinion.

A central government passes a statute in the parliament and forms a business organisation which is having autonomy in administration and this organisation is answerable to the legislature.

1. Which type of organisation is this?
2. Give any three Features of this organisation.
3. Give anyone an example of this type of organisation.

### SOLUTION

1. It is a Statutory Corporation.
2. A corporate body, No political interference, Own staffing system are the features of Statutory Corporation.
3. "Life Insurance Corporation of India" is the example of a Statutory Corporation.

### EXERCISE 4 [PAGES 115 - 116]

Exercise 4 | Q 1 | Page 115

### Distinguish Between.

Private Sector Organisation and Public Sector Organisation.

### SOLUTION

Points	Private Sector Organisation	Public Sector Organisation
<b>1. Meaning</b>	Private enterprises are owned managed, controlled, and financed by individuals or groups of individuals. Thus, ownership and management are with private organisations.	Public enterprises are owned, managed, and controlled by the state on behalf of the people.
<b>2. Management</b>	It is managed by industrialists through the board of directors and other specialized executives.	It is managed by government officials or the board of directors.
<b>3. Size of Entity</b>	They are usually of small or medium size depending on the volume of operation.	They are usually large in sized and they operate on a large scale.
<b>4. Capital provider</b>	Capital is contributed by the owner from their own resources and borrowings from financial institutions.	The capital of public sector organisation is contributed by the government.
<b>5. Decision Making</b>	Decision making is quick as very few officials are involved in the decision-making process.	Decision making is delayed due to bureaucratic hurdles.

<b>6. Business area</b>	It generally operates in industrial and commercial areas only.	It operates in utility services areas like-railways, posts, etc. and also in industrial and commercial areas.
<b>7. Main Motive</b>	The main motive of the private sector organisations is to earn a profit.	The main motive of the public sector organisations is to provide services to society.
<b>8. Flexibility</b>	They are more flexible in nature as their policies can be modified as and when the need arises.	There is no flexibility in their operations as any change or modification requires the approval of the Government.

Exercise 4 | Q 2 | Page 115

### **Distinguish Between.**

Department Organisation and Statutory Corporation.

### **SOLUTION**

<b>Points</b>	<b>Department Organisation</b>	<b>Statutory Organisation</b>
<b>1. Meaning</b>	The organisation which is owned, managed, controlled, financed, and operated by the government is known as Departmental Organisation.	The company which is formed under Special Act of Parliament or State Legislature is known as Statutory Corporation.
<b>2. Management</b>	It is managed by government officials of the concerned ministry.	It is managed by a board of directors nominated by the government.
<b>3. Legal Status</b>	There is no separate legal status distinct from the government.	The statutory company has a separate legal status distinct from the government.
<b>4. Borrowing power</b>	The departmental undertaking cannot borrow from the public. It has to depend on the budget allocated by the government.	Statutory Companies can borrow from the public by issue of shares and debentures.
<b>5. Control</b>	It is controlled by the concerned ministry.	It is controlled by the government by the Act of Parliament or State Legislature.
<b>6. Capital</b>	The capital of the departmental organisation comes from the annual	Capital for the statutory company comes from Central or State Government.

	budget appropriations of the government.	
<b>7. Formation</b>	It is formed through Executive decisions taken by the concerned ministry.	It is formed by passing a Special Act in the Parliament or in the State Legislature.
<b>8. Flexibility</b>	It has low flexibility in its operation.	It has moderate flexibility in its operation
<b>9. Autonomy</b>	It does not have autonomy in decision making.	It has autonomy in decision making.

Exercise 4 | Q 3 | Page 115

### **Distinguish Between.**

Government Company and Multinational Corporation.

### **SOLUTION**

<b>Points</b>	<b>Government Company</b>	<b>Multinational Corporation</b>
<b>1. Meaning</b>	Government Company means a company where a minimum 51% of the paid-up capital is held by the Central or State Government jointly or individually.	Multinational Corporation is a company which is incorporated in one country and has business units in several countries
<b>2. Capital</b>	The capital is contributed by the Central Government or State Government or even by the general public.	The capital is contributed by the shareholders or financial institutions in several countries.
<b>3. Management and control</b>	Government Company is managed by the Board of Directors appointed by the government and shareholders.	A multinational corporation is managed by a parent company. It manages affairs of the subsidiary from the respective home country.
<b>4. Establishment</b>	Government companies are formed and registered under the provisions of Companies Act, 2013.	Multinational corporations have to seek permission from the government and host countries.
<b>5. Borrowing</b>	Government companies can borrow funds by the way of debt or issuing shares to the public.	Multinational corporations use resources of different countries.
<b>6. Area of Operations</b>	Government company operates within the local boundaries of a nation.	MNC operates in several countries, having headquarters in one country.
<b>7. Motive</b>	Government companies are	MNCs are profit motivated rather

	service oriented and hence take an interest in the social welfare activities of the country.	than service oriented.
<b>8. Accountability</b>	Government Company has to take its annual reports in the Parliament Where its working is discussed and debated. Though it has autonomy in financial matters, it is indirectly accountable to the public.	MNC is accountable to the taxation authorities in host countries and has to follow procedures such as Income Tax law procedure, FEMA, EXIM Policy, etc. and as such will have to obey the laws of the host countries.
<b>9. Currency</b>	They have to deal with a single currency.	They have to deal with multiple currencies and exchange rates.
<b>10. Resource availability</b>	The government company uses resources of government and its employees are government employees and are permanent.	MNCs use resources of different countries and their employees are on a contract basis.
<b>11. Trust and Public Confidence</b>	Government companies enjoy more public confidence as they have government backing and support.	MNCs do not have government backing and support in host countries.
<b>12. Example</b>	Corporation, Indian Oil Corporation, BHEL, HMT, etc.	Hindustan Lever Ltd., Colgate Palmolive India Ltd; Coca Cola, IBM Computers, Sony, etc.

Exercise 4 | Q 4 | Page 116

### **Distinguish Between.**

Departmental Organisation and Multinational Corporation.

### **SOLUTION**

<b>Points</b>	<b>Departmental Organisation</b>	<b>Multinational Corporation</b>
<b>1. Meaning</b>	The organisation which is owned, managed, controlled, financed, and operated by the government is known as Departmental Organisation.	Multinational Corporation is a company which is incorporated in one country and has business units in several countries
<b>2. Capital</b>	The capital of the departmental organisation comes from the annual budget appropriations of the government.	The capital is contributed by the shareholders or financial institutions in several countries.
<b>3. Management</b>	It is managed by government officials of the concerned ministry.	Multinational corporation is managed by a parent company. It

		manages affairs of the subsidiary from the respective home country.
<b>4. control</b>	It is controlled by the concerned ministry.	Multinational corporation are controlled by respective parent companies and mostly home strategic.
<b>5. Legal status</b>	There is no separate legal status distinct from the government.	It has separate legal status
<b>6. Borrowing power</b>	Departmental undertaking cannot borrow from the public. It has to depend on the budget allocated by the government.	Multinational corporations use resources of different countries.
<b>7. Ownership</b>	Departmental undertaking is fully owned by the Government.	Ownership of MNC is in the hands of shareholders of the company.
<b>8. Privileges and Concessions</b>	It receives the highest government concessions and privileges.	MNC does not have any concessions. They have to pay duties and taxes.

