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Research Article on Forms of Business Organization

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ABSTRACT

Forms of business organization, different forms are mentioned Salient features of Sole Proprietorship, Partnership, Joint Stock Company advantages and disadvantages are mentioned in the article Organization Business must comply with any of the approved legal forms that gives the organization a distinct status and also helps to determine its identity. Different kind of company such as private company, Government Company are discussed.

Keywords : Organization, Business, Company, Forms of Business

I. INTRODUCTION

Business

- Any activity that keeps a person busy.
- Objective is to earn Profit.
- It includes individuals and group activities, directed toward earning money and acquiring wealth through production and exchange of goods and services.
- Activities like Trade, Manufacturing, Transport, Banking, Warehousing, Insurance, Packaging, Advertisement etc.

Organization

- Business must comply with any of the approved legal forms that gives the organization a distinct status and also helps to determine its identity.
- e.g. Business of food product – (FSSAI License)

Forms of Business Organization

- Sole Proprietorship
- Partnership
- Joint Stock Company
- Co-operative Society

1. Sole Proprietorship

- Owned by one person (One Man Business)
- Solely responsible for-

1. Providing Capital
2. Bearing the risk of the Enterprise
3. Day-to-day management of the business

E.g. In retail pharmacy business, Chemist Shop is the best suited to a sole proprietor.

Salient features of Sole Proprietorship

- Sole proprietorship has full authority over the affairs of business; proprietor has to act according to his ability and skills.

- Individual Ownership i.e. there is no partnership or association
- Sole responsibility for management
- Sole responsibility for arranging finances
- Independent decision making
- Unlimited Liability
- Maintenance of secrecy of business affairs possible
- No sharing of Profits and Losses

Advantages of Sole Proprietorship

1. Easy to Start
2. Maximum Incentive to work (payment or concession to stimulate greater output)
3. Independent decision making, facilitating flexibility of operations
4. Personal attention to customers
5. Freedom from Governmental controls
6. Self-employment
7. Development of self confidence
8. Maintenance of secrecy of business affairs possible 9. Little expenditure involves in managing the enterprise

Disadvantages of Sole Proprietorship

1. Limited Finances, difficult to expand business
2. Difficult to look after every aspect of business
3. Uncertain life, business ends with death
4. Conservative approach, cannot enjoy the benefits of large scale production or buying or selling
5. Unlimited liability
6. Hasty and Imbalance decisions, there are no checks and control on proprietor

2. Partnership

A relation between persons who have agreed to share the profits of a business carried on by all or any of them acting for all.

The persons who have entered into partnership are individually known as "Partners" and collectively as a "Partnership".

The business organization runs as a partnership is called as a Firm.

Salient features of Partnership

1. Agreement
2. Two or More Persons (up to 20) e.g. 10 in case of banking firm
3. Lawful Business, Partnership is formed on the basis of agreement,
4. Agreement may be oral, written, or implied between the persons joining together in the partnership, document containing agreement is called as "Partnership Deed" .
5. Sharing of Profits, agreed ratio or proportion
6. Non-Transferability of Shares
7. It dissolves when the partner dies or retired
8. Unlimited Liability-Jointly or Severally

Kind of Partner

1. Active or Working Partner
2. Sleeping or Inactive Partner
3. Nominal Partner
4. Partner in Profit only
5. Secret Partner
6. Minor Partner
7. Partner by Estoppel

1. Active or Working Partner – He takes an active part in the management of the firm's business and bears unlimited liability for the debts of the firm and like other partner, has to contribute capital to the firm.

2. Sleeping or Inactive Partner – He does not take any active part, but contributes capital, Profit/loss and shares.

3. Nominal Partner – He only lends his name to the firm, and does not contribute for capital, shares, and profits/losses.

4. Partner in Profit only – He only invests his capital only with a view to earn a share in the profit of the firm, and has no liability as regards to any losses.

5. Secret Partner – He does not want the fact of his being a partner to be known to outsider

6. Minor Partner – A partner below 18 being a minor, does not enjoy the rights of full-fledged partner

7. Partner by estoppel – He is not a partner of the firm, he neither contributes any capital nor takes part in the management of the firm.

Kind of Partnership:-

From the point of view of liability of partners, a partnership may be of two types:

1) General Partnership

2) Limited Partnership

1) General Partnership:

It is an association between two or more people who agree to be co-owner of an organization in which each owner, or partner, will be equally and personally responsible for debt and liability of the organization.
Where, debt- loan or investment,
Liability-loan taken from bank, account payable, shop rent payable.

2) Limited Partnership:

A limited partnership (LP) exists when two or more partners unite to jointly conduct a business in which one or more of the partners is liable only to the extent of the amount of money that partner has invested.

