Business Definition

"A commercial activity engaged in as a means of livelihood or profit, or an entity which engages in such activities."

FORMS OF BUSINESS ORGANISATION

The following are the forms of business organisation based on

(a) sole trader or proprietorship

(b) partnership

(c) Joint stock company

(d) co-operative society

SOLE TRADER

The sole trader is the simplest, oldest and natural form of business organisation. It is also called sole proprietorship. 'Sole' means one. 'sole trader' implies that there is only one trader who is the owner of the business.

Features :-

1. It is easy to start a business under this form and also easy to close
2. He introduces his own capital. some times, he may borrow, if necessary
3. He enjoys all the profits and in case of loss, he alone suffers
4. He has unlimited liability which implies that his liability extends to his personal properties in case of loss.
5. He has a high degree of flexibility to shift from one business to the other.

6. There are very little legal hassles to be observed by a sol trader except in such businesses where license is required for instance, hotels and so on, the sole trader is free to take up any business.

7. Business secrets can be guarded well.

8. There is no continuity. The business comes to a close with the death, illness or insanity of the sole trader. unless, the legal heirs show interest to continue the business, the business cannot be restored.

9. He has total operational freedom. He is the owner, manager and controller.

10. He can be directely in touch with the customers.

11. He can take decisions very fast and implement them promptly.

12. Rates of tax, for example, income tax and so on are comparatively very low.

Advantages :-

1 Easy to start and easy to close :- Formation of a sole trader form of of organisation is relatively easy. Even closing the business is easy.

2 personal contact with customers directely :- Based on the tastes and preferences of the customers. the stock can be maintained.

3 prompt decision making :- To improve the quality of services to the customers he can take any decision and implement the same promptly. He is the boss and he is responsible for his business decisions relating to growth or expansion can be made promptly.

4. High degree of flexibility :- Based on the profitability, the trader can decide to continue or change the business, if need be.

5 Secrecy :- Business secrets can well be maintained because there is only one trader.

6. Low rate of taxation :- The rate of income tax for sole traders is relatively very low.

7. Direct motivation :- If there are profits, all the profits belong to the trader himself. In other words, if he work more hard, he will get more profits. This is the direct motivating factor. At the same time, if he does not take active interest he may stand to lose badly also.

8 Total Control :- The ownership management and controle are in the hands of the sole trader and hense it is easy to maintain the hold on business.

9. Minimum interference from government :- Except in matters relating to public interest government does not interfere in the business matters of the sole trader. The sole trader is free to fix price for his product / services if he enjoys monopoly market.

10. Transferability :- The legal heirs of the sole trader may take the possession of the business.

Disadvantages :-

1. unlimited liability :- The liability of the sole trader is unlimite[d]. It means that the sole trader has to bring his personal property to clear off the loans of his business. From the legal point of view, he is not different from his business.

2. Limited amounts of capital :- The resources a sole trader can mobilise cannot be very large and hence this naturally sets a limit for the scale of operations.

3. No division of labour :- All the work related to different functions such as marketing, production, finance, labour and so on has to be taken care of by the sole trader himself. There is nobody else to take his burden. Family members and relatives cannot show as much interest as the trader takes.

4. uncertainity :- There is no continuity in the duration of the business. On the death, insanity or insolvency the business may come to an end.

5. Inadequate for growth and expansion :- This form is suitable for only small size, one-man-show type of organisation. This may not really work out for growing and expanding.

6. Lack of specialisation :- The services of specialists such a accounts, market researchers, consultants and so on, are not ~~with~~ with in the reach of most of the sole traders.

7. more competition :- Because it is easy to set up a small business, there is a high degree of competition among the small business men and a few who are good in taking

care of customer requirements alone can service.

8. low bargaining power :- The sole trader is in the receiving end in terms of loans or supply of raw materials. He may have to compromise many times regarding the terms and conditions of purchase of materials or borrowing loans from the finance houses or banks.

PARTNERSHIP

"Indian partnership Act, 1932 defines partnership as the relationship between two or more persons who agree to share the profits of the business carried on by all or any one of them acting for all."

