SNS COLLEGE OF PHARMACY AND HEALTH SCIENCES
Sathy Main Road, SNS Kalvi Nagar,
Saravanampatti Post, Coimbatore - 641 035,
Tamil Nadu.

FORMS OF BUSINESS ORGANISATION

Business is the activity of making one's living or making money by producing or buying and selling products (such as goods and services).

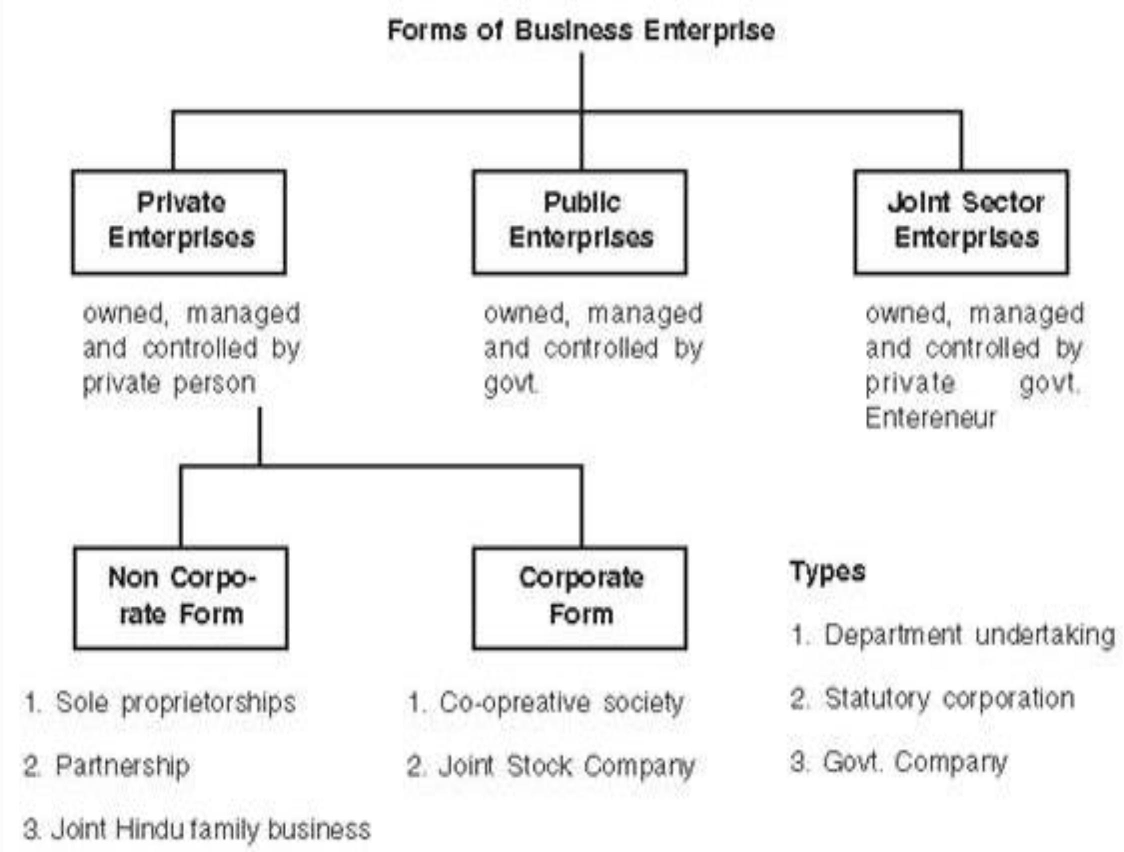
Business organization, an entity formed for the purpose of carrying on commercial enterprise. Such an organization is predicated on systems of law governing contract and exchange, property rights, and incorporation.

IMPORTANT OBJECTIVES OF BUSINESS

- Profitability
- Growth
- Stability
- Efficiency
- Survival

CLASSIFICATION(FORMS)OF BUSINESS ORGANISATION

On the basis of ownership business enterprises can broadly be classified into the following categories:



SOLE PROPRIETORSHIP

- Sole proprietorship means a business owned, financed and controlled by a single person who is recipient of all profit and bearer of all risks.
- It is suitable in areas of personalised service like beauty parlour, hair cutting saloons & small scale activities like retail shops.