Exercise 4 | Q 5 | Page 116

### Distinguish Between.

Departmental Organisation and Multinational Corporation.

### SOLUTION

Points	Government Company	Statutory Corporation
<b>1. Meaning</b>	Government Company means a company where a minimum 51% of the paid-up capital is held by the Central or State Government jointly or individually.	The company which is formed under Special Act of Parliament or State Legislature is known as Statutory Corporation.
<b>2. Capital</b>	The capital is contributed by the Central Government or State Government or even by the general public.	Capital for the statutory company comes from Central or State Government.
<b>3. Management</b>	Government Company is managed by the Board of Directors appointed by the government and shareholders.	It is managed by a board of directors nominated by the government.
<b>4. control</b>	These companies are controlled by the government or shareholders.	It is controlled by the government by the Act of Parliament or State Legislature.

<b>5. Establishment</b>	Government companies are formed and registered under the provisions of Companies Act, 2013.	It is established by passing a Special Act in the Parliament or in the State Legislature.
<b>6. Borrowing power</b>	Government companies can borrow funds by the way of debt or issuing shares to the public.	Statutory Companies can borrow from the public by issue of shares and debentures.
<b>7. Flexibility</b>	Government companies are more flexible in the operations of the business. They can change the line of business as per the market trend.	It has moderate flexibility in its operation
<b>8. Autonomy</b>	It has full autonomy as its incorporated under Companies Act, 2013.	It has autonomy in decision making.

Exercise 4 | Q 6 | Page 116

### **Distinguish Between.**

Departmental Organisation and Government Company.

### **SOLUTION**

<b>Points</b>	<b>Departmental Organisation</b>	<b>Government Company</b>
<b>1. Meaning</b>	The organisation which is owned, managed, controlled, financed, and operated by the government is known as Departmental Organisation.	Government Company means a company where a minimum 51% of the paid-up capital is held by the Central or State Government jointly or individually.
<b>2. Capital</b>	The capital of the departmental organisation comes from the annual budget appropriations of the government.	The capital is contributed by the Central Government or State Government or even by the general public.
<b>3. Management</b>	It is managed by government officials of the concerned ministry.	Government Company is managed by the Board of Directors appointed by the government and shareholders.
<b>4. control</b>	It is controlled by the concerned ministry.	These companies are controlled by the government or shareholders.
<b>5. Legal status</b>	There is no separate legal status distinct from the government.	A government company has legal status separate from the Government
<b>6. Borrowing power</b>	Departmental undertaking cannot borrow from the public. It has to	Government companies can borrow funds by the way of debt or issuing shares to the public.

	depend on the budget allocated by the government.	
<b>7. Flexibility</b>	It is a rigid in operation as its managed through offers of the government	Government companies are more flexible in the operations of the business. They can change the line of business as per the market trend.
<b>8. Formation</b>	It is formed through Executive decisions taken by the concerned ministry.	Government companies are formed and registered under the provisions of Companies Act, 2013.

Exercise 4 | Q 7 | Page 116

### **Distinguish Between.**

Departmental Organisation and Multinational Corporation.

### **SOLUTION**

<b>Points</b>	<b>Statutory Corporation</b>	<b>Multinational Corporation</b>
<b>1. Meaning</b>	The company which is formed under Special Act of Parliament or State Legislature is known as Statutory Corporation.	Multinational Corporation is a company which is incorporated in one country and has business units in several countries
<b>2. Capital</b>	Capital for the statutory company comes from Central or State Government.	The capital is contributed by the shareholders or financial institutions in several countries.
<b>3. Management</b>	It is managed by a board of directors nominated by the government.	A multinational corporation is managed by a parent company. It manages affairs of the subsidiary from the respective home country.
<b>4. control</b>	It is controlled by the government by the Act of Parliament or State Legislature.	Multinational corporations are controlled by respective parent companies.
<b>5. Establishment</b>	It is established by passing a Special Act in the Parliament or in the State Legislature.	Multinational corporations have to seek permission from the government and host countries.
<b>6. Borrowing power</b>	Statutory Companies can borrow from the public by issue of shares and debentures.	Multinational corporations use resources of different countries.

<b>7. Area of operation</b>	The statutory corporation operates within the local boundaries of a nation. Hence, the area of operations is not large.	MNC operates in several countries, having headquarters in one country.
<b>8. Motive</b>	Statutory corporations are service-oriented and hence take an interest in the social welfare activities of the country.	MNCs are profit motivated rather than service oriented.
<b>9. Accountability</b>	The statutory corporation has to take its annual reports in the Parliament where its working is discussed and debated.	MNC is accountable to the taxation authorities in host countries and has to follow procedures such as Income Tax law procedure, FEMA, EXIM Policy, etc. and as such will have to obey the laws of the host countries.
<b>10. Currency</b>	They have to deal with single currency.	They have to deal with multiple currencies and exchange rates.

## EXERCISE 5 [PAGE 116]

Exercise 5 | Q 1 | Page 116

### Answer in brief.

State any four features of the Departmental Organisation.

### SOLUTION

- 1. Delegation of Authority:** All major policy decisions are taken by the ministry. The day-to-day Working is looked after by the staff consisting of civil servants of IAS, IPS cadres.
- 2. Organizational Structure:** The internal organizational structure is of line type. The department is headed by a minister who is responsible for the working of the department. Then there is the Board of Directors or Managing Committee who are assisted by Chief Executive, Executive Assistant, Supervisory, and General Staff. This is termed as a bureaucratic style or military style of organisation.
- 3. Government Employees:** The employees of the departmental organization are civil servants and they are selected through the Union Public Service Commission. Staff Selection Board, Railway Recruitment Board, etc. and as such, they are treated as Government employees.
- 4. Financed by the Governments:** The funds are arranged for their operation from the Government treasury. This enterprise cannot borrow money from the public



without Government consent.

5. **Useful for Secret:** matters like defense, atomic energy, etc.

Exercise 5 | Q 2 | Page 116

**Answer in brief.**

State any four features of statutory corporation.