Features :-

1. Relationship - partnership is a relationship among persons. It is a relationship resulting out of an agreement.
2. Two or more persons - There should be two or more numbers of persons.
3. There should be a business - Business should be conducted
4. Agreement - persons should agree to share the profits/losses of the business
5. Carried on by all or any one of them acting for all - the business can be carried on by all or any one of the persons acting for all. This means that the business can be carried on by one person who is the agent for all other persons.

Other features :- OTHER FEATURES

a. **unlimited liability** :- The liability of the partners is unlimite the partnership and partners, in the eye of law, are not different but one and the same. Hence, the partners have to bring their personal assets to clear the losses of the firm, if any.

b. **Number of partners** :- According to the Indian partnersh Act, the minimum ~~a~~ number of partners should be two and the maximum numbers is restricted, as given below.

- 10 partners in case of banking business
- 20 in case of non-banking business

c. **personal contact with customers** :- The partners can continuously be in touch with the customers to monitor their requirments.

d. **Flexibility** :- All the partners are likeminded persons and hence they can take any decision relating to business

e **Transferability of share / Interest** :- The partners canno transfer their share / Interest in partnership in the fir to others without the consent of ~~their~~ other partners.

partnership Deed

the written agreement among the partners is called the "partnership deed". It contains the terms and conditions govering the working of partnership. the following are the contents of the partnership deed

1. Names and addresses of the firm and partners.
2. Nature of the business proposed
3. Duration
4. Amount of capital of the partnership and the ratio for contribution by each of the partners.
5. their profit sharing ratio
6. Rate of interest charged on capital contributed, loans taken from the partnership and the amounts drawn, if any, by the partners from their respective capital balances.
7. the amount of salary or commission payable to any partner
8. procedure to value good will of the firm at the time of admission of a new partner, retirement or death of a partner
9. Allocation of responsibilities of the partners in the firm
10. procedure for dissolution of the firm
11. Name of the arbitrator to whom the disputes, if any, can be referred to for settlement.
12. Special rights, obligation and liabilities of partner(s), if any.

KINDS OF PARTNERS

The following are the different kinds of partner

1. Active partner :- Active partner active part in the affairs of the partnership. He is also called working partner.

2. Sleeping partner :- Sleeping partner contributes to capital but does not take part in the affairs of the partnership.

3 Nominal partner :- Nominal partners Just for namesake. He neither contributes to capital nor takes part in the affairs of business. Normally, the nominal partners are those who have good business connections, and are well placed in the society. the partnership derives benefit from such contacts in terms of business growth and increase in profits.

4. partner by Estoppel :- Estoppel means behaviour or conduct partner by estoppel gives an impression to outsiders that he is the partner in the firm. In fact the neither Contri -butes to capital nor takes any role in the affairs of the partnership. Because he has misled the outsiders, partner by estoppel is held liable for the claims if any, of the outside

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5. partner by Holding out :- If partners declare a particular person as partner and this person does not contradict even after he comes to know such declaration, he is called a partner by holding out and he is liable for the claims of third parties. However, the third parties should prove they entered into contract with the firm in the belief that he is the partner of the firm. Such a person is called partner by holding out

6 Minor partner :- ~~monitor~~ minor has a special status in the partnership. A ~~monitor~~ minor can be admitted for the benefits of the firm. A ~~monitor~~ minor is estimated entitled to his share of profits of the firm. the liability of a minor partner is limited to the extent of his contribution of the capital of the firm.

Advantages :-

The following are the advantages of the partnership form.

1. Easy to form :- once there is a group of like minded persons and good business proposal, it is easy to start and register a partnership.

2. Availability of larger amount of capital :- more amount of capital can be raised from more number of partners.

3. Division of labour :- The different partners come with varied backgrounds and skills. this facilitates division of labour.

4. Flexibility :- The partners are free to change their decisions add or drop a particular product or start a new business or close the present one and so on.

5. personal contact with customers :- there is scope to keep close monitoring with customers requirments by keeping one of the partners is charge of sales and marketing. Necessary changes can be initiated based on the merits of the proposals from the customers.