FEATURES

1. Single ownership: It is wholly owned by one individual.

2. Control: Sole proprietor has full power of decision making.

3. No separate legal entity: Legally there is no difference between business& businessmen.

4. Unlimited liability: The liability of owner is unlimited. In case the assets of business are not sufficient to meet its debts, the personal property of owner can be used for paying debts

5. No legal formalities: Not required to start, manage and dissolve such business organization.

6. Sole risk bearer and profit recipient: He bears the complete risk and there is no body to share profit/loss with him.

MERITS

1. Easy to start and close: It can be easily started and closed without any legal formalities.

2. Quick decision making: As sole trader is not required to consult or inform anybody about his decisions.

3. Sense of accomplishment: There is a sense of personal satisfaction.

4. Unlimited liability: The liability of owner is unlimited. In case the assets of business are not sufficient to meet its debts, the personal property of owner can be used for paying debts

5. No legal formalities: are required to start, manage and dissolve such business organization.

6. Sole risk bearer and profit recipient: He bears the complete risk and there is no body to share profit/loss with him.

LIMITATIONS

1. Limited financial resources: Funds are limited to the owner's personal savings and his borrowing capacity.

2. Limited Managerial ability: Sole trader can't be good in all aspects of business and he can't afford to employ experts also.

3. Unlimited liability: Ofcourse, sole trader compels him to avoid risky and bold business decisions.

4. Uncertain life: Death, insolvency, lunacy or illness of a proprietor affects the business and can lead to its closure.

5. Limited scope for expansion:- Due to limited capital and managerial skills, it cannot expand to a large scale.

SUITABILITY:

Sole tradership is suitable-

- Where the personal attention to customer is required as in tailoring, beauty parlour.
- Where goods are unstandardized like artistic jewellery.
- Where modest capital and limited managerial skills are required as in case of retail store
- Business where risk is not extensive i.e. lesser fluctuation in price and demand i.e. stationery shop.

JOINT HINDU FAMILY BUSINESS

It is owned by the members of undivided joint Hindu family and managed by the eldest member of the family known as KARTA. It is governed by the provisions of Hindu law. The basis of membership is birth in a particular family.

FEATURES

1. Formation – For a joint Hindu family business there should be at least two members in the family and some ancestral property to be inherited by them.

2. Membership by birth –

There are two systems which govern membership

a] Dayabhaga System- It prevails in west Bengal and allows both male and female member to co-parcencers.

b] Mitakshara System- It prevails all over India except West Bengal and allows only male members to be coparceners.

3. Liability – Liability of Karta is unlimited but of all other members is limited to the extent of their share in property

4. Continuity – The business is not affected by death or incapacity of Karta in such cases the next senior male member becomes the Karta.

5. Minor members – A minor can also become full fledged member of Family business.

MERITS

1. Effective control- The Karta can promptly take decisions as he has the absolute decision making power.

2. Continued business existence- The death, Lunacy of Karta will not affect the business as next eldest member will then take up the position.

3. Limited liability – The liability of all members except Karta is limited. It gives them a relief.

4. Secrecy – Complete secrecy regarding business decisions can be maintained by Karta.

5. Loyalty and Co-operation: It helps in securing better co-operation and greater loyalty from all the members who run the business.

LIMITATIONS

1.Limited capital: There is shortage of capital as it is limited to the ancestral property.

2. Unlimited liability of karta – It makes him less enterprising.

3. Dominance of karta – Karta manages the business and sometimes he ignores the valuable advice of other members. This may cause conflict among the members and may lead to break down of the family limit.

4. Hasty decisions: As karta is overburdened with work, he may take hasty and unbalanced decisions.

5. Limited managerial skills of karta also pose a serious problem. The Joint Hindu family business is on decline because of the diminishing no. of joint Hindu families in the country.

PARTNERSHIP

Partnership is a voluntary association of two or more persons who agree to carry on some business jointly and share its profits and losses.

FEATURES

1. Two or more persons: There must be at least two persons to form a partnership. The maximum no. of persons is 10 in banking business and 20 in non-banking business.