**SOLUTION**

1. **No political Interference:** It enjoys freedom from political parliamentary and government in day-to-day management.
2. **Own Staffing System:** They recruit their own employees and they are not a government servant. Employees' terms and services are not governed by civil service rules.
3. **No Political Interference:** It enjoys freedom from political, parliamentary, and government interference in day to day management of its affairs.
4. **Financial Autonomy:** Statutory Corporations are financially autonomous. After getting the prior permission from the Government, It can even borrow money within and outside the country.
5. **Independent Identity:** They have an independent identity different from the government. Though the overall business policies are formulated by the government, they have administrative autonomy and hence operational flexibility.

Exercise 5 | Q 3 | Page 116

**Answer in brief.**

State any two demerits of Multinational Corporation.

**SOLUTION**

1. **Danger for Domestic Industries:** Multinational Corporations have vast economic power so they are a danger to domestic industries which are still in process of development. Domestic industries are not so powerful to face the challenges of Multinational corporations.
2. **Create Problem for Environment:** Profit is the sole objective of Multinational corporations. Such companies damage the environment of developing countries. To lower the price of goods they dump lower standard quality products which harm local soil, water, and air.

3. **Outsourcing of Job:** Normally MNCs outsource the job work due to lower cost, due to this their liabilities towards employees are reduced.

Exercise 5 | Q 4 | Page 116

**Answer in brief.**

State any four merits of Government Company.

### **SOLUTION**

1. **Profitability and Accountability:** It works on business principles and follows a commercial approach. Though not profit oriented like the private sector, it does make a reasonable profit which is used for public welfare, modernisation, renovation, and development. Moreover, its performance can be evaluated by the Parliament as it has public accountability.
2. **Internal Autonomy:** Government Company enjoys financial and administrative autonomy. Its dependence on Government authority is minimum. It has its own capital structure, financial plan, borrowing powers, and so on.
3. **Government Ownership:** The ownership of the government company rests with Central or State Government who owns the major capital of the company and as such looks after its management and control. The government always promotes the public welfare.
4. **Foreign Capital and Technical Know how:** As the government provides 51% of the capital, the rest 49% can be raised through foreign investment. By seeking foreign capital, Government companies bring advanced technology and technical know how.
5. **Acquisition of Sick Units:** A government company can acquire a sick unit in the private sector without rationalisation. It can be acquired by purchasing 51% of the share capital of a private company.

### **EXERCISE 6 [PAGE 116]**

Exercise 6 | Q 1 | Page 116

**Justify the following statement.**

Departmental Organisations are run for providing public services.

### **SOLUTION**

1. Departmental Organisations are the oldest forms of public enterprises.
2. Indian railways, post office, defence, All India Radio are the Departmental Organisations.
3. Indian Railways give services to public.

4. The main Objective of Departmental Organisations is to provide services to public.
5. The private sector aims at Profit maximization while public sector aims to provide reliable services to customers.
6. Thus, Departmental Organisations are run for providing public services.

Exercise 6 | Q 2 | Page 116

**Justify the following statement.**

There is direct control of Government on departmental organisation.

**SOLUTION**

1. Departmental organisations are run by the Government.
2. Departmental organisations are financed through the annual budget of Government.
3. Revenues of the departmental organisations are directly paid to the Government treasury.
4. The departmental organisation has no separate existence from the Government.
5. The staff of enterprises is treated equally with other civil servants.
6. Thus, there is direct control of the Government on the Departmental organisation.

Exercise 6 | Q 3 | Page 116

**Justify the following statement.**

There is no political interference in statutory corporations.

**SOLUTION**

1. A statutory corporation is an autonomous corporate body.
2. Statutory Corporation is an artificial person created by law and it has an independent legal entity.
3. Employees are not government servants.
4. A statutory corporation enjoys financial autonomy or independence.
5. A statutory corporation comes into existence by following a particular act, therefore, there is no political interference information.
6. Thus, all statutory corporations are free from political interference.

Exercise 6 | Q 4 | Page 116

**Justify the following statement.**

There is professional management in statutory corporation.

**SOLUTION**

1. A statutory corporation is able to manage its affairs with independence and flexibility.
2. Management of statutory corporation is done without any government interference.
3. The statutory corporation is relatively free from red-tapism.

4. There is less file work and less formality to be completed before taking decisions.
5. The Board of directors of the statutory corporation consists of business experts and the representatives of various groups such as labour, consumers, etc. who are nominated by the government.
6. Thus, there is professional management in a statutory corporation.

Exercise 6 | Q 5 | Page 116

**Justify the following statement.**

MNC helps to end local monopolies.

**SOLUTION**

1. Multinational Corporation helps to end local monopolies.
2. Multinational corporations lead to competition in the host countries.
3. Local monopolies of host countries either start improving their products or reduces their prices.
4. Multinational corporations put an end to exploitative practices of local monopolists.
5. As a matter of fact, MNCs compel domestic companies to improve their efficiency and quality.
6. Thus, MNC helps to end local monopolies.

Exercise 6 | Q 6 | Page 116

**Justify the following statement.**

MNC has worldwide existence.

**SOLUTION**

1. Multinational Corporation is operating on a global basis.
2. Multinational corporations have marketing operations in several countries operating through a network and branches.
3. They have production facilities in several countries.
4. Advanced Technology and international business operations are done by MNC.
5. It brings in much needed foreign capital for rapid development.
6. Multinational corporations integrate economies of various nations with the world economy.
7. Thus, MNC has worldwide existence.

Exercise 6 | Q 7 | Page 116

**Justify the following statement.**

MNC has mighty economic powers.

**SOLUTION**

1. As MNC is operating on a global basis, they have huge physical and financial assets.

2. In terms of assets and turnover, many MNCs are bigger than the national economies of several countries.
3. Multinational corporations are powerful economic entities.
4. Multinational corporations keep on adding to their economic power through constant mergers and acquisitions of companies in host countries.
5. Thus, MNC has mighty economic powers.

## EXERCISE 7 [PAGE 116]

Exercise 7 | Q 1 | Page 116

**Attempt the following.**

Merits of Departmental Organisation.

### SOLUTION

**Meaning:** Departmental organizations are run by the Government departments headed by a minister who guides and controls the activities of the undertaking. Merits of Departmental Organizations:

1. **Qualified Staff:** Departmental organizations are properly managed and supervised by qualified government staff.
2. **Proper Use of Funds:** The Departmental organizations provide public utilities or basic necessities. Government Department works under the control and supervision of the concerned ministry. Charges for misuse of funds are less in the departmental organization.
3. **Social Welfare:** The government undertakes socio-economic activities to promote social welfare. Providing essential commodities to people at a reasonable price is the top priority of the state. Thus, socio-economic objectives are achieved With Government control.
4. **Public Accountability:** The concerned minister in charge of the government organisation is answerable to the Parliament or Assembly. The elected representatives of people can raise the question about the working of these enterprises on behalf of the public at large.
5. **Maintain Secrecy:** In matters of strategic, national importance, secrecy is essential and confidentiality can be maintained in certain business activities such as defence deals, atomic plants, drugs, and pharmaceuticals, etc.

