**KYAMBOGO UNIVERSITY**

**FACULTY OF SCIENCE**

**DEPARTMENT OF COMPUTER SCIENCE**

**ENTREPRENEURSHIP SKILLS-BIS**

**TRAITS OF TECHNICAL ENTREPRENEURSHIP**

**BUSINESS ORGANISATION**

A business organisation is a person or a group of people working together in pursuit of the same commercial interest. To do this effectively you must decide what type of business organisation best suits your needs. Business organisation takes on one of the following forms;

* Sole proprietorships
* Partnerships
* Cooperative societies
* Joint stock companies

**FORMS OF BUSINESS ORGANISATION**

**SOLE PROPRIETORSHIP**

The term ‘sole’ means single and ‘proprietorship’ means ownership. Therefore sole proprietorship is a form of business organisation in which a single individual owns and manages an enterprise, takes the profits and bears the losses.

**CHARACTERISTICS OF SOLE PROPRIETORSHIP**

**Single Ownership;**

The sole proprietorship form of business organisation has a single owner who himself/herself starts the business by bringing together all the resources.

**No Separation of Ownership and Management;**

The owner himself/herself manages the business as per his/her own skill and intelligence. There is no separation of ownership and management as is the case with company form of business organisation.

**Less Legal Formalities;**

The formation and operation of a sole proprietorship form of business organisation does not involve any legal formalities. Thus, its formation is quite easy and simple.

**No Separate Entity;**

The business unit does not have an entity separate from the owner. The businessman and the business enterprise are one and the same, and the businessman is responsible for everything that happens in his business unit.

**No Sharing of Profit and Loss;**

The sole proprietor enjoys the profits alone. At the same time, the entire loss is also borne by him. No other person is there to share the profits and losses of the business. He alone bears the risks and reaps the profits.

**Unlimited Liability;**

The liability of the sole proprietor is unlimited. In case of loss, if his business assets are not enough to pay the business liabilities, his personal property can also be utilised to pay off the liabilities of the business.

**One-man Control;**

The controlling power of the sole proprietorship business always remains with the owner. He/she runs the business as per his/her own will.

**MERITS OF SOLE PROPRIETORSHIP**

**Easy to Form and Wind Up;**

It is very easy to form a sole proprietorship form of business organisation. No legal formalities are required to be observed. Similarly, the business can be wind up any time if the proprietor so decides.

**Quick Decision and Prompt Action;**

As stated earlier, nobody interferes in the affairs of the sole proprietary organisation. So he/she can take quick decisions on the various issues relating to business and accordingly prompt action can be taken.

**Direct Motivation;**

In sole proprietorship form of business organisations the entire profit of the business goes to the owner. This motivates the proprietor to work hard and run the business efficiently.

**Flexibility in Operation;**

It is very easy to effect changes as per the requirements of the business. The expansion or restricting of business activities does not require many formalities as in the case of other forms of business organisation.

**Maintenance of Business Secrets;**

The business secrets are known only to the proprietor. He is not required to disclose any information to others unless he himself so decides. He is also not bound to publish his business accounts.

**Personal Touch;**

Since the proprietor himself handles everything relating to business, it is easy to maintain a good personal contact with the customers and employees. By knowing the likes, dislikes and tastes of the customers, the proprietor can adjust his business.

**DEMERITS OF SOLE PROPRIETORSHIP**

**Limited Resources;**

The resources of a sole proprietor are always limited. Being the single owner it is not always possible to arrange sufficient funds from his own sources. Again borrowing funds from friends and relatives or from banks has its own implications. So, the proprietor has a limited capacity to raise funds for his business.

**Lack of Continuity;**

The continuity of the business is linked with the life of the proprietor. Illness, death or insolvency of the proprietor can lead to closure of the business. Thus, the continuity of business is uncertain.

**Unlimited Liability;**

You have already learnt that there is no separate entity of the business from its owner. In the eyes of law the proprietor and the business are one and the same. So personal properties of the owner can also be used to meet the business obligations and debts.

**Not Suitable for Large Scale Operations;**

Since the resources and the managerial ability is limited, sole proprietorship form of business organisation is not suitable for large-scale business.

**Limited Managerial Expertise;**

A sole proprietorship from of business organisation always suffers from lack of managerial expertise. A single person may not be an expert in all fields like, purchasing, selling, financing etc. Again, because of limited financial resources, and the size of the business it is also not possible to engage the professional managers in sole proprietorship form of business organisations.