2. Agreement: It is an outcome of an agreement among partners which may be oral or in writing.

3. Lawful business- It can be formed only for the purpose of carrying on some lawful business.

4. Decision making & control – Every partner has a right to participate in management & decision making of the organisations.

5. Unlimited liability – Partners have unlimited liability.

6. Mutual Agency – Every partner is an implied agent of the other partners and of the firm. Every partner is liable for acts performed by other partners on behalf of the firm.

7. Lack of continuity – Firms existence is affected by the death, Lunacy and insolvency of any of its partner. It suffers from lack of continuity.

MERITS

1. **Ease of formation & closure –** It can be easily formed. Only an agreement among the partners is required.
2. **Larger financial resources –** There are more funds as capital is contributed by no. of partners.
3. **Balanced Decisions –** As decisions are taken jointly by partners after consulting each other.
4. **Sharing of Risks –** In it, risk get distributed among partners which reduces anxiety, burden and stress on individual partner.
5. **Secrecy –** Secrecy can be easily maintained about business affairs as they are not required to publish their accounts or to file any report to the govt.

LIMITATIONS

1. **Limited resources –** There is a restriction on the number of partners and hence capital contributed by them is also limited.
2. **Unlimited liability-** The liability of partners is unlimited and they are liable individually as well as jointly. It may prove to be a big drawback for those partners who have greater personal wealth. They will have to repay the entire debt in case the other partners are unable to do so.
3. **Lack of continuity –** Partnership comes to an end with the death, retirement, insolvency or lunacy of any of its partner.
4. **Lack of public confidence –** Partnership firms are not required to publish their reports and accounts. Thus they lack public confidence.

TYPES OF PARTNERS

1.General / Active Partner – Such a partner takes active part in the management of the firm.

2. Sleeping or Dormant Partner – He does not take active part in the management of the firm. Though he invested money, shares profit & Loss and unlimited liability.

3. Secret Partner – He participates in business secretly without disclosing his association with the firm to general public. His liability is also unlimited.

4. Nominal Partner – Such a partner only gives his name and goodwill to the firm. He neither invests money nor takes profit. But his liability is unlimited.

5. Partner by Estoppels – He is the one who by his words or conduct gives impression to the outside world that he is a partners of the firm whereas actually he is not. His liability is unlimited towards the third party who has entered into dealing with firm on the basis of his pretensions.

6. Partner by holding out – He is the one who is falsely declared partner of the firm whereas actually he is not. And even after becoming aware of it, he-does not deny it. His liability is unlimited towards the party who has deal with firm on the basis of this declaration.

7. **Minor as a Partner --** A minor is a person who has not attained the age of 18 years. Since a minor is not capable of enlarging into a valid agreement. He cannot become partner of firm. However, a minor can be admitted to the benefits of an existing partnership firm with the mutual consent of all other partners. He cannot be asked to bear the losses. His liability will be limited to the exilent of the capital contributed by him. He will not be eligible to take an active part in the management of the firm.

TYPES OF PARTNERSHIP

A. Classification on the Basics of Duration

1.Partnership at will- This type of partnership exists at the will of partners.

2.Particular Partnership-This type of partnership is formed for a specified June period to accomplish a particular project (consolation of building)

B. Classification on the basis of Liability

1.General partnership-This liability of partners is limited and joint. Registration of firm is optional.

2.Limited Partnership-The liability of at least one partner is unlimited whereas the other partners may have limited.
Registration of firm is compulsory.

PARTNERSHIP DEED

The written agreement on a stamped paper which specifies the terms and conditions of partnership is called the partnership deed. It generally includes the following aspects,

- Name of the firm
- Location / Address of the firm
- Duration of business
- Investment made by each partner
- Profit sharing ratio of the partners
- Terms relating to salaries, drawing, interest on capital and interest on drawing of partners
- Duties & obligations of partners
- Terms governing admission, retirement & expulsion of a partner,

preparation on of accounts & their auditing

- Method of solving dispute.

REGISTRATION OF PARTNERSHIP

Registration is not compulsory it is optional. But it is always beneficial to get the firm registered. The consequences of non-registration of a firm are as follows:

- A partner of an unregistered firm cannot file suit against the firm or the partner.
- The firm cannot file a suit against third party.
- The firm cannot file a case against its partner.

