FORMS OF BUSINESS ORGANIZATIONS

Forms of Business Organizations:

1. Sole proprietorship.
2. Hindu-Undivided Family Business
3. Partnership.
5. Joint Stock Company.
4. Cooperative Society.

SOLE PROPRIETORSHIP:

A kind of commercial organization in which an individual owns, manages, and controls the company and bears all of its risks and rewards.

Features of Sole Proprietorship

1. Easy formation and closure.
2. Unlimited Liability
3. Sole Risk Taker and Profit Recipient
4. Full control
5. No Separate Entity.
6. Lack of business continuity.

Benefits of Sole Proprietorship

1. Quick Decision Making.
2. Ensuring information confidentiality
3. Offering direct incentives
4. Sense of accomplishment.
5. Ease of formation and closure.

Limitations of a sole proprietorship

1. Limited resources

2. Limited lifespan of a business concern

3. Unlimited Liability

4. Limited managerial abilities.

HINDU UNDIVIDED FAMILY BUSINESSES:

It refers to a type of organisation in which the firm is owned and operated by members of the Hindu Undivided Family. There are two methods of inheritance under Hindu law:

(i) Dayabhaga System

(ii) Mitakashara System.

Features of the Hindu Undivided Family Business

1. Formation controlled by the Hindu Succession Act of 1956.
2. Members have limited liability except for Karta.
3. Karta controls and manages the organization.
4. Business continuity and stability.
5. Minors can become members.

PARTNERSHIP

According to the Indian Partnership Act of 1932, a partnership is a relationship between individuals who have agreed to share the profits of a business carried on by all or any one of them acting on behalf of all.

Features of Partnership

1. Formation through a partnership agreement
2. Unlimited Liability
3. Risk and profit in an agreed-upon ratio.
4. Decision-making and Control by Partners
5. Less stable (a partnership is dissolved upon death, retirement, or insolvency).
6. Minimum 2 couples, maximum 50
7. Mutual Agency.

Benefits of Partnering

1. Easy formation and sealing
2. Balanced Decision-making
3. More Funds
5. Keeps the secret.
4. Sharing Risks

Partnership limitations

1. Liability is unlimited.
2. Limited Resources
3. The possibility of conflicts
4. A lack of continuity.
5. Lack of public trust.

Types of Partners

1. Active or working partner.
2. Sleeping or Dormant Partner
3. Secret Partner
4. Nominal Partner
5. Estoppel Partner.
6. Partner by Holding Out

Types of Partnership

Partnership businesses can be characterized in two ways.

1. Classification according to duration: Partnerships may be classed based on its duration into two types:

   (a) Partnership at Will and

   (b) Particular Partnership.

2. <u>Liability Classification:</u> Partnerships can be divided into two types:
   (a) General Partnerships
   (b) Limited Partnerships based on partner liability.

Partnership Deed:

The written agreement describes the terms and conditions of the collaboration.

Registration of Partnership Firms:

It entails putting the firm's name and the required specified particulars into the Register of Firms managed by the Registrar of Firms. Registration is optional for a partnership business, however not registering deprives the firm of a variety of benefits.

Steps for Registration of Partnership Firm:

The method for registering a firm is as follows:

1. Submit an application to the Registrar of Firms with all required data and signatures from all partners.
2. Pay the requisite fees with the Registrar of Firms.
3. The Registrar will issue the certificate of registration (if satisfied).

COOPERATIVE SOCIETY

A cooperative society is a voluntary group of people who work together for the benefit of its members.

Features of Cooperative Society

1. Voluntary membership.
2. Separate Legal Entity
3. Limited Liability
4. Control over Democratic pattern
5. Service Motive.

Benefits of Cooperative Society

1. Equality of voting status
2. Limited Liability
3. Stable existence
4. Economic operations
5. Governmental support

Limitations of the Cooperative Society

1. Limited resources.
2. Ineffective management
3. Lack of confidentiality
4. Government Control.
5. Differences in Opinion
6. Ease of Formation

Types of Cooperative Societies

1. **customers' Cooperative Societies:** They are founded by customers to purchase high-quality items at economical rates.
2. **Producers' Cooperative Societies:** Small-scale producers create cooperatives to get inputs for production and compete with larger-scale producers.
3. **Marketing Cooperative Societies:** These are founded by small independent producers to sell their products through a single centralized agency.
4. **Farmers' Cooperative Societies:** Farmers organize cooperatives to benefit from large-scale farming and increase production.
5. **Credit Cooperative Societies:** They are founded to give short-term financial support to its members.
6. **Cooperative Housing Societies:** These organizations bring together individuals seeking affordable housing options.

JOINT STOCK COMPANY

A joint stock company is an organization of people created for the purpose of conducting business and has a legal standing separate from its members. It is controlled by the Companies Act.

