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Firm:

A firm is a business organization such as a corporation that produces and sells goods and services with the aim of generating revenue and making a profit.

According to D.S.Watson, "The firm is a unit engaged in production for a sale at a profit and with the objective of maximising the profit."

In the words of Nicholson, "A profit maximising firm chooses both its inputs and outputs with the sole goal of achieving maximum economic profits. That is, the firm seeks to make the difference between its total economic costs as large as possible."

Types of Firms:

In industrial economics a business firm may be identified on the basis of certain characteristics like the type of business it is doing, its size, the pattern of ownership, and so on.

All firms doing business can be classified into three categories:

1. Private Sector
2. Public Sector
3. Joint Sector

In the private sector the ownership is exclusively in the hands of private individuals. In the public sector the ownership is in the hands of the Central or State Government. In the joint sector, the government, private entrepreneurs and the public together share the ownership, control and management of the firm.

Forms of the Firms in Private Sector:

(a) Sole Proprietorship or Sole Tradership

(b) Partnership

(c) Joint-Stock Companies or Corporations

(a) Sole Proprietorship or Sole Tradership:

A Sole Proprietorship, also called sole trader or simply proprietorship. The sole proprietorship firm is the simplest type of business under which one can operate a business. The sole proprietorship is not a legal entity. It simply refers to a person who owns the business and is personally responsible for its debts.

In the words of Gloss and Baker, "A sole proprietorship is a business owned by one person and operated for his profit."

Koontz and Fulmer define, "A sole proprietorship is a business owned and controlled by one person."

Main Features of Sole Proprietorship:

* One man ownership.
* No seperate business entity.
* No seperation between ownership and management.
* Unlimited liability.
* All profits or losses to the proprietor.
* Fewer formalities.

Advantage of Sole Proprietorship:

* Easy to form and wind up.

* Direct motivation.

* Quick decision and prompt action.

* Better control.

* Maintenance of business secrets.

* Close personal relation.

* Flexibility in operation.

* Encourages self-employment.

Disadvantages of Sole Proprietorship:

* Limited financial resources.

* Unlimited liability.

* Lack of continuity.

* Limited size.

* Lack of managerial expertise.

(b) Partnership:

A partnership firm is an organization which is formed with two or more persons to run a business with a view to earn profit. Each member of such a group is known as partner and collectively known as partnership firm. These firms are governed by the Indian Partnership Act, 1932.

"Partnership is the relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all." ---- Indian Partnership Act, 1932

Characteristics of Partnership Firm:

* Number of partners
* Contractual relationship
* Voluntary registration
* Competence of partners
* Sharing of profit and loss
* Unlimited liability
* Legal status
* Transfer of interest

Advantages of Partnership Firm:

* Easy formation
* Larger resources
* Flexibility in operation
* Better management
* Sharing of risk

Disadvantages of Partnership Firm:

* Instability

* Unlimited liability

* Lack of harmony

* Limited capital

* No legal status

(c) Joint Stock Company:

A Joint Stock Company is a voluntary association of persons to carry on the business. It is an association of persons who contribute money which is called capital for some common purpose. These persons are members of the company. The proportion of capital to which each member is entitled is his share and every member holding such share is called shareholders and the capital of the company is known as share capital. The Companies Act 1956 defines a joint stock company as an artificial person created by law, having separate legal entity from its owner with perpetual succession and a common seal. Shareholders of Joint Stock Company have limited liability. Shares of such company are easily transferable.

According to L.H. Haney, "A Joint Stock Company is a voluntary association of individuals for profits having a capital divided into transferable shares, the ownership of which is the condition of ownership."

Characteristics of Joint Stock Company:

* Artificial person
* Separate legal entity
* Perpetual existence
* Limited liability of shareholders
* Common seal
* Transferability of shares
* Capital
* Centralized and delegated Management
* Large number of Members
* Formation

Advantages of Joint Stock Company:

* Limited liability
* Perpetual existence
* Large scale operation
* Transferability of shares
* Raising of funds
* Social benefit
* Research and development

Disadvantages of Joint Stock Company:

* Formation is not easy
* Double taxation
* Control by Board of Directors
* Excessive Government control
* Delay in policy decisions
* Speculation and manipulation

Forms of the Firms in Public Sector:

(a) Departmental Undertakings

(b) Public Corporation/Statutory Corporation

(c) Government Companies

(a) Departmental Undertakings:

This is the oldest form of public sector enterprises. The departmental undertaking is considered as one of the departments of government. It has no separate existence than the government. It functions under the overall control of one ministry or department of government.