CO-OPERATIVE SOCIETY

A co-operative society is a voluntary association of persons of moderate means who unite together to protect & promote their common economic interests.

FEATURES

1. **Voluntary association:** Every one having a common interest is free to join a co-operative society and can also leave the society after giving proper notice.
2. **Legal status:** Its registration is compulsory and it gives it a separate legal identity.
3. **Limited liability:** The liability of the member is limited to the extent of their capital contribution in the society.

4. Democratic control: Management & Control lies with the managing committee elected by the members by giving vote. Every member has one vote irrespective of the number of shares held by him.

5. Service motive: The main aim is to serve its members and not to maximize the profit.

6. Bound by govt.'s rules: They have to be tide by the rules and regulations framed by govt. for them.

7. Distribution of surplus: The profit is distributed on the basis of volume of business transacted by a member and not on the basis of capital contribution of members.

MERITS

1. Excise of formation: It can be started with minimum of 10 members. Registration is also easy as it requires very few legal formations.

2. Limited Liability: The liability of members is limited to the extent of their capital contribution.

3. Stable existence: Due to registration it is a separate legal entity and is not affected by the death, luxury or insolvency of any of its member.

4. Economy in operations: Due to elimination of middlemen and voluntary services provided by its members.

5. Government Support: Govt. provides support by giving loans at lower interest rates, subsidies & by charging less taxes.

6. Social utility: It promotes personal liberty, social justice and mutual cooperation. They help to prevent concentration of economic power in few hands.

LIMITATIONS

1. Shortage of capital – It suffers from shortage of capital as it is usually formed by people with limited means.

2. Inefficient management – Co-operative society is managed by elected members who may not be competent and experienced. Moreover, it can't afford to employ expert and experienced people at high salaries.

3. Lack of motivation – Members are not inclined to put their best efforts as there is no direct link between efforts and reward.

4. Lack of Secrecy – Its affairs are openly discussed in its meeting which makes it difficult to maintain secrecy.

5. Excessive govt. control – it suffers from excessive rules and regulations of the govt. It has to get its accounts audited by the auditor and has to submit a copy of its accounts to registrar.

6. Conflict among members – The members are from different sections of society with different viewpoints. Sometimes when some members become rigid, the result is conflict.

TYPES OF CO-OPERATIVE SOCIETIES

1. Consumers co-operative Society
2. Producer's Co-operative Society
3. Marketing Co-operative Society
4. Farmer's Co-operative Society
5. Credit co-operative Society
6. Co-operative Housing Society

JOINT STOCK COMPANY

Joint stock company is a voluntary association of persons for profit, having a capital divided into transferable shares, the ownership of which is the condition of membership.

FEATURES

1. **Incorporated association –** The company must be incorporated or registered tender the companies Act 1956. Without registration no company can come into existence.
2. **Separate Legal Existence –** It is created by law and it is a distinct legal entity independent of its members. It can own property, enter into contracts, can file suits in its own name.
3. **Perpetual Existence –** Death, insolvency and insanity or change of members as no effect on the life of a company. It can come to an end only through the prescribed legal procedure.
4. **Limited Liability –** The liability of every member is limited to the nominal value of the shares bought by him or to the amt. guaranteed by him. Transferability of shares – Shares of public Co. are easily transferable. But there are certain restrictions on transfer of share of private Co. Common Seal- It is the official signature of the company and it is affixed on all important documents of company.
5. **Separation of ownership and control –** Management of company is in the hands of elected representatives of shareholders known individually as director and collectively as board of directors.

MERITS

1. **Limited Liability –** Limited liability of shareholder reduces the degree of risk borne by him.

2. Transfer of Interest – Easy transferability of shares increases the attractiveness of shares for investment.

3. Perpetual Existence – Existence of a company is not affected by the death, insanity,

Insolvency of member or change of membership. Company can be liquidated only as per the provisions of companies Act.

4. Scope for expansion – A company can collect huge amount of capital from unlimited no. of members who are ready to invest because of limited liability, easy transferability and chances of high return.

5. Professional management – A company can afford to employ highly qualified experts in different areas of business management.

LIMITATIONS

1. Legal formalities – The procedure of formation of Co. is very long, time consuming, expensive and requires lot of legal formalities to be fulfilled.