The unlimited liability of partners in general partnership discourages investment of large sums in the firm, the limited partnership is the way out of this difficulty although it is not permitted in Indian law.

General partners assume management duties and unlimited liability for partnership debts Limited partners have no personal liability beyond invested amounts

Advantages of Partnership

1. Ease of formation
2. Large financial resources
3. Balanced decision making
4. Incentive to work hard
5. Ensures status to all partners
6. Secrecy of business affairs maintained
7. Divide risk
8. Advantages of partner's specialization
9. Flexibility of operations

Disadvantages of Partnership

1. Unlimited liability
2. Uncertainty of existence
3. Delayed decision making
4. Risk of implied authority of partners
5. Fear of competitive business
6. Unsuitable for big ventures
7. Non-transferability of ownership

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3. Joint Stock Company:

A company is governed by the company act, and it has to follow various provisions of the act
Hence the company form a organization has to comply with various statutory requirements.
The growing needs of modern industry and commerce could not be meet by sole proprietorship or partnership.
A joint stock company is better method of mobilizing financial resources.
A joint stock company is organized to carry on a business on a large scale because its capital requirements and risk obligation are too burdensome for single individual or for a few individuals to bear themselves.

Salient features Joint Stock Company

- A Company is an incorporated association. It come into existence only after registration under the Company Act, 1956
- The members or shareholders are the owners of the company; the business is run by the board of Directors elected by the members in the general body meeting of the company
- The capital requirement in a business is divided into shares of small denominations so that, would be investors can invest small or large sums of money as they desire.
- The shareholder is always free to withdraw from the membership of a company by transferring his shares
- A company profits are taxed at a flat rate against slab rates charged for non-cooperate bodies
- A Company can own, hold, and dispose of property in its own name. Its shareholders cannot claim to be private or joint owners of that property
- A Company profits, not being a natural person cannot sign documents for itself, the common seal with the name of the company engraved on it is, therefore used as a substitute for its signatures
- The liability of the members of a joint stock company is limited to the unpaid values of shares held by them
- A Company is a legal person. Only the law can bring it to an end. Its life does not depend on the life of its members. The shares of the company may change several hands on the stock exchange, but the life of the company remains unaffected by such changes.

Kinds of Companies

A) From the point of view of incorporation

1. Companies incorporated under a special chapter. This type of company does not exist in India.

2. Companies established by a special act of parliament. These companies are also called statutory companies e.g. the Industrial finance corporation, LIC of India, Air India etc.

3. Companies incorporated under the provisions of Company Act. These companies are also called Registered Companies

B) From the point of view of liability

1. Companies with unlimited liabilities.

2. Companies with liability limited by guarantee.

3. Companies with liability limited by shares.

C) From the point of view of nationality

1. National companies i.e. those companies operate within the boundary of the country of registration.

2. Multinational i.e. the companies which operate in various parts of the world.

D) From the point of view of public interest

1. Private Company
2. Public Company
3. Government Company

1. Private Company: A company which is run by a minimum of two members or by maximum of fifty members, does not allow public subscription to its shares and also restricts the transfer of its share, is called a private company. A private company combines in itself the advantage of limited liability with the facilities of the partnership organization. For this reason, it is preferred by many businessmen. At the same time a private company is not as suitable a form of business organization as a partnership, because the firm will have to pay higher income-tax as compared to partnership organization. Moreover, the goodwill of the firm will be adversely affected by the limited liabilities of its partners.

2. Public Company: A company can be formed by a minimum of seven persons, having no maximum limit on its members, offers its shares to the public with a view to collect large sums of money to finance its projects and also does not restrict the right of its members to transfer their shares freely. Such a company is called 'Public Company'.

3. Government Company: A company is called a Government Company if at least 51 per cent of its share capital is held by the Central Government, a State Government or jointly by the Central Government and State Government.

Advantages of Joint Stock Company:

1. A joint stock company is able to collect a large amount of capital. It attracts a wide range of investors by giving them the option to invest small or large sums as they desire. Due to the large financial resources at its command, a company can organize a business on a large scale and can afford to expand it further.

2. Since a company has a large resources at its command it can afford to appoint well qualified and experienced persons to run its business. The effective management helps the company to earn increasing profits.

3. The shares of the company can be transferred without any difficulty. Moreover, the facility of easy convertibility of shares into cash serves as an incentive to investors.

4. The management of the company is conducted on democratic principles. The company is managed by its Directors who are elected by shareholders. The major policy decisions are taken by shareholders and the directors have only to work within the framework of those decisions.

5. The liabilities of the members of the company is limited to the nominal value of the share held by them.

6. The risk for each member is reduced because it is diffused and spread over several members of the company.

7. A company pays income tax at flat rates. This means on higher profits, it will have to bear lower tax liability as compared to others.