Exercise 7 | Q 2 | Page 116

**Attempt the following.**

Demerits of Departmental Organisation.

## SOLUTION

1. **Delay in Action:** In the Departmental organisation there is always centralization of authorities. Such excessive centralization of authority leads to delay in action.
2. **Inefficiency and Corruption:** There is a lot of inefficiency and corruption in departmental organisation.
3. **Less Scope for Initiative:** The working of this organization suffers from a lack of continuity and stability because the policies of the department are decided by the ministers.
4. **Instability:** The working of this organisation suffers from a lack of continuity and stability because the policies of the department are decided by the Ministers.
5. **Delayed:** The executives at the lower level have to depend on higher authority for all the decisions. They can't make their own decisions.
6. **Lack of Flexibility:** The Departmental organization lacks flexibility in decision making. This is because there is a centralization of authority.

Exercise 7 | Q 3 | Page 116

### Attempt the following.

Merits of Statutory Corporation.

## SOLUTION

1. **Professional Management:** Statutory Corporations are managed professionally. The directors and other executives are highly trained and specialize in their respective fields. This leads to efficiency in working.
2. **Rapid Decisions:** Statutory Corporations enjoy autonomy. They can take quick decisions. There are less file work and less formalities to be completed before taking decisions.
3. **Efficient Staff:** In Statutory Corporation, employees are given fair wages, better working conditions, and proper training and development programs are initiated for the employees. As a result, employer-employee relations are very cordial and the staff is highly motivated to perform better.
4. **Motivated Staff:** I Statutory Corporations, employees are given fair wages, better working conditions, and proper training and development programmes are initiated for the employees. As a result, employer-employee relations are very cordial and the staff is highly motivated to perform better.
5. **Service Motive:** They are formed to provide public utility services and promote consumer satisfaction. It provides essential commodities to people at reasonable

rates.

Exercise 7 | Q 4 | Page 116

**Attempt the following.**

Demerits of Statutory Corporation.

**SOLUTION**

Though statutory corporations are autonomous bodies and enjoy flexibility in their working, they have certain limitations which are as follows:

1. **Clashes amongst Interests:** All or majority directors of Statutory Corporations are appointed by the Government from different fields. As there are many members it is quite possible that their interests may clash. The smooth functioning of the corporation may be hampered.
2. **Autonomy on Paper Only:** Ministers, government officials, and political parties often interfere with the working and decision-making policies which affects the autonomy and flexibility of it.
3. **Rigid Structure:** Though statutory corporation-have operational flexibility, they are subject to many rules and regulations. Any changes in the constitution, objects, powers, duties, etc., require amendments to be passed in the parliament which is a difficult task. This reduces its flexibility.
4. **Lack of Initiative:** The statutory corporation has no profit motive. There is no competition between them. So employees do not take initiative to increase the profit.
5. **Unfair Practices:** Before 1991, these corporations enjoyed a monopolistic and semi monopolistic position. They were charging high prices from the consumers to cover up their inefficiencies. After 1991, due to liberalization, most of them lost their monopolistic position but skill, in practice the lack of competition as they are not aware of consumer needs.

Exercise 7 | Q 5 | Page 116

**Attempt the following.**

Features of Government Company.

**SOLUTION**

The Government Company may be registered as public or private limited companies. These companies are established for purely business purposes and to compete with the private sector.

**The following are the features of Government Company:**

1. **Free from Procedural Controls:** The Government companies have a right to formulate their independent policies and even make necessary changes in them. It enjoys freedom from budgetary, accounting, and audit controls which are applicable to Government undertakings.
2. **Majority of Government Directors:** All or majority of directors of such companies are appointed by the Government from different fields. They may be experts from the banking sector, insurance sector, who manage the day to day business affairs.
3. **Public Accountability:** The annual accounts of the company are tabled before Parliament or State Legislature for review and discussion. Thus, the Government Company is accountable and answerable to the Parliament or State Legislature through the concerned Minister.
4. **Registration under the Companies Act:** The Government Company is registered under the Companies Act, 2013, and its formation, working, management and winding up a business is governed by provisions of the Act. The government has the power to modify or change certain provisions laid down in the Act
5. **Own Staff:** The employees are appointed as per the rules and regulations set by the company. Its employees are not governed by the respective Government.
6. **Promotes Social Welfare:** Government Companies aim to optimise national and natural resources such as land, water, electricity, etc. It produces arms, ammunition, and other defence equipment. It also brings about balanced regional development and leads to equality of income.
7. **Objective:** It operates on commercial principles and as such its aim is to make a profit.

Exercise 7 | Q 6 | Page 116

**Attempt the following.**

Demerits of Government Company.

## **SOLUTION**

Though Government Company enjoys various benefits due to Government ownership and autonomy, it has following limitations:

1. **Inefficiency and Corruption:** The Directors have no financial stake in the company and as a result, they are indifferent towards the working of the company. Due to limited autonomy and petty politics, the efficiency of the enterprise is affected. It results in corruption.
2. **Lack of Professional view:** There is a lack of devotion, dedication, and Systematic approach. In fact, there is no professional approach in various



operations and working of the company. Thus, from the above points, it could be seen that there is a lot of government and political interference in the Government Company which brings about its inefficiency and ineffectiveness.

3. **Domination of Ministers and Politicians:** The ministers of the concerned departments are in charge of the Government Company. In view of Government ownership, political interference is quite common. The Directors try to serve and achieve their political motives rather than realisation of business goals as they are nominated for political gains and not on merits.
4. **Red Tapism and Delay:** The bureaucratic management delays in taking decisions and implementing. There is no time frame and the employees are not devoted. There is often delay in preparing various documents and forwarding the same for taking action. Thus, delay, red tape, corruption, avoidance of work, and shirking from the responsibility is common sight in Government Company.
5. **Autonomy only in Name:** Though there is administrative autonomy, these companies face a lot of interference from the government in all the matters. Appointment of Directors, employees, and its working, there is no autonomy. Autonomy is only on paper and not in practice.
6. **Weak Public Accountability:** Absence of Government audit is a major drawback in the case of Government Company which does not assure proper Utilisation of funds. There is no control over the misappropriation of funds which leads to weak public accountability.
7. **Fear of Exposure:** The working of Government companies like the annual report is placed before the Parliament or State Legislature. It is exposed to press and public criticism. Therefore, the management of the government company often gets demoralized.