Features of the Joint Stock Company

1. Artificial person.
2. Separate Legal Entity
3. Difficult formation process with mandatory registration 4. Perpetual succession
5. Ownership and administration are separate
6. There is limited liability
7. A common seal is used
8. Risk Bearing
9. Transfer of shares

Advantages of Joint Stock Company

1. Limited Liability.
2. Transfer of Interest
3. Permanent Existence
4. Scope of Expansion
5. Professional Management.

Limitations of Joint Stock Companies

1. Complexity in formation
2. Lack of secrecy
3. An impersonal work environment.
4. Numerous regulations.
5. Delays in decision-making
6. Oligarchical management
7. Conflict of Interests

Company categories: A company may be classified into three categories based on its ownership structure:

(i)one-person,

(ii) private, and

(iii) public.

1. **One Person Company:** A company with only one member.
   - Only natural persons who are Indian citizens and residents in India are eligible to incorporate OPC.
   - In rare situations, the OPC may be required to change into a public or private business.

2. **Private Companies:** A private company is one that
   - Members do not transfer their shares.
   - The minimum number of members is two, and the highest is 200.
   - The general public is not invited to subscribe for shares.
   - 'Private Limited' appears after its name.

3. **Public Company** A public firm is one that
   - The minimum number of members is seven, and there is no maximum number of members.
   - The general public might be asked to subscribe for shares.
   - Members may transfer their shares.

CHOICE OF TYPE OF BUSINESS ORGANIZATION: When selecting an acceptable type of organization, consider the following factors:

1. Cost and Ease of Setting Up Organization

2. Liability.

3. Continuity

4. Management Skills
5. Capital considerations.
6. Degree of Control.
7. Nature of Business

STAGES IN FORMING A COMPANY: The establishment of a corporation consists of the following three stages:

1. Promotion.
2. Incorporation
3. Capital Subscription.

These three phases are crucial to the creation of a public limited corporation. For a private limited business, just the first two phases are required.

1. Promotion

The promotion stage comprises all procedures, from identifying a business opportunity to forming the firm. Promoter performs all of the responsibilities throughout the promotion stage.

Promoter

A person who develops the concept for beginning a business, investigates its feasibility, gathers various resources, prepares relevant documentation, and does other actions required to launch the firm.

I. **Functions of a Promoter (Steps in Promotion Stage)**

(a) Identification of Business Opportunities

(b) Feasibility Studies: The following feasibility studies might be conducted:

(i) Technical feasibility.

(ii) Financial feasibility.

(iii) Economic feasibility.

(c) Name Approval

(d) Organizing Signatories to the Memorandum of Association

(e) Appointment of professionals

(f) Preparation of the necessary documents.

II. **Memorandum of Association**

The Memorandum of Association serves as the company's charter, containing the company's authorities and objectives as well as defining its area of operation.

Contents of the Memorandum of Association: The Memorandum must have the following clauses:

(a) The Name Clause: It includes the name of the firm by which it shall be identified.

(b) Registered Office Clause: Specifies the preferred state for the company's registered office.

(c) The Objects Clause: outlines the purpose for why the organization was created. It is then separated into two sub-clauses:

(i) The primary objects

(ii) other objects.

(d) obligation Clause: Members' obligation is restricted to the unpaid amount on their shares.

(e) Capital Clause: It establishes the maximum capital that the corporation may raise via the issuance of shares.

(f) Association provision: In this provision, signatories to the Memorandum express their desire to be linked with the firm and consent to the acquisition of qualifying shares.

III. **Articles of Association**

This document comprises the rules and regulations that govern the company's internal management. It is subordinate to the Memorandum of Association and cannot include any powers expressly banned or excluded by the Memorandum.

2. Incorporation of Company

Incorporation of a business refers to its registration under the Companies Act, 2013 or preceding business Law. This second stage consists of the following steps:

I. **Document Filing**: An application to the Registrar for incorporation must be accompanied by the papers listed below:

(i) Memorandum of Association

(ii) Articles of Association or Statement in Lieu of Prospectus (for public limited companies utilizing Table F)

(iii) prospective directors' written consent

(iv) Agreement with prospective Managing Director or Manager (if applicable).

(v) Registrar's approval letter for business name

(vi) Statutory Declaration

(vii) Notice of registered office address.

II. **Fee Payment:** In addition to the foregoing papers, any applicable fees must be paid.

III. **Certificate of Incorporation**: Once satisfied, the Registrar issues the Certificate of Incorporation. A certificate is indisputable evidence of the regularity of a company's establishment, regardless of any deficiencies in registration.

3. Capital Subscription:

During this stage, public companies must take the following actions to raise capital from the public:

1. SEBI approval.
2. Submission of Prospectus or Statement in Lieu of Prospectus

3. The appointment of bankers, brokers, and underwriters
4. Minimum Subscription.
5. Application to the Stock Exchange

FACTORS BEFORE STARTING A BUSINESS

1. Choose a kind of business
2. Determine firm size
3. Choice of Ownership Structure
4. Location of Business Enterprise
5. Funding the Proposition
6. Facilities
7. Plant Layout
8. Skilled and committed workforce
9. Tax Planning
10. Launching the Enterprise