Forms of Business organizations

Forms of Business Organisations:

- Business organization is the form of management which aims at increasing the wealth by producing goods and services to satisfy human wants.
- Different types of ownership depends upon the contribution of capital, number of persons participating in the business, risks and rewards taken by the persons involved in the business.
- In selecting particular form of business organization, the entrepreneur has to consider the following important factors

1. Ease of formation
2. Ease of raising capital
3. Limit of liability
4. Flexibility of operation
5. Maintenance of business secrets
6. Continuity or stability
7. Market conditions
8. Technical difficulties
9. Size and nature of business to be started
10. Managerial needs
11. Capital required to start the business and means to collect funds
12. Scope of the articles in the market

Forms of Business Organisations:

Several types of business organizations are existing in order to satisfy various social, economic and human requirements.

Following are the main types of business organizations

A) Private sector

1. Individual ownership or sole proprietorship
2. Partnership
3. Joint stock company
4. Co-operative organization
5. Joint Hindu family firm

B) Public sector (state ownership and control)

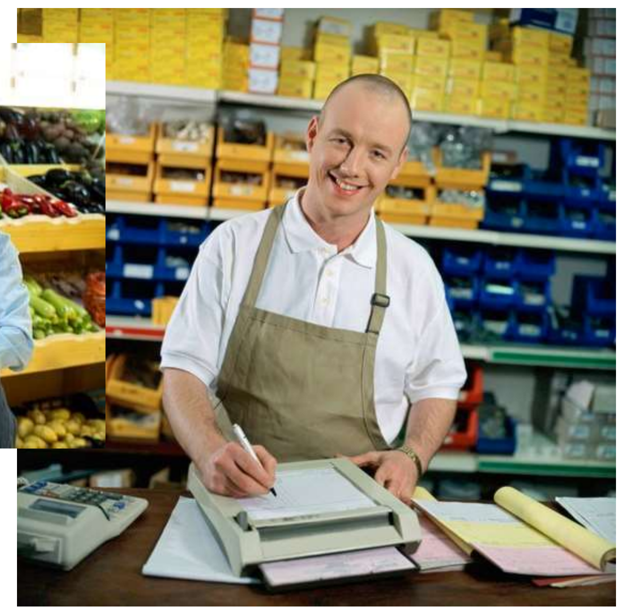
1. Departmental organizations
2. Public corporations (or statutory companies)
3. Government companies

C) Joint sector

1. Ownership and control shared by private entrepreneur, state and public

1. Sole proprietorship:

- Sole means single and proprietorship means ownership.
- It means only one person or an individual becomes the owner of the business. Thus, the business organization in which a single person owns, manages and controls all the activities of the business is known as sole proprietorship form of business organization.
- If the capital is provided by single individual, it is known as individual ownership, single ownership or individual proprietorship.



- The business organization which is owned by a single individual and run independently with or without hired labour and machines.
- As the name suggests, such type of business is owned by one man. The business man invests capital, employs labour and machines.
- This is the oldest and simplest form of business organization. In such business owner supplies all the capital needed to run the organization. Hence owner alone enjoys the profits and suffers the losses in his business.
- Overall control in single hand helps him in quick decisions, efficient administration and working.
- In such organizations owner himself is responsible for all the liabilities.
- **Examples:**

  Small shops like vegetable shops, grocery shops, telephone booths, chemist shops etc are some of the commonly found sole proprietorship form of business organizations.


Single Ownership
No sharing of profit and loss
One man's capital
Unlimited Liability
Less Legal Formalities
One man Control

Characteristics or Features of Sole Proprietorship:

1. It is started by the initiative of a single person
2. The proprietor manages the whole business himself
3. He keeps all his business secrets only in himself
4. It has limited area of operations
5. He supplies necessary capital to the business
6. He makes all decisions regarding his business
7. He only bears profits and losses

Merits:

1. Organisation is simple
2. It requires small capital
3. Extremely easy decision making
4. Business secrecy can be maintained
5. Managerial costs can be saved
6. Self employment of individual is generated widely
7. Full control of business activities
8. He can check irregularities and reduces wastage as he takes personal attention in the business
9. Flexibility in management: easy to change the product/services, policies and control
10. Liberal government support:

Generally this type of business is small scale industry. Government provides liberal loans for starting and running these businesses. Generally, the electricity and water rate is less for small and cottage industries.