Exercise 7 | Q 7 | Page 116

**Attempt the following.**

Features of Multinational Corporation.

## **SOLUTION**

**Following are the features of Multinational Corporation:**

1. **Advanced and Sophisticated Technology:** Multinational Company has large capital and sophisticated technology and infrastructure. As a result, it undertakes diversified and multifarious activities including manufacturing, marketing, financial, research, and development.
2. **Legal Existence:** MNCs are registered in their home country as per their laws and as such, they enjoy separate legal statuses. It can sue and be sued, enter into

contracts, and own property in their own name.

3. **Government:** MNCs have to bring about the necessary changes in their functioning based upon the laws prevailing in the countries of their operations. For e.g. advertisement about various products on TV is given in local languages in India and in national language Hindi, to cover the maximum target audience. In some cases, they have to change the menu to suit local demands for e.g. McDonald's had to change its menu for its business in India.
4. **Origin:** The MNCs have origin in one country and the country to which they belong is called home country. The country in which they operate their business activities is called the host country. These companies are registered in their home country and have a place of business in different countries of the world. The head office controls the Operations of different branches through a network of the internet. They also appoint their representatives in host countries for smooth business operations.
5. **Research & Development:** MNCs give a lot of importance to research and development activities. They are also fully equipped and have the necessary infrastructure. The R&D is undertaken for finding out new products, new systems, new technology, new methods of doing business in an economical way.
6. **International Operations:** Multinational corporations play a significant role in world trade. Nearly 40% of the world is contributed by the multinational companies.
7. **Target Profit Oriented:** Earning profit is the main motive of MNCs. For this purpose, they introduce new and novel products, launch new marketing schemes, organize trade fairs and exhibitions, does lots of publicity, and adopt a professional approach in all its dealings.
8. **Huge Assets and Turnover:** Multinational corporations have huge financial strength because of huge capital and assets. This enables it to develop its business potential in developing and under-developing nations where they can earn handsome profits.

Exercise 7 | Q 8 | Page 116

**Attempt the following.**

Merits of Multinational Corporation.

**SOLUTION**

**The following are the merits of Multinational Corporation:**

1. **proper use of Idle Resources:** The national income of the host country increases as MNCs use idle physical and human resources with the latest technologies.

2. **The inflow of Foreign Capital:** Multinational corporations bring much needed foreign capital for the rapid development of developing countries. This capital is useful for the growth of domestic countries.
3. **Promotion of International Brotherhood and Culture:** MNCs integrate economies of various nations with the world economy and promote international brotherhood and culture with peace and prosperity in the world.
4. **End of Local Monopolies:** In the global market, Multinational Corporations end local monopolies of host countries improving their products and reduces prices.
5. **Technical development:** Multinational corporations gives a lot of importance to research and development activities. They are also fully equipped and have the necessary infrastructure. The research and development is undertaken for finding out a new product, new system, and new technology of doing business in an economical way.
6. **Improvement of Standard of Living:** Multinational Corporations supply their product at very reasonable prices in the global market. E.g. the price of wristwatches, cell phones, etc. This helps to improve the standard of living of people in host countries.
7. **Managerial Development:** Multinational corporations have a highly specialized and expert team of management. These experts are hired by different countries of the world. Also, their functioning is highly professional. They adopt new technology and use huge resources.
8. **Employment Generation:** MNCs create large scale employment opportunities in host countries and helps in reducing unemployment.

## EXERCISE 8 [PAGE 116]

Exercise 8 | Q 1 | Page 116

**Answer the following in detail.**

Explain the Departmental Organisation and its features.

### SOLUTION

#### (A) Meaning:

Departmental organizations are the oldest form of public enterprises. These are run by Government departments headed by a minister who guides and controls the activities of the undertaking e.g. Indian Railways, an India Radio, Indian Post, Defence etc.

A Departmental organization is organized, financed and controlled by Government like any other Government department. Under this type of organization, no distinction is made between the public sector and traditional Government functions.

## **(B) Features of Departmental Organizations:**

1. **Delegation of Authority:** All major policy decisions are taken by the ministry. The day-to-day working is looked after by the staff consisting of civil servants of IAS, IPS cadres.
2. **Organizational Structure:** The internal organizational structure is of line type. The department is headed by a minister who is responsible for the working of the department. Then there is Board of Directors or Managing Committee who are assisted by Chief Executive, Executive Assistant, Supervisory and General Staff. This is termed as bureaucracy style or military style of organisation.
3. **Government Employees:** The employees of a departmental organization are civil servants and they are selected through the Union Public Service Commission. Staff Selection Board, Railway Recruitment Board etc. and as such, they are treated as Government employees.
4. **Financed by the Government:** The funds are arranged for their operation from Government treasury. This enterprise cannot borrow money from the public without Government consent.
5. **Useful for Secret:** matters like defence, atomic energy, etc.
6. **No Legal Status:** A government department does not enjoy an independent legal status. It is dependent on the Government. It cannot be taken to court without the consent of the Government. Thus, the above are the features of Departmental Organization.
7. **Government Sanction for Expansion:** Public Enterprises need to take the sanction of the Government for expansion and diversification of business or for changing the policies, etc.
8. **Examples of Departmental Organisation:** Ordinance factories, Railways, Broadcasting, Post and Telegraph, BHEL, Indian Drug and Pharmaceuticals Ltd. Hindustan Aeronautics Ltd. Army Clothing Factory, Gun Factory and so on.
9. **Run by Government:** Different procedures like accounting, auditing and budgeting are at par with the Government department.
10. **Managed by Government:** The Departmental organization is managed by Government officials of the concerned ministry.
11. **Accounting Control:** The organisation is subject to accounting and audit procedures and controls as applicable to government departments or to the concerned ministry.

12. **Accountability:** The enterprise is funded by the government and hence the government controls its affairs. In other words, it is answerable to the Parliament.
13. **No Separate Legal Entity:** A Government department does not enjoy an independent legal status. It is dependent on the Government. It cannot be taken to court without the consent of the Government.

Exercise 8 | Q 2 | Page 116

**Answer the following in detail.**

Explain the merits and demerits of departmental Organisation.

**SOLUTION**

**(A) Meaning:**

Departmental organizations are run by the Government departments headed by a minister who guides and controls the activities of the undertaking.

