Business Organization

- Specialization

- Division of Labour

- Manage and co-ordination of the production process

Forms of business organization

- Sole proprietorship/Individual proprietorship
- Partnership
- Corporations
- Limited Liability company

Sole proprietorship/Individual proprietorship

Owned by a single person - Small business - Large in number but small in total sales - Self employed - Unstable.

Features

(i) Formation and closure: There is no separate law that governs sole proprietorship. There is ease in formation as well as closure of business.

(ii) Liability: Sole proprietors have unlimited liability. This implies that the owner is personally responsible for payment of debts in case the assets of the business are not sufficient to meet all the debts. As such the owner personal possessions such as his/her personal car and other assets could be sold for repaying the debt.

(iii) Sole risk bearer and profit recipient: The risk of failure of business is borne all alone by the sole proprietor.

(iv) Control: The right to run the business and make all decisions lies absolutely with the sole proprietor.

(v) There is no separation between the firm and the identity of the owner.

(vi) Limited resources.

Partnership

- Often, running a business requires a combination of talents.
- Two or more people can get together and form a partnership.
- Each agrees to provide a fraction of the work and capital and to share a percentage of the profits and losses.
- The Indian Partnership Act, 1932 defines partnership as “the relation between persons who have agreed to share the profit of the business carried on by all or any one of them acting for all.”

Features

i) Formation: It is governed by the Indian Partnership Act, 1932. The business must be lawful and run with the motive of profit. Thus, two people coming together for charitable purposes will not constitute a partnership in legal terms.

(ii) Liability: The partners of a firm have unlimited liability. Personal assets may be used for repaying debts in case the business assets are insufficient.

(iii) Management and decision making: The partners share the responsibility of decision making and management of the business is executed jointly by the partners.

(iv) Continuity: Lack of continuity. (Death, retirement, insolvency, or insanity of any partner lead to discontinuity of the business.

Types of Partner

Active Partner: An active partner is one who contributes capital, participates in the management of the firm, shares its profits and losses, and is liable to an unlimited extent to the creditors of the firm.

Dormant Partner: Partners who do not take part in the day to day activities of the business are called dormant partners. A dormant partner, however, contributes capital to the firm, shares its profits and losses, and has unlimited liability.

Secret Partner: A secret partner is one whose association with the firm is unknown to the general public. However, He contributes to the capital of the firm, takes part in the management, shares its profits and losses, and has unlimited liability towards the creditors.

Nominal Partner: A nominal partner is one who allows the use of his/her name by a firm, but does not contribute to its capital. He/she does not take active part in managing the firm.

Limited Liability Partnership (LLP Act 2008)

- A limited liability partnership is a flexible legal and tax entity where every partner has a limited personal liability for the debts or claims of the partnership.
- It allows for a partnership structure where each partner’s liabilities are limited to the amount they put into the business.
- It is common in professional business such as law firms, medical practices, accounting firms etc. It conveys a sense of stability, credibility, and professionalism to clients, investors, and other stakeholders.
- Different from general form of partnership where there is unlimited liability of all partners for business debts and legal consequences.

Corporation

- Owned by a number of individual stockholders
- It has a separate legal identity
- A single unit
- The shareholders elect directors and vote on important issues
- Shareholders own the corporations, but the managers run the it.

- Hierarchical in nature
- Decision are made in stark contrast with the economics decisions made by legislatures
- Limited liability of the stockholders (One cannot lose more than one has invested)
- Extra taxes (corporate profit/individual income)