Demerits:

1. Possibility of expansion and modernization is less due to limited capital.
2. Risk in the business is more
3. Not suitable for large-size operations: due to limited resources
4. Unlimited liability makes him to pay all the debts out of his personal property in case of losses.
5. Lack of continuity:

   In case the trader is ill or busy in his family affairs, the business has to closedown.
6. Comparatively less stable:

   Due to non-availability of another person to share the responsibility
7. Scope for employees is less

Suitability of Sole Ownership:

Small business operations, which need less capital, less material and processing efforts, less management skill and more personal attention for customers, are suited for this.

Partnership Organization

Partnership Organisation:

- A single owner becomes inadequate as the size of the business enterprise grows. He may not be in a position to do away with all the duties and responsibilities of the grown business.

- At this stage, the individual owner may wish to associate with more persons who have either capital to invest, or possess special skill and knowledge to make the existing business still more profitable.

- Partnership is usually formed to combine capital, labour and varied specialized skills or abilities.

- Partnership may be defined as the relationship between persons who have agreed to share the capital and profits of business carried on by all or any of them acting for all.

- The persons participating in the business are called individually as partners and collectively the business is called firm such a combination of individual traders is called partnership.
- Partnership is based upon a written agreement between the partners which is known as partnership deed.
- As compared to sole trader form of ownership, partnership firm has two major differences
  - 1. Number of owners are more than one but less than 20
  - 2. More capital, asset and diversified expertise are available due to more than one owner.

•**Partnership Deed:**

•The success of the partnership concern depends upon the mutual understanding between the partners.

•In order to avoid the possibilities of disputes at later stage, it is desirable to make an agreement at the time of formation of partnership concern.

•**This written agreement is known as partnership deed.**

•This agreement contains terms and conditions of the partnership and is to be signed by all partners and registered in the “registrar of firms” though it is not compulsory.

• Partnership deed is a document containing all the matters according to which mutual rights, duties and liabilities of partners in the conduct and management of the affairs of the firm are determined”

Contents of the Partnership Deed:

1. Name and address of the firm
2. Name and addresses of the partners
3. Nature of business
4. Duration of partnership
5. Date of starting partnership
6. The money contributed by each partner
7. Share of profits and losses
8. The amount which can be withdrawn by each partner
9. Allotment of managerial functions among the partners
10. Authority for signing cheques, drawing, accepting or endorsing bills of exchange etc.

Types of Partners:

1. General partners

All the partners who are in the partnership known as general partners.

2. Active partners

These are those partners who take active part in the management and help in the formulation of policies. These are also known as working or managing partners.

3. Sleeping or silent partners

Partners, who just invest money and do not take any part in the management, are known as sleeping or silent partners. Such members after contributing their share of capital wake up only either to share the profits or to liquidate the business.

4. Nominal partners

Partners, who do not invest money and do not take part in the management, but they lend their reputed name for the company's reputation are known as nominal partners

5. Secret partners

These partners take part in the management secretly but nowhere their names appear.

6. Minor partners

Minor partners are those whose age are below 18 years and associated with the business. Such partners can be allowed only with the consent of other partners.

Merits of Partnership Organisation:

1. More capital, different skills and abilities are possible
2. Risk of business is shared by more than one person
3. More flexibility of operation is possible
4. Division of work is possible
5. Partnership firms can borrow money quite easily from the banks
6. Direct control and close supervision by the partner over the business is possible
7. For all losses, there are more than one person to share them

Demerits of Partnership Organisation:

1. Transfer of partnership is not possible
2. Due to lack of harmony among partners, the firm may get dissolved at any time
3. Taking decisions will be delayed
4. Death of any partner effect the continuity of the firm and so it automatically dissolves.
5. All partners suffer because of the wrong steps taken by one partner
6. Danger of disagreement and distrust among the partners
7. Selfishness of a partner and mutual distrust

SUITABILITY OF PARTNERSHIP:

Partnership is an ideal form of organization for small scale and medium size business where there is a limited market, limited risk of loss and limited capital and limited specialization in management is needed.

Example:

Whole sale trade, retail trade, small scale industries, ware housing, transport services, professional services etc

Joint Stock Company:

Joint stock company overcomes many of the disadvantages associated with partnership types of industrial ownership, such as

1. Difficulties in raising capital
2. Easy disruption
3. Lack of facility for centralized management
4. Unlimited liability

- In this system capital is contributed by a large number of persons. It is voluntary association of individual or profit, having a capital divided into transferable shares of different values.