**(B) Merits of Departmental Organizations:**

1. **Qualified Staff:** Departmental organizations are properly managed and supervised by qualified government staff.
2. **Proper Use of Funds:** The Departmental organizations provide public utilities or basic necessities. Government Department works under the control and supervision of the concerned ministry. Charges for misuse of funds are less in the departmental organization.
3. **Social Welfare:** Government undertakes socio-economic activities to promote social welfare. Providing essential commodities to people at a reasonable price is the top priority of the state. Thus, socio-economic objectives are achieved With Government control.
4. **Public Accountability:** The concerned minister in charge of the government organisation is answerable to the Parliament or Assembly. The elected representatives of people can raise the question about the working of this enterprise on behalf of the public at large.
5. **Maintain Secrecy:** In matters of strategic, national importance, secrecy is essential and confidentiality can be maintained in certain business activities such as defence deals, atomic plants, drugs and pharmaceuticals etc.
6. **Easy Formation:** These organisations are very easy to form. They do not require any special statute or registration.
7. **Direct Control:** These organizations are properly managed and supervised by qualified Government staff. Minister at the top is responsible to the Parliament for

its operations.

8. **Direct Revenue to Government:** The revenue of departmental organizations directly goes to the Government treasury.
9. **Less Overheads:** The administrative expenses are less as the government only operate it.
10. **Easy Finance:** These organisations get the required finance by the government through the direct allocation of funds from the concerned ministry.
11. **Development of Public Utilities:** The departmental organisation provides public utilities or basic necessities. People require essential services and products such as Railways, Transport and Communications, Telephone services, etc. Thus, essential services are made available by the Government department at a very reasonable rate.

### **(C) Demerits of Departmental Organisation:**

1. **Delay in Action:** In Departmental organisation, there is always centralization of authorities. Such excessive centralization of authority leads to delay in action.
2. **Inefficiency and Corruption:** There is a lot of inefficiency and corruption in the departmental organisation.
3. **Less Scope for Initiative:** The working of this organization suffers from a lack of continuity and stability because the policies of the department are decided by the ministers.
4. **Instability:** The working of this organisation suffers from a lack of continuity and stability because the policies of the department are decided by the Ministers.
5. **Delayed:** The executives at the lower level have to depend on higher authority for all the decisions. They can't make their own decisions.
6. **Incurring Losses/Huge Losses:** Most of the government undertakings incur heavy losses due to lack of business skills and approach as they are not professional.
7. **Absence of Professionalism:** There is a lack of professionalism in the management of the departmental organization. Often the decisions are taken unsystematically, moreover, the data collected is often outdated and there is no proper analysis of such data. Hence, the decisions are taken hastily.
8. **Political Interference:** The Ministers, bureaucrats, Government officials interfere in the day to day working of the undertaking.

9. **Red Tapism and Bureaucracy:** The Departmental organisations are controlled by the government. Departmental organisations are facing delays, red-tapism, corruption, lack of initiative, bureaucracy, etc.
10. **Insensitive to Consumer Needs:** The officials of this organisation are insensitive to the needs of consumers. The officials are not bothered about consumer needs and consumer satisfaction as they are more worried about their security of service in view of the monopolistic position.
11. **Lack of Autonomy:** Departmental organisation lack autonomy and freedom in working and decision making.

Exercise 8 | Q 3 | Page 116

**Answer the following in detail.**

Explain Statutory Corporation and its features.

### **SOLUTION**

#### **(A) Meaning:**

Statutory Corporations are autonomous bodies established under special legislative Acts. A statutory corporation is formed under a Special Act of Parliament or State Legislature. The powers, duties, functions, and scope of operations are laid down in the Act. LIC, IFCI, SBI, UTI, Air India are examples of public corporations. Statutory Corporation is a body with a separate existence, which can sue and be sued and is responsible for its own finance. It is administered by a board appointed by a public authority to which it is answerable.

#### **(B) Features of the statutory corporation:**

1. **No political Interference:** It enjoys freedom from political parliamentary and government in day-to-day management.
2. **Own Staffing System:** They recruit their own employees and they are not a government servant. Employees' terms and services are not governed by civil service rules.
3. **No Political Interference:** It enjoys freedom from political, parliamentary, and government interference in day to day management of its affairs.
4. **Financial Autonomy:** Statutory Corporations are financially autonomous. After getting the prior permission from the Government, It can even borrow money within and outside the country.
5. **Independent Identity:** They have an independent identity different from the government. Though the overall business policies are formulated by the

government, they have administrative autonomy and hence operational flexibility.

6. **Special Act:** They are established under a special Act passed by the Parliament. Its objectives, power, and functions are regulated by the Act.
7. **Corporate Body:** Statutory Corporation is a corporate body. It has a separate legal entity distinct from its members and thereby can enter into contracts and acquire property on its own name.
8. **Answerable to the Legislature:** A statutory corporation is answerable to Parliament or State Assembly whomsoever creates it. Parliament has no right to interfere. Though the overall business policies are formulated by the government, they have administrative autonomy and hence operational flexibility.
9. **Legal Status:** As a body corporate, it has a separate legal entity, distinct from its members and thereby can enter into contracts and acquire property in its own name.
10. **Independent Accounting System:** They are not subject to budget accounting and audit laws and procedures applicable to government departments. But financial reports are placed in the Parliament for discussion.

Exercise 8 | Q 4 | Page 116

**Answer the following in detail.**

Explain merits and demerits of Statutory Corporation.

## **SOLUTION**

### **(A) Meaning:**

Statutory Corporations are autonomous bodies established under special legislative Acts. A statutory corporation is formed under a Special Act of Parliament or State Legislature. The powers, duties, functions, and scope of operations are laid down in the Act. LIC, IFCI, SBI, UTI, Air India are examples of a public corporations. Statutory Corporation is a body with a separate existence, which can sue and be sued and is responsible for its own finance. It is administered by a board appointed by a public authority to which it is answerable.

### **(B) Merits of Statutory Corporation:**

1. **Professional Management:** Statutory Corporations are managed professionally. The directors and other executives are highly trained and specialize in their respective fields. This leads to efficiency in working.
2. **Rapid Decisions:** Statutory Corporations enjoy autonomy. They can take quick decisions. There are less file work and less formalities to be completed before



taking decisions.

3. **Efficient Staff:** In Statutory Corporation, employees are given fair wages, better working conditions, and proper training and development programs are initiated for the employees. As a result, employer-employee relations are very cordial and the staff is highly motivated to perform better.
4. **Motivated Staff:** In Statutory Corporations, employees are given fair wages, better working conditions, and proper training and development programmes are initiated for the employees. As a result, employer-employee relations are very cordial and the staff is highly motivated to perform better.
5. **Service Motive:** They are formed to provide public utility services and promote consumer satisfaction. It provides essential commodities to people at reasonable rates.
6. **Easy to Raise Capital:** Being owned by the government, these corporations can raise the required funds by floating bonds at a low rate of interest.
7. **Administrative Autonomy:** Due to administrative and financial autonomy, statutory corporations take quick decisions and are flexible in its policy framing and working as per the changing business needs.
8. **Public Accountability:** These organisations enjoy public accountability, flexibility, and autonomy in their work. The accounts are audited by Comptroller and Auditor General of India and final accounts are tabled before Parliament or Legislature.
9. **Initiative and Flexibility:** Statutory Corporation has an independent identity different from the government. Though the overall business policies are formulated by the government, they have administrative autonomy and hence operational flexibility.
10. **Enjoys Economies of Scale:** As these organisations are large scale undertakings which promote social welfare, it enjoys economies of large scale business operations.