**FORMATION OF A SOLE PROPRIETORSHIP**

It is very simple to establish a sole proprietary concern. Any person who is willing to start a business and has the necessary resources can set up this form of business organisation. To start and operate the business in this form, practically does not require any legal formalities to be fulfilled. In some cases like restaurant, chemist shop etc. however, permission from the competent authority is required to be obtained before starting the business. Similarly, setting up a factory may involve taking permission from the local authority. But, formation of business unit as such does not involve any complexities.

**PARTNERSHIPS**

Partnership is an association of two or more persons who pool their financial and managerial resources together, agree to carry on a business and share its profits. The persons who form a partnership are individually known as partners.

**TYPES OF PARTNERSHIPS**

**Ordinary partnership;**

Under this partners have equal rights and responsibilities. The liability of members is unlimited therefore they stand to lose all their capital contributed should a business make losses. And if the capital contributions are not enough to pay off the debts, the partners may even lose their personal belongings.

**Limited partnership;**

All partners in this business enjoy limited liability except one who remains an ordinary or general partner. The general partner has more capital share compared to the limited partners.

**Temporary partnerships;**

These are formed to perform a certain task within a stipulated period of time, and are dissolved as soon as the purpose for which they were formed is accomplished. For example individuals may form a partnership to construct a road as a way of having enough machinery and as soon as the project is finished, they dissolve the partnership.

**TYPES OF PARTNERS**

Normally every partner in a firm contributes to its capital, participates in the day-to-day management of firm’s activities, and shares its profits and losses in the agreed ratio. However, in certain cases there are partners who play a limited role thus, depending upon the extent of participation and the sharing of profits, liability etc., partners can be classified into various categories as below;

**Active partners;**

These are partners who actively participate in the day-to-day operations of the business. They are also known as working partners.

**Sleeping partners;**

These are partners who do not participate in the day-to-day activities of the business. They are also known as sleeping or dormant partners. Such partners simply contribute capital, share the profit and bear losses.

**Nominal / Quasi partners;**

Nominal partners allow the firm to use their name as partner. They neither invest any capital nor participate in the day-to-day operations of the business. They are not entitled to share the profits of the firm. However, they are liable to third parties for all the acts of the firm.

**Partners in profit / Minor partners;**

A person who shares the profits of the business without being liable for the losses is known as partner in profits. This is applicable only to the minors who are admitted to the benefits of the firm and their liability is limited to their capital contribution.

**Limited partner;**

The liability of limited partners is limited to the extent of their capital contribution. This type of partners is found in Limited Partnership firms.

**General partners;**

The partners having unlimited liability are called general partners or Partners with unlimited liability. It may be noted that every partner who is not a limited partner is treated as a general partner.

**CHARACTERISTICS OF PARTNERSHIPS**

**Two or More Persons;**

To form a partnership firm atleast two people are required. The maximum limit on the number of persons is ten for banking business and 20 for other businesses. If the number exceeds the above limit, the partnership becomes illegal and the relationship among them cannot be called partnership.

**Contractual Relationship;**

Partnership is created by an agreement among the persons who have agreed to join hands. Such persons must be competent to contract. Thus, minors, lunatics and insolvent persons are not eligible to become the partners. However, a minor can be admitted to the benefits of partnership firm i.e., he can have share in the profits without any obligation for losses.

**Sharing Profits and losses;**

There must be an agreement among the partners to share the profits and losses of the business.

**Existence of Lawful Business;**

The business of which the persons have agreed to share the profit must be lawful. Any agreement to indulge in smuggling, black marketing etc. cannot be called partnership business in the eyes of law.

**Principal Agent Relationship;**

There must be an agency relationship between the partners. Every partner is the principal as well as the agent of the firm. When a partner deals with other parties he/she acts as an agent of other partners.

**Unlimited Liability;**

The partners of the firm have unlimited liability. They are jointly as well as individually liable for the debts and obligations of the firms. If the assets of the firm are insufficient to meet the firm’s liabilities, the personal properties of the partners can also be utilised for this purpose. However, the liability of minor and limited partners is limited to the extent of their share in the business.

**Voluntary Registration;**

The registration of partnership firm is not compulsory. But an unregistered firm suffers from some limitations which makes it virtually compulsory to be registered. Following are the limitations of an unregistered firm.

(i) The firm cannot sue outsiders, although the outsiders can sue it.

(ii) In case of any dispute among the partners, it is not possible to settle the dispute through court of law.

(iii) The firm cannot claim adjustments for amount payable to, or receivable from, any other parties.

