Types of Business Organizations

Introduction

- An organization, or organisation, is an entity—such as a company, an institution, or an association—comprising one or more people and having a particular purpose.
- 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.

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)

PRIVATE ORGANIZATIONS

Sole Proprietorship

- Sole proprietorship refers to a form of business organisation which is owned, managed and controlled by an individual who is the recipient of all profits and bearer of all risks.
- This is evident from the term itself. The word "sole" implies "only", and "proprietor" refers to "owner". Hence, a sole proprietor is the one who is the only owner of a business.
- Sole proprietorship is a popular form of business organisation and is the most suitable form for small businesses, especially in their initial years of operation.

Sole Proprietorship

- **Features**

1. Formation and closure
2. Liability
3. Sole risk bearer and profit recipient
4. Control
5. No separate entity
6. Lack of business continuity

Sole Proprietorship

- **Merits/Advantages**

1. Quick decision making
2. Confidentiality of information
3. Direct incentive
4. Sense of accomplishment
5. Ease of formation and closure

Sole Proprietorship

- **Demerits/Limitations**

1. Limited resources
2. Limited life of a business concern
3. Unlimited liability
4. Limited managerial ability

Partnership

- The inherent disadvantage of the sole proprietorship in financing and managing an expanding business paved the way for partnership as a viable option.
- 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."
- Partnership serves as an answer to the needs of greater capital investment, varied skills and sharing of risks

Partnership

- **Features**

1. Formation
2. Liability
3. Risk bearing
4. Decision making and control
5. Continuity
6. Number of Partners
7. Mutual agency

Partnership

- **Merits/Advantages**

1. Ease of formation and closure
2. Balanced decision making
3. More funds
4. Sharing of risks
5. Secrecy

Partnership

- **Demerits/Limitations**
- Unlimited liability
- Limited resources
- Possibility of conflicts
- Lack of continuity
- Lack of public confidence

Types of Partners

- Active partner
- Sleeping or dormant partner
- Secret partner
- Nominal partner
- Partner by estoppel
- Partner by holding out
- Minor Partner

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.

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.
- Basic legal documents:
  - Memorandum of Association
  - Article of Association

Joint Stock Company

- **Features**
- Artificial person
- Separate legal entity
- Formation
- Perpetual succession
- Control
- Liability
- Common seal
- Risk bearing

Joint Stock Company

- **Merits/Advantages**
- Limited liability
- Transfer of interest
- Perpetual existence
- Scope for expansion
- Professional management

Joint Stock Company

- **Demerits/Limitations**
- Complexity in formation
- Lack of secrecy
- Impersonal work environment
- Numerous regulations
- Delay in decision making
- Conflict in interests

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

Co-Operative Society

- **Features**
- Voluntary membership
- Legal status
- Limited liability
- Control
- Service motive

Co-Operative Society

- **Merits/Advantages**
- Equality in voting status
- Limited liability
- Stable existence
- Economy in operations
- Support from government
- Ease of formation

Co-Operative Society

- **Demerits/Limitations**
- Limited resources
- Inefficiency in management
- Lack of secrecy
- Government control
- Differences of opinion

Co-Operative Society

- **Few Types of Cooperative Societies:**

1. Consumer's cooperative societies
2. Producer's cooperative societies
3. Marketing cooperative societies
4. Farmer's cooperative societies
5. Credit cooperative societies
6. Cooperative housing societies

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.
- Thus an individual, his son(s), and his grandson(s) become the members of a Joint Hindu Family by birth.
- It is governed by the Hindu Succession Act, 1956

Joint Hindu Family Business

- **Features**
- Formation
- Liability
- Control
- Continuity
- Minor Members

Joint Hindu Family Business

- **Merits/Advantages**
- Effective control
- Continued business existence
- Limited liability of members
- Increased loyalty and cooperation

Joint Hindu Family Business

- **Demerits/Limitations**
- Limited resources
- Unlimited liability of karta
- Dominance of karta
- Limited managerial skills

Forms of Public Sector Organisations

- Departmental Organisation /Undertaking
- Public Corporations /Statutory Corporations
- Government Companies

Departmental Organisation /Undertaking

- This is the oldest and most traditional form of organising public enterprises. These enterprises are established as departments of the ministry and are considered part or an extension of the ministry itself.
- The Government functions through these departments and the activities performed by them are an integral part of the functioning of the government.
- These undertakings may be under the central or the state government and the rules of central/state government are applicable.
- Examples of these undertakings are railways and post and telegraph department.

Departmental Organisation /Undertaking

- **Features**
- Funding
- Accounting/Audit
- Employees
- Subdivision
- Accountable

Departmental Organisation /Undertaking

- **Merits/Advantages**
- Effective Control
- Public Support
- Revenue
- National Security

Departmental Organisation /Undertaking

- **Demerits/Limitations**
- Flexibility
- Delay in Decision Making
- Unable to grab Opportunities
- Red-Tapism
- Political Interference

Public Corporations /Statutory Corporations

- Statutory corporations are public enterprises brought into existence by a Special Act of the Parliament. The Act defines its powers and functions, rules and regulations governing its employees and its relationship with government departments.
- This is a corporate body created by the legislature with defined powers and functions and is financially independent with a clear control over a specified area or a particular type of commercial activity.
- It is a corporate person and has the capacity of acting in its own name.
- Example:- LIC, RBI, FCI, etc.

Public Corporations /Statutory Corporations

- **Features**
- Formation under Act of Parliament
- Wholly owned by State
- Separate identity
- Independently Financed
- Accounting/Auditing
- Employees are not Government Servant

Public Corporations /Statutory Corporations

- **Merits/Advantages**
- Independence in Functioning
- Minimum Government Interference
- Formation of Policies
- Valuable Instrument

Public Corporations /Statutory Corporations

- **Demerits/Limitations**
- Limited Operational Flexibility
- Government interference in Major Decision
- Corruption
- Government Advisors in Corporation Board

Government Companies

- A government company is established under The Companies Act, 2013 and is registered and governed by the provisions of The Act.
- According to Indian Companies Act, 2013, 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".
- A government company may be formed as a private limited company or a public limited company.
- These are established for purely business purposes and in true spirit compete with companies in the private sector.
- Example:-SAIL, BHEL, Hindustan Steel Ltd, etc.

Government Companies

- **Features**
- Formation
- Separate Entity
- Management
- Employees
- Own MOA and AOA
- Accounting and Auditing
- Funding

Government Companies

- **Merits/Advantages**
- Establishment
- Autonomy
- Flexibility
- Curb unhealthy Business Practices

Government Companies

- **Demerits/Limitations**
- Government Interference
- Not accountable to Parliament
- Management and Administration