

CSR & Social Governance

(Chapter 10)

(Total= 20 marks)

Time - 1 Hr

Answer the following question.

Case Study 1

Corporations are considered legal person. Non-corporation companies, such as a partnerships or sole proprietorships have no legal distinction from the owners. This means that owners of such entities do not have the same legal protections as a corporate entity. However, starting a non-corporate entity is easier than a corporate entity, and registering a corporation comes with certain responsibilities.

The raising of capital is harder for non-corporations when compared to incorporated entities. Corporations can raise capital through the selling of stock to the public. Corporations can also use such proceeds generated from stock sales to grow the company or pay debt obligations. A non-corporation can rely on an owner investment to provide financing to the company's business activities. If a non-corporate owner does not have suitable credit, that person may not secure loans to finance the operation of the business.

Questions:

(5 marks each)

1. Explain the advantages and dis-advantages of sole proprietorship.

Answer

Advantages:

Less compliances: The sole proprietorship business can be started easily by just one person. There is minimum compliance that is required to be adhered to get it incorporated. This form of business is economical as it is relatively less expensive to start than a company or LLP.

Control of the business: The sole proprietor will have complete control over the business. He will look after all the aspects of the business. Since only one person is running the business, secrecy can be maintained.

Quick decision making: The sole proprietor takes all decisions of the business. The decision making rests with a single person. Thus, the decisions can be taken quickly and immediately without the need for consulting anyone.

Disadvantages:

Unlimited liability: There is an unlimited liability on the sole proprietor. He is personally liable for all the transactions he enters in the business. If any loss occurs, he will have to bear the whole loss out of his personal estate.

No perpetual succession: There is no perpetual succession which means it can come to an end if something happens to the sole person taking care of the business. It can shut down at any time. This makes the business unreliable and difficult to gain public trust for entering into agreements or contracts to expand the business.

Difficult to raise funds: Since a single person manages the business, it is not easy to raise capital. The capital of the business is from the investments put in by the sole proprietor. The sole proprietorship firm has no separate legal entity status from the owner. As it can come to an end at any time and there is no separate entity, it is difficult to obtain funds from third parties.

2. Mention the Characteristics of Partnership form of Business. Elaborate features of a partnership.

Answer

Following are the few features of a partnership:

Agreement between Partners: It is an association of two or more individuals, and a partnership arises from an agreement or a contract. The agreement (accord) becomes the basis of the association

between the partners. Such an agreement is in the written form. An oral agreement is even handedly legitimate. In order to avoid controversies, it is always good, if the partners have a copy of the written agreement.

Two or More Persons: In order to manifest a partnership, there should be at least two (2) persons possessing a common goal. To put it in other words, the minimal number of partners in an enterprise can be two (2). However, there is a constraint on their maximum number of people.

Sharing of Profit: Another significant component of the partnership is, the accord between partners has to share gains and losses of a trading concern. However, the definition held in the Partnership Act elucidates – partnership as an association between people who have consented to share the gains of a business, the sharing of loss is implicit. Hence, sharing of gains and losses is vital.

Business Motive: It is important for a firm to carry some kind of business and should have a profit gaining motive.

Mutual Business: The partners are the owners as well as the agent of their firm. Any act performed by one partner can affect other partners and the firm. It can be concluded that this point acts as a test of partnership for all the partners.

Unlimited Liability: Every partner in a partnership has unlimited liability.

Case Study 2

The registration of a partnership firm is optional and not compulsory under the Indian Partnership Act. It is at the discretion of the partners and voluntary. The firm's registration can be done at the time of its formation or incorporation or during the continuance of the partnership business.

However, it is always advisable to register the partnership firm as a registered partnership firm enjoys certain special rights and benefits as compared to the unregistered firms.

For registration, an application form has to be filed to the Registrar of Firms of the State in which the firm is situated along with prescribed fees.

A charitable trust, as the name suggests is the one where the sole purpose of its incorporation is to uplift people from poverty, to empower women, to eradicate illiteracy, to promote public health and comfort, to further religious practices, and other charitable purposes. Benevolent and philanthropic purposes are not compulsorily charitable unless it is specifically for the benefit for masses or group of people.

Questions: (3 marks each)

1. Explain the following regulatory framework regarding registration of Trust.

Answer

Registration of a trust is not mandatory, but it provides legal recognition and benefits to the trust and its beneficiaries. Therefore, it is generally recommended to register a trust to avail of the benefits and legal protections that come with registration.

Different laws regulate trusts in India. The primary regulatory Authority for trust registration is the Registrar of Trusts. The registrar of trusts maintains all the information on the trusts which have been registered in India. Different states in India have different Trusts Acts in force, which govern the trusts in the state; in the absence of a Trusts Act in any particular state or territory the general principles of the Indian Trusts Act 1882 are applied.

2. NGOs have played central roles in global campaigns against slavery, the trade in ivory, whaling, violence against women, apartheid in South Africa, and the proliferation of nuclear weapons. Describe the kinds of activities which they up, civil society groups & mention the following categories.

Answer

- Registered Societies formed for specific purposes
- Charitable Organizations and Trusts
- Local Stakeholders Groups, Microcredit and Thrift Enterprises, Self Help Groups
- Professional Self-Regulatory Bodies
- Cooperatives
- Bodies without having any formal organizational structure

- Government promoted Third Sector Organizations.

Q3. (4 marks)

'Governance' is the process of decision-making and the process by which decisions are implemented. Governance can be used in several contexts such as corporate governance, international governance, national governance and local governance. Elaborate the major characteristics of good governance initiatives in Local Governments. Good governance assures that corruption is minimized, the views of minorities are taken into account and that the voices of the most vulnerable in society are heard in decision-making. It is also responsive to the present and future needs of society.

Answer

Good governance has 8 major characteristics. They are:

Participation:

- People should be able to voice their own opinions through legitimate immediate organizations or representatives.
- This includes men and women, vulnerable sections of society, backward classes, minorities, etc.
- Participation also implies freedom of association and expression.

Rule of Law:

- Legal framework should be enforced impartially, especially on human rights laws.
- Without rule of law, politics will follow the principle of 'matsya nyaya' i.e. law of fish which means the strong will prevail over the weak.

Consensus Oriented:

- Consensus oriented decision-making ensures that even if everyone does not achieve what they want to the fullest, a common minimum can be achieved by everyone which will not be detrimental to anyone.
- It mediates differing interests to meet the broad consensus on the best interests of a community.

Equity and Inclusiveness:

- Good governance assures an equitable society.
- People should have opportunities to improve or maintain their well-being.

Effectiveness and Efficiency:

- Processes and institutions should be able to produce results that meet the needs of their community.
- Resources of the community should be used effectively for the maximum output.

Accountability:

- Good governance aims towards betterment of people, and this cannot take place without the government being accountable to the people.
- Governmental institutions, private sectors, and civil society organizations should be held accountable to the public and institutional stakeholders.

Transparency:

- Information should be accessible to the public and should be understandable and monitored.
- It also means free media and access of information to them.

Responsiveness:

- Institutions and processes should serve all stakeholders in a reasonable period of time.

BEST OF LUCK