Characteristics of Departmental Undertakings:

1. They operate under the overall control of one of the ministries of central or state government.
2. They are a part of government only, there is no separate entity.
3. The revenue of departmental undertakings is deposited in the treasury of government.
4. They are financed from the annual budgets of the government.

Advantages of Departmental Undertakings:

* Fulfillment of social objectives
* Responsible to legislature
* Control over economic activities
* Contribution to government revenue
* Little scope for misuse of funds

Disadvantages of Departmental Undertakings:

* The influence of bureaucracy
* Excessive parliamentary control
* Lack of professional expertise
* Lack of flexibility
* Inefficient functioning

(b) Public Corporation/Statutory Corporation:

A statutory corporation is a body corporate formed by a special act of parliament or by the central or state legislature. It is fully financed by the government. Its powers, objects, limitations etc. are also decided by the act of the legislature.

Characteristics of Public Corporation:

* It is created by an act of parliament or central or state legislature.
* The powers, objectives and limitations of a public corporation are defined in the act only.
* Under total control of central or state government operations of public corporations takes place.
* A public corporation is a separate legal entity. It gets incorporated automatically when the act is passed in the parliament.

Advantages of Public Corporation:

* Economies of scale
* Easier planning and coordination
* Autonomous set-up
* Protection of public interest
* Quicker decisions
* Raising funds through private sourcing

Disadvantages of Public Corporation:

* Difficult to manage
* Risk of producing inefficient products
* Financial burden
* Political interference
* Misuse of power
* Consumer interests ignored
* Expensive to maintain and operate
* Anti-social activities, i.e., charging too much for a product

(c) Government Companies:

The company in which at least 51% of the paid-up share capital is held by the central or state government or partly by central or state government is Government Company. The govetnment companies are governed and ruled by the provisions of the companies act.

Characteristics of Government Company:

* It is a separate legal entity.
* It is incorporated under Companies Act 1956 and 2013.
* The management is governed and regulated by the provisions of Companies Act.
* The Memorandum of Association and Articles of Association govern the appointment of employees.
* A government company gets its funding from government shareholding and other private shareholdings. The company can also raise money from the capital market.
* A govrnment company is audited by the agency appointed by the central government. This agency is mainly Comptroller and Auditor General of India.

Merits of Government Company:

* The government company is relatively free from government and political interference.
* The government company is managed, financed and audited just as any other private sector company. It can, therefore, secure greater flexibility, freedom of operation and quickness of action in running the enterprise.

* The government companies can avail and accomodate managerial skill, technical know-how or expertise of the private enterprise by conveniently collaborating with it.

Demerits of Government Company:

* These companies face a lot of government interference and involvement of government officials, ministers and politicians.
* As these companies are financed by the govrnment, so these companies evade all constitutional responsibilities of not answering to the parliament.
* The efficient operations of the company are hampered, as the board of the company comprises mainly of politicians and civil servants, who have more emphasis and interest in pleasing their political party co-workers or owners and less concentrated on growth and development of the company.

3. Joint Sector:

The concept of joint-sector implies the participation of both the government and the private sector in the business. Under this organization, a firm is owned and run jointly by the government and a private entrepreneur. This is done in order to strengthen the spirit of the mixed economy effectively. A joint-sector can be formed in India according to the Companies Act 1956.

Main Features of Joint Sector:

* In joint sector financial participation is 26% from the government, 25% from private enterprise and 49% from public and financial institutions.
* In case of a foreign collaboration or participation with domestic partner, the share of government will be 25%, Indian business concern 20%, foreign investor 20% and public including financial institutions 35% in the paid up capital.
* No single party can hold more than 25% of the shares without the sanction of central government.

Merits of Joint Sector:

* Social control over industries
* Failures of Private and Public Sector
* Compromise and solution of both sector
* Instrument of industrial growth and regional development
* Strategy of state sponsored industrialization
* Removal of the contradictions involved in the concept of mixed economy
* Mobilization of financial, technical and managerial resources

Demerits of Joint Sector:

* Corruption
* Quality of services
* Evaluation
* Wealth creation
* Monopoly
* Drawbacks of public sector
* Limitations of private sector

Objectives of a Firm:

* Profit maximisation
* Revenue or sales maximisation
* Satisfaction maximisation
* Utility maximisation or managerial discretion
* Growth maximisation
* Secure profits

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