6. Quick decisions and prompt actions :- If there is consensus among partners, it is enough to implement any decision and initiate prompt actions. Some times,

it may take more time for the partners on strategic issues to reach consensus.

7. The positive impact of unlimited liability :- Every partner is always alert about his impending danger of unlimited liability. Hence he tries to do his best to bring profits the partnership firm by making good use of all his contacts.

8. Tax rate :- When compared to company form, the tax rate is low.

Disadvantages

1. Formation of partnership is difficult :- Only like-minded persons can start a partnership. It is sarcastically said "It is easy to find a life partner, but not a business partner"

2. Liability :- The partners have joint and several liabilities beside unlimited liability. Joint and several liability puts additional burden on the partners. Which means that even the personal properties of the partner or partners can be attached. Even when all but one partner become insolvent, the solvent partner or partners has to bear the entire burden of business loss.

3. <u>lack of harmony or cohesiveness</u> :- It is likely that partners may not, most often work as a group with chesiveness. this results in mutual conflicts, an attitude of suspicion and crisis of confidence. Lack of harmony results in delay in decisions and paralyses the entire operations.

4. <u>Limited growth</u> :- the resources when compared to sole trader, a partnership may raise little more. But when compared to the other forms such as a company, resources raised in this form of organisation are limited. Added to this there is a restriction on the maximum number of partners.

5. <u>Instability</u> :- the partnership form is known for its instability. the firm may be dissolved on death insolvency or insanity of any of the partners.

6. <u>Lack of public confidence</u> :- public and even the financial institutions look at the unregistered firms with a suspicious eye. Though registration of the firm under the Indian partnership Act is a solution for such problem, this cannot ~~releitte~~ revive public confidence into this form of organisation overnight. the partnership can create confidence in others only with their performance.

7. <u>Implied authority misused</u> :- where there is no periodic monitoring, there is a possibility that the active partner may missue his implied authority. one of the solutions for this problem is that the partners should meet once

every month and review the progress from time-to-time

8. High tax rate :- when compared to the sole trader the tax rate is higher.

JOINT STOCK COMPANY

Section 3 (1) of the Companies Act, 1956 defines a company as a company formed and registered under the Act or an existing company.

Section 566 (1) and (2) of the Indian Companies Act 1956 defines Joint stock company as a company having a permanent paid-up or normal share capital of fixed amount divided into shares, also of fixed amount or held and transferable as stock or divided and held partly in the way and partly in the others, and formed on the principles of having for its members the holders of those shares or that stock and no other persons. Such a compan when registered with limited liability under this Act. Shall be deemed to be a company limited by shares.

Features :-

1. Artificial person :- The company has no form or shape It is an artificial person created by law. It is intangible, invisible and existing only in the eyes of law.

2. Separate legal existense :- It has an independent existence. It is separate from its members. It can acquire the assets. It can borrow for the company.

3. Voluntary association of persons :- the company is an association of volunatary association of persons who want to carry on business they need capital. so they invest in the share capital of the company.

4. Limited liability :- the shareholders have limited liability ie liability limited to the fale value of the shares held by him In other words, the liability of share holder is restricted to the extent of his contribution to the share capital of the company. the share holder need not pay anything. even in times of loss for the company other than his contribution to the share capital.

5. Capital is divided into shares :- the total capital is divided into a certain number of units. each unit is called a share. the price of each share is priced so low that every investor would like to invest in the company.

6. Transferability of shares :- In the company form of organisation, the shares can be transfered from one person to the other. A shareholder of a public company can sell his holding of shares at his will. However the shares of a private company can not be transferred. A private company restricts the transferability of the shares.

7. Common Seal :- As the company is an artificial person created by law has no physical form, It cannot sign its name on a paper. So, it has a common seal on which its name is engraved.

8. perpetual Succession :- members may come and members may go, but the company continues for ever and ever. A company has uninterrupted existence because of the right given to the share holders to transfer the shares.

9. Ownership and management separated :- the Share-holders are spread over the length and breadth of the country, and sometimes, they are from different parts of the world. To facilitate administration the share holders elect some among themselves or the promoters of the company as directors to a Board, which looks after the management of the business.