- The capital is raised by selling shares of different values. Persons who purchase the shares are called shareholder. The managing body known as “Board of directors” is elected by these shareholders. The board of director is responsible for policy making, important financial and technical decisions and efficient working of an enterprise
- It is an association of individuals called share holders who agree to supply the capital by purchasing the shares of the company for a specific business to be carried out.
- The liability of the members (or shareholders) of a joint stock company is limited to that capital only of which they hold the shares.
- Finance is raised by issuing shares, debentures, bank loans, loans from industrial and finance corporations.

Features or Characteristics of Joint Stock Company:

1. It has a limited liability to the value of share they have purchased
2. Large membership
3. Efficient management by experts
4. The ownership and management are in two separate hands
5. There is a wide distribution of risk of loss
6. Better stability of company
7. Public confidence and better good will
8. Perpetual succession

Classification of Joint Stock Companies:

1. Private limited Joint Stock Company
2. Public limited Joint Stock Company

1. Private limited Joint Stock Company

Features:

1. In this minimum number of persons is 2 and the maximum is 200
2. Generally members of the company are the friends and relatives of the promoters
3. In this transfer of shares is limited to members only and general public cannot be invited to subscribe the shares.
4. This has to be registered under the “Indian company’s act, 1956” later new act 2013.
5. A private limited company need not make any prospects, accounts and other particulars open to public. But the members are entitled to receive a copy of balance sheet and audit reports.

6. The word private limited is used at the end of the name of the company. Most of the medium sized industries run in this manner
7. The company need not circulate the balance sheet, profit and loss account etc among its members; but it should hold its annual general meeting and place such financial statements in the meetings.
8. These are invariably converted into public limited company if the business improves.

2. Public limited Joint Stock Company

Features:

1. Here the membership is open to public
2. The minimum number of shareholders is 7 and there is no maximum
3. The shares of the company advertised in the form of prospectus through the news media to the general public
4. It has to take a certificate of incorporation from the “Registrar of joint stock companies” before starting the business.
5. The shares are transferable
6. The company has to submit the annual audit reports and balance sheet to all the shareholders
7. The word limited is added at the end of the name of the company
8. Directors of the company are subjected to rotation

Merits of Joint Stock Company:

1. Transfer of shares is possible
2. The liability of shareholders is limited
3. Risk involved is less as the losses are divided among the shareholders
4. Permanent existence:

   Any number of shareholders may leave it, but the company continues.

5. Huge capital:

The capital of the company is raised by the sale of shares. The value of each share is low; this attracts all sorts of people, rich and poor to invest their capital. Therefore, large amount of capital can be raised.

6. Efficient management is possible due to availability of services of specialists.
7. Company's life is not affected by the life (death) of shareholders.
8. Development of large industries banking, insurance is the effect of joint stock company

Demerits of Joint Stock Company:

1. Formation is difficult and costly
2. Decisions will be delayed
3. Disputes may arise among shareholders
4. There will be possibility of mismanagement and fraud
5. Directors will show favorism in selecting the higher posts & appoints their own persons
6. Divided responsibility
7. Board of directors and managers who know the financial position of the company may sell or buy shares for their personal profit.

Suitability of Joint Stock Company:

- A joint stock company form of business organization is found to be suitable where the volume of business is large and huge financial resources are needed.
- Since members of a joint stock company have limited liability it is possible to raise capital from the public without much difficulty.
- This form of organization is also suitable for businesses which involve heavy risks.
- For business activities which require public support and confidence, joint stock form is preferred as it has a separate legal status.
- Certain types of businesses, like production of pharmaceuticals, machine manufacturing, information technology, iron and steel, aluminium, fertilizers, cement etc are a few examples

EXAMPLES OF PVT LTD COMPANIES:

1. Avalon technologies pvt ltd
2. Caterpillar India pvt ltd
3. Entex pvt ltd
4. Propack India pvt ltd
5. Sparkler ceramics pvt ltd
6. Ramdev chemicals pvt ltd

EXAMPLES OF LTD COMPANIES:

1. HDFC
2. Reliance
3. ITC
4. TCS
5. INFOSYS
6. IRCTC
7. LIC
8. HPCL