Types of Business Organizations

Introduction

- Business organization refers to all legal and mandatory arrangements required to conduct a business.

- It also refers to all those steps that need to be undertaken for establishing relationship between men, material, and machine to carry business efficiently with the intention of earning profit.

- The arrangement which follows this process of organizing is called a business undertaking or organization.

Introduction

- **Characteristics of Business organization:**
  - Ownership
  - Lawful Business
  - Separate Entity and Management
  - Continuity
  - Risk
- **Forms of Business Organization:**
  - Sole Proprietorship
  - Partnership
  - Joint Stock Company
  - Co-Operative Society
  - Joint Hindu Family Business
  - Government Company (Public Corporations)

1. Sole Proprietorship

- When the ownership and management of business are in control of one individual, it is known as sole proprietorship.
- The shops and the stores that you see in your locality – the grocery store, the vegetable shop, the chemist shop, etc… all come under sole proprietorship.
- The volume of activities of such a business unit may be quite large.
- However, since it is managed and owned by single individual, often the size of business remain small.

1. Sole Proprietorship

- **Characteristics:**
  - Ownership
  - Management
  - Source of Capital
  - Legal Status
  - Liability
  - Stability
  - Legal Formalities

1. Sole Proprietorship

- **Advantages:**
  - Easy Formation
  - Better Control
  - Prompt Decision Making
  - Flexibility in operations
  - Retention of Business secrets
  - Direct Motivation
  - Personal attention to consumer needs
  - Creation of employment