10. Winding up :- winding up refers to the putting an end to the company. Because law creates it, only law can put an end to it in special circumstances such as representation from creditors or financial institutions, or share holders against the company that their interests are not safeguarded.

KINDS OF COMPANIES BASED ON PUBLIC INTEREST

1. private limited Company :- According to sec. 3 of Indian Companies Act, a private company means a company that has a minimum paid up Capital of one lakh rupees or such higher paid up Capital as may be prescribed, and by its articles.

a. Restricts the right of transfer its shares, if any

b. limits the number of its members to fifty excluding present and past employees.

c prohibits any invitation to the public to subscribe any shares in or debentures of, the company.

d. prohibits any invitation or acceptance of deposits from persons other than its members directors or their relatives.

The Name of a private company should necessarily end with the words 'private limited' [pvt ltd]

2. public company :-

a. Is not a private company

b. Has a minimum paid up Capital of five lakh rupees or such higher paid up Capital, as may be prescribed.

c. Is a private company, which is a subsidiary of a Company that is not a private company.

d. Allows transfer of its shares.

e. Can have any number of members but minimum, there should be seven members.

f. Can issue the prospectus to raise the Capital.

The Name of the public company ends with the word 'Limited' [Ltd]

PUBLIC COMPANY AND PRIVATE COMPANY COMPARED

points of difference	public company	private company
1 Minimum and maximum number of members	Minimum 7; maximum unlimited	Minimum 2; maximum 50
2 ~~Issue of prospectus~~ Transfer of shares	No restriction on transfer of shares	Restricted
3. Issue of prospectus	prospectus can be issued	prohibited from issue of prospectus
4 Acceptance of deposits	can accept	prohibited from accepting deposits from public. However, it can accept deposits from its member directors or their relatives
5. Minimum paid up capital	Rs. 5 lakh or higher, as may be prescribed	Rs 1 lakh or highers as may be prescribed.

3 Government Company :- section 617 of Indian Companies Act, 1956 defines a government company as "any Company in which not less that 51% of the paid up share capital is held by central government, or by any state government or governments or partly by central government and partly by one or more stage government and includes a company which is a subsidary of government company " Example are National thermal power corporation [NTP Bharat Heavy electricals Ltd. [BHEL], Hindustan machine tools [HMT] Hindustan port Trust, Steel Authority of India

~~ADA~~ ADVANTAGES

The following are the advantages of a Joint stock company :

1. Mobilisation of larger resources :- A Joint stock company provides opportunity for the investors to invest, even small sums, in the capital of large companies, this facilitates raising of larger resources.

2. Separate legal entity :- The company has separate legal entity It registered under Indian Companies Act, 1956.

3. Limited liability :- The share holders has limited liability in respect of the shares held by him. In no case, does his liability exceed more than the face value of the shares alloted to him.

4. Transferability of shares :- The shares can be transferred to others, However, the private company shares cannot be transferred

5. Liquidity of Investments :- By providing the transferability of shares, shares can be converted into cash.

6. Inculcates the habit of savings and Investments :- Because the share face value is very low, this promotes the habit of savings among the common man and mobilises the same towards investments in the company.

7. Democracy in management :- The directors are elected by the share holders in a democratic way in the general body meetings the shareholders are free to make any proposals, question the practices of the management, suggest the possible remedial measures as they perceive.

The directors respond to the issues raised by the share holders and have to Justify their actions.

8. Economies of large scale production :- Since the production is in the large scale with the large funds at its disposal, the company can enjoy the internal economies of large scale production.

9 Continued existence :- The company has perpetual succession. It has no natural end. It continues forever and ever unless law puts an end to it.

10 Institutional Confidence :- Financial Institutions prefer to deal with companies in view of their professionalism and financial strengths.

11. professional management :- with the larger funds at its disposal, the Board of directors recruits competent and professional managers to handle the affairs of the company in a professional manner.

DISADVANTAGES :-

1. Formation of company is a long drawn procedure - promoting a Joint stock company involves a long drawn procedure. It is expensive and involves large number of legal formalities.