**MERITS OF PARTNERSHIPS**

**Easy to Form;**

A partnership can be formed easily without many legal formalities. Since it is not compulsory to get the firm registered, a simple agreement, either in oral, writing or implied is sufficient to create a partnership firm.

**Availability of more Resources;**

Since two or more partners join hands to start partnership firm it may be possible to pool more resources as compared to sole proprietorship form of business.

**Better Decisions;**

In partnership firm each partner has a right to take part in the management of the business. All major decisions are taken in consultation with and with the consent of all partners. Thus, collective wisdom prevails and there is less scope for reckless and wrong decisions.

**Flexibility;**

The partnership firm is a flexible organisation. At any time the partners can decide to change the size or nature of business or area of its operation after taking the necessary consent of all the partners.

**Sharing of Risks;**

The losses of the firm are shared by all the partners equally or as per the agreed ratio thus reducing the burden borne by each.

**Keen Interest of all partners;**

Since partners share the profit and bear the losses, they take keen interest in the affairs of the business.

**Benefits of Specialisation:**

All partners actively participate in the business as per their specialisation and knowledge. In a partnership firm providing legal consultancy to people, one partner may deal with civil cases, one in criminal cases, another in labour cases and so on as per their area of specialisation. Similarly two or more doctors of different specialisation may start a clinic in partnership.

**Protection of Interest;**

In partnership form of business organisation, the rights of each partner and his/her interests are fully protected. If a partner is dissatisfied with any decision, he can ask for dissolution of the firm or can withdraw from the partnership.

**Secrecy;**

Business secrets of the firm are only known to the partners. It is not required to disclose any information to the outsiders. It is also not mandatory to publish the annual accounts of the firm.

**DEMERITS OF PARTNERSHIPS**

**Unlimited Liability;**

The most important drawback of partnership firm is that the liability of the partners is unlimited i.e., the partners are personally liable for the debt and obligations of the firm. In other words, their personal property can also be utilised for payment of firm’s liabilities.

**Instability;**

Every partnership firm has uncertain life. The death, insolvency, incapacity or the retirement of any partner brings the firm to an end. Not only that, any dissenting partner can give notice at any time for dissolution of partnership.

**Limited Capital;**

Since the total number of partners cannot exceed 20, the capacity to raise funds remains limited as compared to a joint stock company where there is no limit on the number of shareholders.

**Non-transferability of share;**

The share of interest of any partner cannot be transferred to other partners or to the outsiders. So it creates inconvenience for the partner who wants to transfer his share to others fully and partly. The only alternative is dissolution of the firm.

**Possibility of Conflicts;**

You know that in partnership firm every partner has an equal right to participate in the management. Also every partner can place his or her opinion or view before others regarding any matter at any time. Because of this, sometimes there is friction among the partners. Difference of opinion may give rise to quarrels and lead to dissolution of the firm.

**FORMATION OF PARTNERSHIPS**

The following steps are to be taken in order to form a partnership firm:

Minimum two members are required to form a partnership. The maximum limit is ten in banking and 20 in other businesses.

Select the like-minded persons keeping in view the nature and objectives of the business.

There must be an agreement which is also referred to as a partnership deed among the partners. This agreement must preferably be in writing and duly signed by all the partners. The partnership deed must contain the following:

(i) Name of the firm

(ii) Nature of the business

(iii) Names and addresses of partners

(iv) Location of business

(v) Duration of partnership, if decided

(vi) Amount of capital to be contributed by each partner

(vii) Profit and loss sharing ratio

(viii) Duties, powers and obligations of partners.

(ix) Salaries and withdrawals of the partners

(x) Preparation of accounts and their auditing.

(xi) Procedure for dissolution of the partnership.

(xii) Procedure for settlement of disputes

The partners should get their firm registered with the Registrar of Companies although registration is not compulsory, but to avoid the consequences of non-registration, it is advisable to get it registered when it is setup or at any time during its existence. The procedure for registration of a firm is as follows.

(i) The firm will have to apply to the Registrar of Companies in the prescribed form.

(ii) The duly filled in form must be signed by all the partners.

(iii) The filled in form along with prescribed registration fee must be deposited in the office of the Registrar of companies.

(iv) The Registrar will scrutinise the application, and if he is satisfied that all formalities relating to registration have been duly complied with, he will put the name of the firm in his register and issue the Certificate of Registration.