### **(C) Demerits of Statutory Corporation:**

Though statutory corporations are autonomous bodies and enjoy flexibility in their working, they have certain limitations which are as follows:

1. **Clashes amongst Interests:** All or majority directors of Statutory Corporations are appointed by the Government from different fields. As there are many members it is quite possible that their interests may clash. The smooth functioning of the corporation may be hampered.

2. **Autonomy on Paper Only:** Ministers, government officials, and political parties often interfere with the working and decision-making policies which affects the autonomy and flexibility of it.
3. **Rigid Structure:** Though statutory corporation-have operational flexibility, they are subject to many rules and regulations. Any changes in the constitution, objects, powers, duties, etc., require amendments to be passed in the parliament which is a difficult task. This reduces its flexibility.
4. **Lack of Initiative:** The statutory corporation has no profit motive. There is no competition between them. So employees do not take initiative to increase the profit.
5. **Unfair Practices:** Before 1991, these corporations enjoyed a monopolistic and semi monopolistic position. They were charging high prices from the consumers to cover up their inefficiencies. After 1991, due to liberalization, most of them lost their monopolistic position but skill, in practice the lack of competition as they are not aware of consumer needs.

Exercise 8 | Q 5 | Page 116

**Answer the following in detail.**

Explain Government Company and its features.

### **SOLUTION**

#### **(A) Meaning:**

1. A Government Company is one in which at least 51% of its paid-up capital is held by the central government and/or the State Government.
2. State Trading Corporation (STC), Steel Authority of India (SAIL), Bharat Heavy Electricals Ltd (BHEL), etc. are some of the examples of Government Companies.
3. These companies are registered under the Indian Companies Act, 2013, and its working is governed by the rules and regulations of the act.
4. Government Companies are established for purely business purposes and to compete with the private sector. The shares of the company are purchased in the name of the President of India.
5. Government Companies may be registered as public or private limited companies.

#### **B. Features of Government Company:**

The Government Company may be registered as public or private limited companies. These companies are established for purely business purposes and to compete with the private sector.

## Following are the features of Government Company:

1. **Free from Procedural Controls:** The Government companies have a right to formulate their independent policies and even make necessary changes in them. It enjoys freedom from budgetary, accounting, and audit controls which are applicable to Government undertakings.
2. **Majority of Government Directors:** All or majority of directors of such companies are appointed by the Government from different fields. They may be experts from the banking sector, insurance sector, who manage the day to day business affairs.
3. **Public Accountability:** The annual accounts of the company are tabled before Parliament or State Legislature for review and discussion. Thus, the Government Company is accountable and answerable to the Parliament or State Legislature through the concerned Minister.
4. **Registration under the Companies Act:** The Government Company is registered under the Companies Act, 2013, and its formation, working, management and winding up a business is governed by provisions of the Act. The government has the power to modify or change certain provisions laid down in the Act
5. **Own Staff:** The employees are appointed as per the rules and regulations set by the company. Its employees are not governed by the respective Government.
6. **Promotes Social Welfare:** Government Companies aim to optimise national and natural resources such as land, water, electricity, etc. It produces arms, ammunition, and other defence equipment. It also brings about balanced regional development and leads to equality of income.
7. **Objective:** It operates on commercial principles and as such its aim is to make a profit.

Exercise 8 | Q 6 | Page 116

### Answer the following in detail.

Explain merits and demerits of Government Company.

### SOLUTION

#### (A) merits of Government Company:

1. **Profitability and Accountability:** It works on business principles and follows a commercial approach. Though not profit-oriented like the private sector, it does make reasonable profit which is used for public welfare, modernisation, renovation, and development. Moreover, its performance can be evaluated by the Parliament as it has public accountability.

2. **Internal Autonomy:** Government Company enjoys financial and administrative autonomy. Its dependence on Government authority is minimum. It has its own capital structure, financial plan, borrowing powers, and so on.
3. **Government Ownership:** The ownership of the government company rests with Central or State Government who owns the major capital of the company and as such looks after its management and control. The government always promotes the public welfare.
4. **Foreign Capital and Technical Know-how:** As the government provides 51% of the capital, the rest 49% can be raised through foreign investment. By seeking foreign capital, Government companies bring advanced technology and technical know-how.
5. **Acquisition of Sick Units:** A government company can acquire a sick unit in the private sector without rationalisation. It can be acquired by purchasing 51% of the share capital of a private company.
6. **Concessions and Privileges:** As the government owns Government companies, it enjoys various concessions, privileges, subsidies, etc. It may also get orders for the products or services from various government departments and agencies. It also has access to use the financial resources of the Government.
7. **Efficiency:** Government Company has to compete with private sector companies. Hence, it tries to promote efficiency at all levels and avoids wastages wherever possible. It tries to improve its services to consumers and promotes consumer satisfaction by providing quality goods at reasonable prices. From the above points, it could be seen that the Government Company enjoys various benefits as it is owned by the Government and blends the objectives of privately-owned companies with State-owned control and maximise public welfare.

## **(B) Demerits of Government Company:**

Though Government Company enjoys various benefits due to Government ownership and autonomy, it has following limitations:

1. **Inefficiency and Corruption:** The Directors have no financial stake in the company and as a result, they are indifferent towards the working of the company. Due to limited autonomy and petty politics, the efficiency of the enterprise is affected. It results in corruption.
2. **Lack of Professional view:** There is a lack of devotion, dedication, and Systematic approach. In fact, there is no professional approach in various operations and working of the company. Thus, from the above points, it could be seen that there is a lot of government and political interference in the Government Company which brings about its inefficiency and ineffectiveness.