2. High degree of government interference - The government brings out a number of rules and regulations governing the internal conduct of the operations of a company such a meetings voting, audit and so,on and any violation of these rules results into statutory lapses, punishable under the ~~of~~ Companies Act,

3. Inordinate delays in decission making - As the size of the organisation grows, the number of levels in the organisation also increases in the name of speclisation. the more the number of levels, the more is the delay in decision making.

4. Lack of Intiative - In most of the cases, the employees of the company at different levels show slack in their personal initiative with the result, the opportunities once missed do not recur and the company loses the revenue.

5. Lack of responsibility and Commitment :- In some cases, the managers at different levels are afraid to take risk and more worried about their Jobs rather than the huge funds invested in the capital of the company.

6. Tends to monopoly - where the company has grown to larger size it may fix the price on its own for its products and services as a monopolist.

7 Higher taxes - The rate of income tax is very high when compared to the other forms of organisation.

PUBLIC ENTERPRISES

public enterprices occupy an important position in the Indian economy. Today, public enterprises provide the substance and heart of the economy. Its investment of over Rs 10,000 crore is in heavy and basic industry, and infrastructure like power, transport and communications. The concept of public enterprise in India dates back to the era of pre-independence.

Genesis of public Enterprises

In consequence to declaration of its goal as socialistic pattern of society in 1954, the Government of India realised that it is through progressive extension of public enterprise only, the following aims of our five year plans can be fulfilled.

→ Higher production

→ greater employment

→ economic equality, and

→ Dispersal of economic power.

The government found it necessary to revise its Industrial policy in 1956 to give it a socialistic bent.

FORMS OF PUBLIC ENTERPRISE

public enterprises can be classified into three forms.

1. Departmental undertaking
2. public corporation
3. Government company.

1 Departmental Undertaking.

Definition :-

"under this form of organisation, a public enterprise is run as a department of the government. It is organised financed and controlled, like any other government department. A departmental undertaking is self-contained but it is under the over all control of the departmental head and the ministry concerned."

examples for departmental undertaking are Railways, department of posts, All India Radio, Doordarshan, Defence undertakings like DRDL, DLRL, ordinance factories, and such.

Features :-

1. under the control of a government department - The departmental undertaking is not an independent organisation. It has no separate existence. It is designed to work under close control of a government department. It is subject to direct ministerial control.

2. More financial freedom - The departmental undertaking can draw funds from government account as per the needs and deposit back when convenient.

3. Like any other government department - The departmental undertaking is almost similar to any other government department

4. Budget, accounting and audit controls - The departmental undertaking has a to follow guidelines underlying the budget preparation, maintenance of accounts, and getting the accounts audited internally and by external auditors.

5 More a government organisation, less a business organisation
The set up of a departmental undertaking is more rigid, less flexible, slow in responding to market needs.

Advantages :-

1. Effective control - Control is likely to be effective because is directly under the ministry.

2. Responsible executives - Normally the administration is entrusted to a senior civil servant. The administration will be organised and effective.

3. Less scope for misutilisation of funds - Departmental undertaking does not draw any money more than is needed, that too subject to ministerial sanction and other controles So chances for ~~mis~~ misutilisation are low.

4. Adds to Government revenue :- the revenue of the government is on the rise when the revenue of the departmental under-taking is deposited in the government account.

Disadvantages.

1. Decisions delayed - control is centralised. this results in lower degree of flexibility. officials in the lower levels cannot take initiative. Decisions cannot be fast and actions cannot be prompt.

2. No incentive to maximise earnings - the departmental under-taking does not retain any surplus with it, so there is no incentive for maximising the efficiency or earnings.

3 Slow response to market conditions - Since there is no competition, there is no profit motive, there is no incentive to move swiftly to market needs.

4. Redtapism and bureaucracy - the departmental undertaking are in the control of a civil servant and under the immediate supervision of a government. Administration gets delayed substantially.

② **PUBLIC CORPORATION** : A Public corporation is defined as a "body corporate created by an Act of Parliament and notified by the name in official Gazette of the central/state Govt. it is a corporate entity having a perpetual succession, and commercial with power to acquire, hold, dispose off property, sue & be sued by its name".