**COOPERATIVE SOCIETY**

Cooperative society refers to a business organisation which undertakes business activities with the prime objective of providing services to the members. Although the also earn some amount of profit, their main intention is to look after some common interest of its members. The cooperative society is the only form of business organisation which gives utmost importance to its members rather than maximising its own profits

**TYPES OF COOPERATIVE SOCIETIES**

You know cooperative organisations are set up in different fields to promote the economic well-being of different sections of the society. So, according to the needs of the people, we find different types of cooperative societies in India. Some of the important types are given below.

**Consumers’ Cooperative Societies:**

These societies are formed to protect the interest of consumers by making available consumer goods of high quality at reasonable price.

**Producer’s Cooperative Societies:**

These societies are formed to protect the interest of small producers and artisans by making available items of their need for production, like raw materials, tools and equipments etc.

**Marketing Cooperative Societies:**

To solve the problem of marketing the products, small producers join hand to form marketing cooperative societies.

**Farming Cooperative Societies:**

These societies are formed by the small farmers to get the benefit of large-scale farming.

**Credit Cooperative Societies:**

These societies are started by persons who are in need of credit. They accept deposits from the members and grant them loans at reasonable rate of interest.

**CHARACTERISTICS OF COOPERATIVE SOCIETY**

Based on the above definition we can identify the following characteristics of cooperative society form of business organisation:

**Voluntary Association:**

Members join the cooperative society voluntarily i.e., by their own choice. Persons having common economic objective can join the society as and when they like, continue as long as they like and leave the society and when they want.

**Open Membership:**

The membership is open to all those having a common economic interest. Any person can become a member irrespective of his/her caste, creed, religion, colour, sex etc.

**Number of Members:**

A minimum of 10 members are required to form a cooperative society. In case of multi-state cooperative societies the minimum number of members should be 50 from each state in case the members are individuals. The Cooperative Society Act does not specify the maximum number of members for any cooperative society. However, after the formation of the society, the member may specify the maximum member of members.

**Registration of the Society:**

In India, cooperative societies are registered under the Cooperative Societies Act 1912 or under the State Cooperative Societies Act. The Multi-state Cooperative Societies are registered under the Multi-state Cooperative Societies Act 2002. Once registered, the society becomes a separate legal entity and attain certain characteristics. These are as follows.

(i) The society enjoys perpetual succession

(ii) It has its own common seal

(iii) It can enter into agreements with others

(iv) It can sue others in a court of law

(v) It can own properties in its name

**State Control:**

Since registration of cooperative societies is compulsory, every cooperative society comes under the control and supervision of the government. The cooperative department keeps a watch on the functioning of the societies. Every society has to get its accounts audited from the cooperative department of the government.

**Capital:**

The capital of the cooperative society is contributed by its members. Since, the members contribution is very limited, it often depends on the loan from government. and apex cooperative institutions or by way of grants and assistance from state and Central Government.

**Democratic Set Up:**

The cooperative societies are managed in a democratic manner. Every member has a right to take part in the management of the society. However, the society elects a managing committee for its effective management. The members of the managing committee are elected on the basis of one-man one-vote irrespective of the number of shares held by any member. It is the general body of the society which lays down the broad framework within which the managing committee functions.

**Service Motive:**

The primary objective of all cooperative societies is to provide services to its members.

**Return on Capital Investment:**

The members get return on their capital investment in the form of dividend.

**Distribution of Surplus:** After giving a limited dividend to the members of the society, the surplus profit is distributed in the form of bonus, keeping aside a certain percentage as reserve and for general welfare of the society.

**MERITS OF COOPERATIVE SOCIETY**

**Easy to Form:**

Any ten adult members can voluntarily form an association get it registered with the Registrar of Cooperative Societies. The registration is very simple and it does not require much legal formalities.

**Limited Liability:**

The liability of the members of the cooperative societies is limited upto their capital contribution. They are not personally liable for the debt of the society.

**Open Membership:**

Any competent like-minded person can join the cooperative society any time he likes. There is no restriction on the grounds of caste, creed, gender, colour etc. The time of entry and exit is also generally kept open.

**State Assistance:**

The need for country’s growth has necessitated the growth of the economic status of the weaker sections. Therefore, cooperative societies always get assistance in the forms of loans, grants, subsidies etc. from the state as well as Central Government.

**Stable Life:**

The cooperative society enjoys the benefit of perpetual succession. The death, resignation, insolvency of any member does not affect the existence of the society because of its separate legal entity.

**Tax Concession:**

To encourage people to form co-operative societies the government generally provides tax concessions and exemptions, which keep on changing from time to time.