2. Lack of secrecy – It is very difficult to maintain secrecy in case of public company, as company is required to publish and file its annual accounts and reports.

3. Lack of Motivation – Divorce between ownership and control and absence of a direct link between efforts and reward lead to lack of personal interest and incentive.

4. Delay in decision making – Red papism and bureaucracy do not permit quick decisions and prompt actions. There is little scope for personal initiative.

5. Oligarchic management – Co. is said to be democratically managed but actually managed by few people i.e. board of directors. Sometimes they take decisions keeping in mind their personal interests and benefit, ignoring the interests of shareholders and Co.

TYPES OF COMPANIES

On the basis of ownership, companies can be divided into two categories – Private & Public.

JOINT VENTURE

A joint venture (JV) is a business arrangement in which two or more parties agree to pool their resources for the purpose of accomplishing a specific task. This task can be a new project or any other business activity.

In a joint venture (JV), each of the participants is responsible for profits, losses, and costs associated with it. However, the venture is its own entity, separate from the participants' other business interests.

There are three main reasons why companies form joint ventures:

- Leverage Resources
- Cost Savings
- Combined Expertise

DEPARTMENTAL UNDERTAKING

The departmental undertaking is the oldest and traditional form of an organization of the public sector enterprise.It is organized, financed and controlled in such a manner that any other government organization.

The undertaking is under the control of a minister who is responsible to the parliament. Some example of departmental undertakings is Indian Railways, Post and Telegraph, All India Radio, Doordarshan etc.

FEATURES

1. Audit and Accounting - Normal budgeting, accounting and audit procedures are applicable to departmental undertakings just like government departments.

2. Managed by Civil Servants - The departmental undertakings are managed by the civil servants, who are subject to the same services condition as applicable to civil servants of the government.

3. Sovereign Immunity - Without the consent of the government, a departmental undertaking cannot be sued at all.

ADVANTAGES

1. Provides easy information
2. Direct control over Parliament or State Legislature
3. Tax on the Public is lesser
4. Tool for social change
5. Avoid misuse of Government Treasury
6. Monitored by the rules and regulations of the Ministry

DISADVANTAGES

i. Delay of decision making

ii. Incidence of Additional Taxation

iii. Lack of Competition

iv. Casual Approach to Work

v. Government Interference

vi. Lack of Professional Management and Fear of Criticism

vii. Financial Dependence

PUBLIC CORPORATION:

A public corporation is that form of public enterprise which is created as an autonomous unit, by a special Act of the Parliament or the State Legislature. Since a public corporation is created by a Statute; it is also known as a statutory corporation.

The Statute defines the objectives, powers and functions of the public corporation. Life Insurance Corporation of India, the Indian Airlines, the Air India International, Oil and Natural Gas Commission etc. are some examples of public corporations, in India.

FEATURES

- Special Statute
- Separate Legal Entity
- Capital Provided by the Government
- Financial Autonomy
- Management by Board of Directors
- Own Staff
- Service Motive
- Public Accountability

ADVANTAGES

- Bold Management due to Operational Autonomy
- Legislative Control
- Qualified and Contented Staff
- Tailor-Made Statute
- Not Affected by Political Changes
- Lesser Likelihood of Exploitation
- Reasonable Pricing Policy

LIMITATIONS

- Autonomy and Flexibility
- Misuse of Monopolistic Power
- Rigid Constitution
- Low Managerial Efficiency
- Problem of Passing a Special Act
- Clash of Divergent Interests

GOVERNMENT COMPANIES

Government Company is a company or an organization in which at least 51% of the paid up share capital is held by the central government or the state government or partly by both central and state government. There are many government companies, few of them are, Steel Authority of India Limited, Bharat Heavy Electricals Limited, Coal India Limited, State Trading Corporation of India, etc.The public sector companies in India were incorporated into two main objectives:

- To achieve more equity in the distribution of wealth and income amongst the citizens of the country.

- To gain the momentum in the growth of the nation.

FEATURES

- It is a separate legal entity.
- It is incorporated under Companies Act 1956 & 2013.
- The management is governed and regulated by the provisions of Companies Act.
- The Memorandum of Association and Articles of Association govern the appointment of employees.
- A government company gets its funding from government shareholding and other private shareholdings. The company can also raise money from the capital market.
- A government company is audited by the agency appointed by the central government. This agency is mainly Controller and Auditor General of India (C&AG).