Definition :- ~~"A public company or publicly traded company is a company that has permission to offer its registered securities".~~

Features :-

1. A body corporate - It has a separate legal existence. It is a separate company by itself. It can raise resources, buy and sell properties, by name sue and be sued.

2. Freedom regarding personnel - The employees of public corporation are not government civil servants. The corporation has absolute freedom to formulate its own personnel policies and procedures, and these are applicable to all the employees including directors.

3. More freedom in day-to-day operations - A public corporation has a high degree of operational freedom in its day-to-day affairs. It is relatively free from any type of political interference. It enjoys administration autonomy

4. perpetual succession - A statute in parliament or state legislature creates it. It continues forever and till a statute is passed to wind it up.

5. Financial autonomy - Though the public corporation is a fully owned government organisation, and the initial

Ex - LIC, Industrial Finance Corporation of India, finances are provided by the Government, it enjoys total financial autonomy. Its income and expenditure are not shown in the annual budget of the government. However, for its freedom it is restricted regarding capital expenditure beyond the laid down limits, and raising the capital through capital market.

6. Commercial audit - except in the case of banks and other financial institutions where chartered accounts are auditors, in all corporations, the audit is entrusted to the comptroller and Auditor general of India

7 Run on commercial principles - As far as the discharge of functions, the corporations shall act as far as possible on sound business principles.

Advantages :-

1 Independence, initiative and flexibility - the corporation has an autonomous set up. So it is independent, take necessary initiative to realise its goals, and it can be flexible in its decisions as required.

2. Scope for Redtapism and bureaucracy minimised - The corporation has its own policies and procedures. If necessary they can be simplified to eliminate redtapism and bureaucracy, if any.

3. public interests protected - The corporation can protect the public interests by making its policies more public friendly. The public interests are protected because every policy of the

corporation is subject to ministerial directives and broad parliament-ary control.

4. Employee friendly work environment - Corporation can design its own work culture and train its employees accordingly. It can provide better amenties and better terms of service to the employees and thereby secure greater productivity.

5. competitive prices - The corporation is a government organisation and hence can afford with minimum margins of profit. It can offer its products and services at competitive prices.

6. Economies of scale - By increasing the size of its operation it can achieve economies of large ~~set~~ scale production.

7. public accountability - It is accountable to the parliament or legislature. It has to submit its annual report on its working results.

Disadvantages :-

1. Continued political interference - The autonomy is on paper only and in reality, the continued political interference disturbs the work environment of the corporations. pressures for employeement providing facilities, operating at low margins restrict the freedom of the public corporation.

2. Missue of power - In some cases, the greater autonomy leads to missue of power. It takes time to unearth the impact of such misuse on the resources of the corporation

cases of misuse of power defeat the very purpose of the public corpartion

3 Burden for the government - where the public corporation ignores the commercial principles and suffers losses, it is burdensome for the government to provide subsidies to make up the losses.

(3) GOVERNMENT COMPANY

Definition :-

"A public enterprise incorporated under the Indian Companies Act, 1956 is called a government company"

"These companies are owned and managed by the central or the state government."

Features :-

1. Like any other registered company - It is incorporated as a registered company under the Indian Companies Act, 1956. Like any other company, the government company has separate legal existence, common seal, perpetual succession, limited liability and so on. The provisions of the Indian Companies Act apply for all matters relating to formation administration and winding up. However, the government has a right to exempt the application of any provisions of the government companies.

2. Share holding - The majority of the shares are held by the government, central or state, partly by the central and state government(s), in the name of the president of India.

It is also common that the collaborators are allotted some shares for providing the transfer of technology.

3. Directors are nominated – As the government is the owner of the entire or majority of the share capital of the company, it has freedom to nominate the directors to the board. Government may consider the requirments of the company it terms of necessary specialisation and appoints the directors accordingly.

4. Administrative ~~o~~ autonomy and financial freedom – A government company functions independently with full discretion and in the normal administration of the affairs of the undertaking.

5 Subject to ministerial control – Concerned minister may act as the immediate boss. It is because, it is the government that nominates the directors, the minister issues directions for a company and he can call for information related to the progress and affairs of the company any time.