**Democratic Management:**

The cooperative societies are managed by the Managing Committee, which is elected by the members. The members decide their own rules and regulations within the limits set by the law.

**DEMERITS OF COOPERATIVE SOCIETY**

**Limited Capital:**

Most of the cooperative societies suffer from lack of capital. Since the members of the society come from a limited area or class and usually have limited means, it is not possible to collect huge capital from them. Again, government’s assistance is often inadequate for them.

**Lack of Managerial Expertise:**

The Managing Committee of a cooperative society is not always able to manage the society in an effective and efficient way due to lack of managerial expertise. Again due to lack of funds they are also not able to derive the benefits of professional management.

**Less Motivation:**

Since the rate of return on capital investment is less, the members do not always feel involved in the affairs of the society.

**Lack of Interest:**

Once the first wave of enthusiasm to start and run the business is exhausted, intrigue and factionalism arise among members. This makes the cooperative lifeless and inactive.

**Corruption:**

Inspite of government’s regulation and periodical audit of the accounts of the cooperative society, the corrupt practices in the management cannot be completely ignored.

**FORMATION OF COOPERATIVE SOCIETY**

A cooperative society can be formed as per the provisions of the Cooperative Societies Act, 1912, or under the Cooperative Societies Acts of the respective states. The various common requirements prescribed for registration of a cooperative society are as follows:

(a) There must be at least ten persons having common economic interest and must be capable of entering into contract. For multi-state cooperative societies at least 50 individual members from each state should be present.

(b) A suitable name should be proposed for the society.

(c) The draft bye-laws of the society should be prepared.

(d) After completing the above formalities, the society should go for its registration.

(e) For registration, application in prescribed form should be made to the Registrar of Cooperative Societies of the state in which the society is to be formed.

(f) The application for registration shall be accompanied by four copies of the proposed bye-laws of the society.

(g) The application must be signed by every member of the society.

(h) After scrutinising of the application and the bye-laws, the registrar issues the registration certificate.

(i) The society can start its operation after getting the certificate of registration.

**JOINT STOCK COMPANIES**

A joint stock company is an association of people having a separate legal existence, perpetual succession, common seal, common capital etc. The joint stock company divides its capital into a large number of parts with equal value called shares. The people who hold the shares are called shareholders of the company.

The company is managed by the board of directors who are the representative of shareholders. The members of the board are elected by the shareholders.

**TYPES OF JOINT STOCK COMPANIES**

**Private Limited Company:**

This is one which restricts the right to transfer its shares, limits the number of shareholders to 50 only and prohibits any invitation to the public to subscribe for any shares or debentures.

A private company can be formed with one member but the maximum number of shareholders cannot exceed fifty. It cannot issue shares to the public for subscription. A private company must use the words ‘Private Limited’ in its name.

**Public Limited Company:**

The minimum number for formation is seven but there is no restriction on the maximum number. It must issue the prospectus for inviting people to purchase their shares. It must have a certificate of commencement and certificate of incorporation before starting its business. The shareholders are free to sell their shares in the market. A public limited company must use the word 'Limited' (Ltd.) in its name.

**DIFFERENCES BETWEEN PRIVATE AND PUBLIC COMPANY**

|  |  |  |
| --- | --- | --- |
| **Basis of differences** | **Private company** | **Public company** |
| A number of shareholders | A private limited company limits the number of the members to 50. | A public company requires at least 7 members but there is no upper limit. |
| Prospectus | It cannot issue a prospectus for inviting people to purchase their shares. | It can issue the prospectus for inviting people to purchase their shares. |
| Transfer of shares | There is a restriction to transfer its shares. | There is no restriction to transfer its shares. |
| Commencement of business | It must only have a certificate of commencement. | It must have a certificate of commencement and a certificate of incorporation as well. |
| Publication | It does not need to publish its annual statements. | It needs to publish its annual statements. |
| Statutory meeting | It is not required to hold a statutory meeting. | It is required to hold a statutory meeting. |
| Statutory report | It does not need to file a statutory report. | It needs to file a statutory report. |
| Use of word | It must use the words ‘Private Limited’ (Pvt. Ltd.) in its name. | It must use the word 'Limited' (Ltd.) in its name. |

**CHARACTERISTICS OF JOINT STOCK COMPANIES**

**Common seal;**  
Every joint stock company by law must have a common seal in which its name is engraved. The common seal can serve as its signature. The common seal is fixed on all important documents and contracts and is witnessed by signature of two directors and countersigned by secretary where ever required. The common seal is kept under the custody of directors and managers.