8. The Joint Stock company enjoys the perpetual succession. Insolvency, insanity or death of its members has no effect on existence of the company

Disadvantages of Joint Stock Company:

1. The formation of a company is costly and time consuming process. There are a number of formalities which are required to be complied with.

2. The company cannot take prompt decisions because of time-lag between board meetings and the difficulty of getting the requisite quorum.

3. It is not difficult for an unscrupulous management to indulge in malpractices. Sometimes bogus companies are floated to cheat the investors of their hard earned money.

4. The company is not managed by proprietors (shareholders). In fact it is managed by directors and paid official who have no personal interest and

5. Directors sometimes misuse their position and serve their own personal ends ignoring the interest of shareholders.

6. The secrecy of the business affairs cannot be maintained, because every issue is discussed in the meeting of board of directors. The minutes of meeting and accounts of the firm has to be notified.

7. The joint stock company when run on a large scale may gain exclusive control over production or distribution of commodity. This may lead to exploitation of consumers by way of excessive pricing and poor quality of goods therefore there is no incentive for them to manage it more efficiently.

8. The persons controlling a company have large financial resources at their disposal. They may attempt to influence the economic and political decisions made by the Government.

4. Co-operative Society:

Cooperative organization is a voluntary association of persons who are financially strong. They come together with an aim not to get profits but to overcome disability arising out of want of adequate financial resources.

Salient features of Co-operative Society:

- A cooperative society is a voluntary organization made by association of persons and not of capital. There is no discrimination as regards the membership of the society. A member can withdraw from resources.
- The management of the affairs of the society is in the hands of the managing committee which is elected by the members. The broad policies are framed by the members and the management committee is required to perform its duties within its parameter. Each member is entitled to a single vote, irrespective of number of share held.
- The capital of a cooperative society is contributed by its members through purchase of shares.
- The cooperative society generally lay down a limit to the amount of capital which may be subscribed by an individual member. A cooperative society can also add to their capital resources by loans from central and state cooperative banks.
- The shares of the society cannot be transferred by the members to others. In case a member wants to withdraw his capital, he has to return the shares.
- In a cooperative society, distribution of profit is not related to shares capital contributed by each member. The main Criterion is the value or volume of business transferred by each member with the cooperative society i.e. even with a small capital contribution, a member can receive a relatively large share in the profits if he has had a large number of business transaction with the society.
- A cooperative society conducts business on cash basis and does not allow credit facility.
- A cooperative society is required to be registered under the Cooperative Societies Act, 1912.
- The surplus at the end of the year is not distributed as dividend among shareholders in the proportion to the share capital invested in the cooperative society. The share capital is treated as loan capital on which a moderate rate of interest is allowed out of net surplus. A portion of the balance is utilized for the general benefit of the members. A portion may be paid as a bonus to the employees and workers. The rest of net surplus is distributed among the members in proportion to their individual purchases from the society.

Advantages of Co-operative Society

1. A cooperative society is a voluntary association that may be formed by an 10 adult persons. Only a few legal formalities are required.

2. The management of cooperative is based on the principle of one-man-one-vote. There is no discrimination on the basis of the numbers of the shares held by the members

3. The liability of the members of a cooperative is limited to a certain proportion of their capital contribution in the society.

4. The life of a cooperative society is not affected by the death, insolvency or conviction of a member

5. There is coordination among members of a cooperative society because they belong to a local area or a particular class or group and are inspired by the idea of cooperation.

6. The membership of a cooperative society is open to everybody. There is no debar from the joining the society on the basis of economic position, Caste, color, or creed. There is no limit to the maximum number of members is running the cooperative society.

7. The state government offers many types of assistance, such as, facility of loans at much lower rate of interest. Moreover they are granted several exemptions and reliefs beside low rate of tax.

8. The law governing the cooperatives lay down the maximum limit as to the rate of interest on the capital contributed by each member. It also places a limit on the dividend to be declared as shares. The balance of the surplus earned in any year can be utilized for the

growth and development as well as expansion of a cooperative society.

Disadvantages of Co-operative Society

1. There is always shortage of capital for a cooperative society, because it generally has poor or lower middle class persons as its members. They can provide only a limited amount of capital.

2. A cooperative is managed by a managing committee which generally lacks technical knowledge and experience to run an undertaking. Hence, due to lack of proper management there is generally inefficiency in cooperatives.

3. Due to difference in opinion among the members, they may compete with one another to gain control over the affairs of the cooperative which may result in adverse consequences for the business of the cooperative

4. There is lack of motivation among the members of the managing committee because the rate of return to the members is limited by law.

5. The affairs of cooperatives are generally so much exposed to the members that it becomes difficult for them to maintain the business secrecy.

6. The excessive state regulation and control over the functioning of the cooperatives affects their working.

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