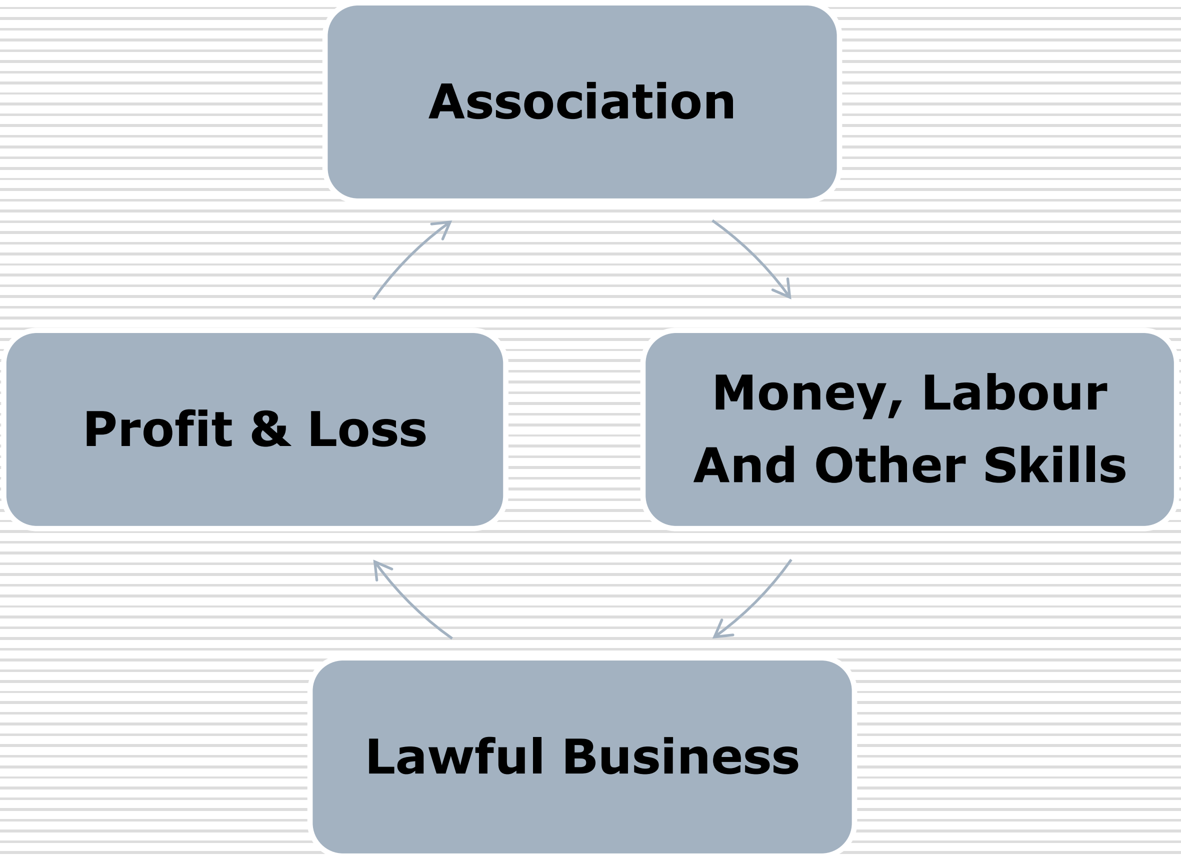
1. Sole Proprietorship

- **Disadvantages:**
  - Unlimited Liability
  - Limited Financial Resources
  - Limited Capacity of Individual
  - Uncertainty of Duration

2. Partnership

- A Partnership form of organization is one where two or more persons are associated to run a business with a view to earn profit.
- Persons from similar background or different ability or skills, may join together to carry a business.
- Each member of such a group is individually known as 'Partner' and collectively the members are known as 'partnership firm'.
- These firms are governed by the Indian Partnership Act, 1932.

PARTNERSHIP



2. Partnership

- **Characteristics:**
  - Number of Partners
  - Contractual Relationship(written /oral)
  - Competence of Partners(synergy)
  - Sharing of Profit and Loss
  - Unlimited Liability(private property)
  - Principal-Agent Relationship

    An arrangement in which one entity legally appoints another to act on its behalf. In a principal-agent relationship, the agent acts on behalf of the principal and should not have a conflict of interest in carrying out the act.
  - Transfer of Interest

- Legal Status
- Voluntary Registration
- Dissolution of Partnership

Types of Partners

- General Partners
- Active Partners
- Sleeping/Silent Partners
- Nominal Partners
- Secret Partners
- Minor Partners(limited liability)

2. Partnership

- **Advantages:**
  - Easy Formulation
  - Larger Resources
  - Flexibility in Operations
  - Better Management
  - Sharing of Risk
  - Protection of Minority Interest
  - Better Public Relation

2. Partnership

- **Disadvantages:**
  - Instability
  - Unlimited Liability
  - Lack of Harmony
  - Limited Capital

3. Joint Stock Company

- A joint stock company form of business organization is a voluntary association of persons to carry on business.
- It is given a legal status and is subject to certain legal regulations.
- It is an association of persons who generally contribute money for some common purpose.
- The proportion of capital to which each member is entitled is called his share, therefore members of joint stock company are known as shareholders and the capital of the company is known as share capital.

3. Joint Stock Company

- The total share capital is divided into a number of units known as ‘shares’.
- The companies are governed by the Indian Companies Act, 1956.
- The act defines a company as an artificial person created by law, having a separate entity, with perpetual succession, and a common seal.

3. Joint Stock Company

- **Characteristics:**
  - Artificial Persons
  - Separate Legal Entity
  - Common Seal
  - Perpetual Existence
  - Limited Liability
  - Transferability of Shares
  - Formation
  - Membership(Private & Public)
  - Management
  - Capital

Basic Legal Documents

- Memorandum of Association
- Articles of Association
- Prospectus

3. Joint Stock Company

- **Advantages:**
  - Limited Liability
  - Continuity of Existence
  - Benefits of Large Scale of Operations
  - Professional Management
  - Social Benefit
  - Research and Development

3. Joint Stock Company

- **Disadvantages:**
  - Formation is not easy
  - Control by a group
  - Speculation and Manipulation
  - Excessive government Control
  - Delay in policy decision
  - Social Abuse

4. Co-Operative Society

- Any ten person can form a Co-Operative society.
- It function under the Co-operative Societies Act , 1912 and other State Co-operative Societies Acts.
- It is totally different than all other form of business discussed above in terms of its objective.
- They are primarily formed to render service to its members.
- Its also provides some services to the society. The main objective of Co-Operative Societies are:
  - Rendering the service rather than earning profit
  - Mutual help instead of competition
  - Self help in place of dependence

4. Co-Operative Society

- Few Co-Operative Societies are:
  - Consumer Co-operatives
  - Producer’s Co-operatives
  - Marketing Co-operatives
  - Housing Co-operatives
  - Credit Co-operatives
  - Farming Co-operatives