**Perpetual succession;**Since the company has separate existence from its shareholders, directors and employees, their death, insolvency or insanity will not affect its life and existence. Men may come and they may go but a company remains forever. It can only be wound up under the provision of the law.

**Limited liability;**  
The liability of shareholders of a company is limited to the extent of uncalled or unpaid shares held by them. Their personal property cannot be seized to meet the company’s liability beyond the above mentioned liability.

**Share capital;**  
The capital required by the company is raised by the sale of its shares. The share is a document that acknowledges the ownership of the company. The members who hold the share of a company can transfer its ownership to any other person, without the company’s permission.

**Separation of ownership and management;**  
In company organization the ownership and management are separate. The shareholders who are the owners do not take active part in the everyday affairs of the company. Instead they elect their representatives known as directors, who with the help of managers and employees manage the company.

**Legal entity;**  
Since the company is created by law, it has separate legal existence from its members. Therefore the shareholders cannot be personally held responsible for the acts of company and company cannot be held liable for the acts of the members. The company can enter into contracts, sue and can be sued, own property, appoint employees and borrow money like any other natural person.

**Large membership;**  
The Company is owned by a large number of members- maximum of 50 in the case of private limited company and unlimited number of members in the case of public limited company.

**MERITS OF JOINT STOCK COMPANIES**

**Large capital;**A company can collect huge capital for the business through shares and debentures, public deposits, loans etc. Due to huge capital the company can conduct business on a large scale.

**Limited liability;**  
The liability of shareholders of a company is limited to the extent of uncalled or unpaid shares held by them. Their personal property cannot be seized to meet the companies’ liability beyond the above mentioned liability.

**Continuity and stability;**  
Death, insolvency or insanity of any shareholder will not affect its life and existence. Men may come and they may go but a company remains forever. It can be wound up under the provision of the law.

**Professional management;**The Company appoints experienced and competent people to manage the business. Their services lead to managerial and administrative efficiency and accuracy.

**Economies of scale;**  
A company operates on a high scale and so it enjoys cost advantages in production, distribution, management and financing.

**Bargaining power;**  
Compared to other forms of organization, a joint stock company is a strong power in buying as well as in selling of goods because of its involved in large scale production.

**Legal status;**Since the company is created by law, it has separate legal existence from its members. Therefore the members cannot be personally held responsible for the acts of the company and company cannot be held liable for the acts of the members.

**Large membership;**  
The Company is owned by a large number of shareholders- maximum of 50 in the case of a private limited company and unlimited number in the case of a public limited company.

**Transferability of shares;**  
Shares of Joint Stock Companies, especially public limited companies, are freely transferable. A member who wants to sell his shares can easily do so in the stock market. This encourages the public and others to invest in shares.

**Employment;**  
Joint Stock Companies provide employment to a large number of people directly and indirectly. This leads to higher national income for the country and higher standards of living for the people.

**Research and development;**  
Joint Stock Companies undertakes R&D continuously thus bringing about new and improved products which benefits people.

**DEMERITS OF JOINT STOCK COMPANIES**

**Difficult formation;**  
Formation of Joint Stock Company is an expensive and time consuming process as a number of legal formalities have to be undertaken in order to register the company.

**Lacks flexibility;**The working of a Joint Stock Company is less flexible compared to other forms of business. For any changes they either have to follow a detailed procedure or obtain sanctions from various authorities. This results in lack of flexibility.

**No business secrecy;**  
This form of organization lacks business secrecy because it is compulsory for the company to publish accounts annually and other records.

**Delay in decision making;**  
Due to democratic set up all decisions are taken in meetings and some decisions require shareholder’s approval be implementation. All this leads to delay in decisions.

**Lack of contact with customers;**  
A company can’t be in a position to maintain close contacts with customers. It cannot be able to meet the expectations of each and every customer. Then there is no close personal touch which decreases the competitive strength of the business due to large scale operation.

**Lack of contact with employees;**  
The top management may not have contact with their employees. This may cause friction and disputes amongst the management and the employees which may affect the employees’ morale.

**Not suitable for all type of business;**  
This type of organization is not suitable for business where personalized services are required.

**Exploitation of shareholders;**  
Sometimes the board of directors may misappropriate the funds and mislead the shareholders by giving a wrong report. The directors may even manipulate the trading on the stock exchange. Thus shareholders can be exploited by corrupt directors.