MERITS

- To incorporate a government company, all the provisions of the Companies Act are to be followed.
- The government organization enjoys all autonomy in management decisions and flexibility in day to day activities.
- These companies control the local market and sustain it to curb the unhealthy business practices.

LIMITATIONS

- These companies face a lot of government interference and involvement of government officials, ministers, and politicians.
- As these companies are financed by the government, so these companies evade all constitutional responsibilities of not answering to the parliament.
- The efficient operations of the company are hampered, as the board of the company comprises mainly of politicians and civil servants, who have more emphasis and interest in pleasing their political party co-workers or owners and less concentrated on growth and development of the company

BOARD ORGANIZATION

The Board of Directors is the governing body of a nonprofit. Individuals who sit on the board are responsible for overseeing the organization's activities. Board members meet periodically to discuss and vote on the affairs of the organization.

ROLE OF BOARD

The board,

- must simultaneously be entrepreneurial and **drive the business** forward while keeping it under prudent control
- is required to be sufficiently **knowledgeable** about the workings of the company to be answerable for its actions, yet able to stand back from the day-to-day management of the company and retain an objective, longer-term view

- must be sensitive to the **pressures** of short-term issues and yet take account of broader, long-term trends
- must be knowledgeable about 'local' issues and yet be aware of potential or actual wider competitive influences
- is expected to be focused on the **commercial needs** of its business while acting responsibly towards its employees, business partners and society as a whole

Boards can be helped greatly by focusing on four key areas:

- Establishing vision, mission and values
- Setting strategy and structure
- Delegating to management
- Exercising accountability to shareholders and being responsible to relevant stakeholders

ADVANTAGES

- Benefit Of Specialization
- Better Solution
- Participative Management
- Several Alternatives
- Better Communication
- Team Spirit

DEMERITS OR DISADVANTAGES

- Delayed Decision
- Lack Of Secrecy

- Expensive Device
- Lack Of Accountability
- High Chance Of Conflict

DIFFERENCE BETWEEN PRIVATE COMPANY & PUBLIC COMPANY

Private Company	Public Company
It has minimum 2 and maximum 50 members.	It has minimum 7 and maximum unlimited.
It cannot invite general public to buy its shares and debentures.	It invites general public to buy its shares and debentures.
There are certain restrictions on transfer of its shares.	Its shares are freely transferable.
It can commence business after incorporation.	It can commence business after obtaining certificate of commencement of business.
It has to write Private Ltd. After its name Ex- Tata Sons, Citi Bank, Hyundai Motor India.	It has to write only limited after its name Ex- Reliance Industries Ltd., Wipro Ltd. , Raymond's Ltd.
In its minimum capital required is one lakh.	In its minimum capital required is five lakhs.

Proprietorship Firm	Partnership Firm
A firm run by only single individual and he is the sole owner of the firm.	A firm started by two or more partners with the aim to earn profit is known as a partnership firm.
There is no specific governing law.	It is govern by the Indian Partnership Act.
There can be only one member.	There must be minimum 2 and maximum 50 partners.
Proprietor has to borne liability alone.	The liabilities will be shared among partners.
Proprietor is the sole decision maker; hence decisions can be taken quickly.	Approval from all or majority of the partner is necessary as per the agreement; hence there may be delayed decisions.
Profit is solely earned.	Profit is distributed among partners.
Proprietor is the only source of capital.	Capital is brought by all the partners.
It is less credible.	It is more credible as compared to proprietorship firm.

Basis of difference	**Joint Hindu Family Business**	**Partnership**
Governance	Governed by the Hindu law.	Governed by Partnership Act, 1932.
Liability	The head has unlimited liability, while the liabilities of other members are limited to the extent of their share in the business.	All the partners have unlimited liability.
Decision making and control	The ***karta*** is responsible for the management and control of the business.	All the partners jointly manage and control the firm.
Number of members	Minimum: 2 Maximum: No limit	Minimum: 2 Maximum: 10 for the banking business and 20 for other businesses
Minor	Minors can be members.	Minors cannot be members.