4. Co-Operative Society

- **Characteristics:**
  - Voluntary Association
  - Membership
  - Body Corporate
  - Service Motive
  - Democratic Set up
  - Sources of Finances

4. Co-Operative Society

- **Advantages:**
  - Easy Formation
  - Limited Liability
  - Open Membership
  - State Assistance
  - Middlemen’s profit Eliminated
  - Management
  - Winding up

4. Co-Operative Society

- **Disadvantages:**
  - Limited Capital
  - Problems in Management
  - Lack of Motivation
  - Lack of Co-Operation
  - Lack of Secrecy
  - Dependence on Government

5. Joint Hindu Family Business

- The JHF business is a form of business organization found only in India.
- In this form of business, all the members of a Hindu undivided family own the business jointly.
- The affairs of business are managed by the head of the family, who is known as the 'KARTA'.
- A Joint Hindu Family business only the male members get a share in the business by virtue of there being part of the family.
- The membership is limited up to three successive generations.

5. Joint Hindu Family Business

- Thus an individual, his son(s), and his grandson(s) become the members of a Joint Hindu Family by birth.
- A daughter has no right to ask for a partition.

5. Joint Hindu Family Business

- **Characteristics:**
  - Legal Status
  - Membership
  - Profit Sharing
  - Management
  - Liability
  - Fluctuating share
  - Continuity

5. Joint Hindu Family Business

- **Advantages:**
  - Assured share in profits
  - Freedom in Managing
  - Sharing of Knowledge and Experience
  - Unlimited liability of the KARTA only
  - Continued Existence

5. Joint Hindu Family Business

- **Disadvantages:**
  - Limited Capital
  - Lack of Motivation
  - Scope for misuse of power of the KARTA
  - Scope for conflict
  - Instability

Forms of Public Sector Organisations

- Departmental Organisation
- Public Corporations
- Government Companies

Departmental Organisation

- Characteristics
  - Financed out of Govt. budget
  - Revenue go to public exchequer
  - All the rules and regulations of govt. are applicable
  - Direct control of the concerned ministry
  - Employees are govt. servants

- Advantages
  - Easy to achieve political, economical and social objectives
  - Suitable for public utility services and defence industries
  - Due to govt. control, complete secrecy is possible

- Disadvantages
  - Bureaucratic control
  - No timely decisions
  - Rigidity in certain rules and regulations, difficult to bring major innovations and modifications
  - Lack of initiatives as promotions are on seniority based

Public Corporations

- Advantages
  - Better managed
  - Quick decisions
  - More flexibility
  - No profit motive, public utilities at reasonable costs to people
  - Experienced and capable directors thus efficiently managed

- Disadvantages
  - Autonomy of corporations only on paper
  - Interference of political leaders and govt. officers
  - Possess monopoly

  - Examples
    - Indian railway, Delhi metro rail, Air India, Indian vaccine corporation, IRDA, Post office

6. Government Companies (Public Co-operations)

- A Government-owned corporations, State Owned company, State-owned entity, State enterprise, publicly owned corporations, government business enterprise, is a legal entity created by government to undertake commercial activities on behalf of an owner government.
- In India a public enterprise incorporated under the Indian Companies Act, 1956, is called a government company.
- These companies are owned and managed by central or state government.

6. Government Companies (Public Co-operations)

- According to Indian Companies Act, 1956, a government company means "any company in which not less than 51% of paid capital is held by the central or state government and partly by the central government and includes a company which is a subsidiary of a government company".

6. Government Companies (Public Co-operations)

- **Characteristics:**
  - Formation
  - Ownership
  - Management
  - Legal Status
  - Employees
  - Capital Collection
  - Approval of Accounts
  - Flexibility

6. Government Companies (Public Co-operations)

- **Advantages:**
  - Formation is easy
  - Easy to incorporate changes
  - Enjoys Financial Autonomy
  - Development of Neglected areas by Private players
  - Healthy competition

6. Government Companies (Public Co-operations)

- **Disadvantages:**
  - Political Interference
  - They Take the assistance of Civil Servants and they are not experts
  - Slackness in Management