3. **Domination of Ministers and Politicians:** The ministers of the concerned departments are in charge of the Government Company. In view of Government ownership, political interference is quite common. The Directors try to serve and achieve their political motives rather than the realisation of business goals as they are nominated for political gains and not on merits.
4. **Red Tapism and Delay:** The bureaucratic management delays in taking decisions and implementing. There is no time frame and the employees are not devoted. There is often delay in preparing various documents and forwarding the same for taking action. Thus, delay, red tape, corruption, avoidance of work, and shirking from the responsibility is a common sight in Government Company
5. **Autonomy only in Name:** Though there is administrative autonomy, these companies face a lot of interference from the government in all the matters. Appointment of Directors, employees, and its working, there is no autonomy. Autonomy is only on paper and not in practice.
6. **Weak Public Accountability:** Absence of Government audit is a major drawback in the case of Government Company which does not assure proper Utilisation of funds. There is no control over the misappropriation of funds which leads to weak public accountability.
7. **Fear of Exposure:** The working of Government companies like the annual report is placed before the Parliament or State Legislature. It is exposed to press and public criticism. Therefore, the management of the government company often gets demoralized.

Exercise 8 | Q 7 | Page 116

**Answer the following in detail.**

Explain Multinational Corporation and its features.

## **SOLUTION**

### **Meaning:**

1. Global enterprises or Multinational Corporations are the Corporations which undertake business activities in more than one country. Any company having its head office in one country and place of business in other countries is called a Multinational Corporation.
2. Multinational corporations played an important role in the Indian Economy since 1991. They have become a common feature of developing economies in the world. A Multinational Corporation is a corporation which operates, in addition to the 'country in which it is incorporated, in one or more other countries.

**Following are the features of Multinational Corporation:**

1. **Advanced and Sophisticated Technology:** Multinational Company has large capital and sophisticated technology and infrastructure. As a result, it undertakes diversified and multifarious activities including manufacturing, marketing, financial, research, and development.
2. **Legal Existence:** MNCs are registered in their home country as per their laws and as such, they enjoy separate legal statuses. It can sue and be sued, enter into contracts, and own property in their own name.
3. **Government:** MNCs have to bring about the necessary changes in their functioning based upon the laws prevailing in the countries of their operations. For e.g. advertisement about various products on TV is given in local languages in India and in national language Hindi, to cover the maximum target audience. In some cases, they have to change the menu to suit local demands for e.g. McDonald's had to change its menu for its business in India
4. **Origin:** The MNCs have origin in one country and the country to which they belong is called home country. The country in which they operate their business activities is called the host country. These companies are registered in their home country and have a place of business in different countries of the world. The head office controls the Operations of different branches through a network of the internet. They also appoint their representatives in host countries for smooth business operations.
5. **Research & Development:** MNCs give a lot of importance to research and development activities. They are also fully equipped and have the necessary infrastructure. The R&D is undertaken for finding out new products, new systems, new technology, new methods of doing business in an economical way.
6. **International Operations:** Multinational corporations play a significant role in world trade. Nearly 40% of the world is contributed by the multinational companies.
7. **Target Profit Oriented:** Earning profit is the main motive of MNCs. For this purpose, they introduce new and novel products, launch new marketing schemes, organize trade fairs and exhibitions, does lots of publicity, and adopt a professional approach in all its dealings.
8. **Huge Assets and Turnover:** Multinational corporations have huge financial strength because of huge capital and assets. This enables it to develop its business potential in developing and under-developing nations where they can earn handsome profits.

Explain the merits and demerits of multinational corporations.

## **SOLUTION**

### **(A) Meaning:**

1. Global enterprises or Multinational Corporations are the Corporations which undertake business activities in more than one country. Any company having its head office in one country and place of business in other countries is called a Multinational Corporation.
2. Multinational corporations played an important role in the Indian Economy since 1991. They have become a common feature of developing economies in the world. A Multinational Corporation is a corporation which operates, in addition to the 'country in which it is incorporated, in one or more other countries.

### **(B) Merits of Multinational Corporation:**

The following are the merits of Multinational corporations.

1. **Proper use of Idle Resources:** The national income of the host country increases as MNCs use idle physical and human resources with the latest technologies.
2. **The inflow of Foreign Capital:** Multinational corporations bring much needed foreign capital for the rapid development of developing countries. This capital is useful for the growth of domestic countries.
3. **Promotion of International Brotherhood and Culture:** MNCs integrate economies of various nations with the world economy and promote international brotherhood and culture with peace and prosperity in the world.
4. **End of Local Monopolies:** In the global market, Multinational Corporations end local monopolies of host countries improving their products and reduces prices.
5. **Technical development:** Multinational corporations gives a lot of importance to research and development activities. They are also fully equipped and have the necessary infrastructure. The research and development is undertaken for finding out new products, new systems, and new technology of doing business in an economical way.
6. **Improvement of Standard of Living:** Multinational Corporations supply their product at very reasonable prices in the global market. E.g. the price of wristwatches, cell phones, etc. This helps to improve the standard of living of people in host countries.
7. **Managerial Development:** Multinational corporations have a highly specialized and expert team of management. These experts are hired by different countries of the world. Also, their functioning is highly professional. They adopt new technology

and use huge resources.

8. **Employment Generation:** MNCs create large scale employment opportunities in host countries and helps in reducing unemployment.

### **(C) Demerits of Multinational Corporations:**

1. **The danger for Domestic Industries:** Multinational Corporations have vast economic power so they are a danger to domestic industries which are still in process of development. Domestic industries are not so powerful to face the challenges of Multinational corporations.
2. **Create Problem for Environment:** Profit is the sole objective of Multinational corporations. Such companies damage the environment of developing countries. To lower the price of goods they dump lower standard quality products which harm local soil, water, and air.
3. **Outsourcing of Job:** Normally MNCs outsource the job work due to lower cost, due to this their liabilities towards employees are reduced.
4. **Misuse of Mighty Status:** Multinational Corporations have powerful financial strength because of huge capital. They can afford to bear losses for a long while in the hope of earning huge profits. They have ended local competition and achieved a monopoly. This may be unfair.
5. **Multinational Corporations Import Skilled Labour:** Most companies in this position import the skilled labour they require from other economic to meet their needs. That means the best jobs, especially in the developing world, are given to people who don't even live in the local economy. Those wages do not offer the same economic benefits because spending occurs internationally instead of at the local level.
6. **Interference:** Multinational Corporations are gigantic organizations with huge finance and efficient management. They try to bring about the expansion of business through mergers, acquisitions, and amalgamations. As they are huge corporations they exert influence on political parties and try to spread the political ideology of their home country.
7. **Take away Profits to Home Country:** Profits made by multinational corporations are not used in the same country from where they are earned. They are not interested in the development of other countries. They do not use their profits on the infrastructural development of other countries.
8. **Encourage Political Corruption:** To get favorable terms and conditions in host country multinational corporations bribe to political parties.
9. **Repatriation of Profits:** Multinational Corporations get huge profits. Repatriation of profit by Multinational corporations adversely affects the foreign exchange



reserves of the host country. If means that a large amount of foreign exchange goes out of the host country.