**UNIT-IV**

**TYPES OF BUSINESS ORGANIZATIONS**

**Introduction:**

Imagine you want to do business, which business is you interested and other various alternatives should be known. The other alternatives for the considering of business are as follows**.**

**→** You can buy and sell.

→ You can setup a small medium/large industry.

→ You can develop software.

→ You can be a consultant**.**

If you choose any one (or) more of the above you have chosen the line of activity. The next step for you is to decide whether

→ you want to be the only owner.

→ you want to take some more professionals as co-owners along with you.

→ you want to involve government in the IT business.

**FORMS OF BUSINESS ORGANISATION**: The following are the forms of business organization based on ownership.

* **SOLE TRADER (OR) SOLE PROPRIETORSHIP**
* **PARTNERSHIP**
* **JOINT STOCK COMPANY**
* **PUBLIC ENTERPRISES**

**SOLE TRADER**

The sole trader is the simplest, oldest & natural form of business organization. It is also called sole proprietorship “sole” means one “sole trader” impels that there is only one trader who is the owner of the business. It is a one-man form of organization where the trader has to bear the all risks and responsibilities. He has total operations freedom. He is the owner, manger and controller; he need not discuss this with anybody.

E.g.: restaurants, supermarkets, medical shops etc…..

**Features**:

→it is easy to start a business under from & also easy to close.

→ He introduces his own concept.

→ He enjoys all the profits and also the losses.

→ He can be directly in touch with the customers.

**Evaluation of Sole trader**

**Advantages**:

* **Easy to start & easy to close:** Formation of sole trader of organization is relatively easy. Even closing the business is easy.
* **Personal contact with customers directly:** Based on the tastes and preferences of the customers, the stocks can be maintaining.
* **Prompt decision making:** To improve the quality (or) service to customers, he can take any decision and implement the same promptly. He is the boss and he is responsible for his business.
* **Secrecy:** Business secrets can well be maintained because there is only one trader.
* **Low rate of taxation:** The rate of income tax for sole traders is relatively very low.
* **Total control:** the ownership, management & control are the hands of the sole trader and hence it is easy to maintain the hold on business.

**Disadvantages:**

* Unlimited liability
* No division of labor
* Uncertainty
* Lack of specialization
* Limited amounts of capital

**PARTNERSHIP**

Partnership is an important form of sole trader in certain respects. Where there are no. Of persons with resources they can come together to do the business and share the profits/losses of the business in an agreed ratio. The relationship among partners is called a partnership. Indian partnership act 1932 defines partnership as the relationship between two (or) more persons who agree to share the profit of the business carried out their functions.

**Features**:

* **Relationship:** partnership is a relationship among persons. It is a relationship resulting out of an agreement**.**
* **Two (or) more persons:** there should be two (or) more number of persons.
* **There should be a business**: business should be conducted.
* **Agreement:** persons should be agreeing the share of profit/losses of the business.
* **Unlimited Liabilit**y: The liability of the partners is unlimited. The partnership and partners, in the eye of laws are not different but one and the same. The partners have to bring their personal assets to clear the losses of the firm.
* **Number of Partners:** according to the Indian partnership act, the minimum number of partners should be two and the maximum number is restricted as, in case of **banking business** they should be **10 partners**, in case of **non banking business 20 partners**
* **Transfer ability of share/interest:** the partners cannot transfer their share/interest in partnership in the firm to others without consulting the other partners.

**Advantages:**

* **Easy to form**: once there is a group of likeminded persons and business proposal, it is easy to start & register a partnership.
* **Availability of large amount of capital**: more amount of capital can be raised from more number of partners.
* **Division of labor**: the different partners came with varied backgrounds and skills. This facilities division of labor.
* **Quick decisions and prompt actions**: if there is a concern among partners, it is enough to implements any decisions & initiates prompt actions.
* **Tax rate**: when compared to company form, the tax rate is low, then the company in (something has to be writing here).

**Disadvantages:**

* **Formation of partnership is difficult**: only well known persons can start a partnership. A sentence is there that “it is easy to find a life partner but not a business partner”.
* **Instability**: the partnership form is known its instability. The firm may be dissolved on insolvency (or) insanity of the partners.
* **High tax rate**: when compared to the sole trader the tax rate is higher.
* **Unlimited Liability**

**Rights of the Partners**

→To take part in the management of business.

→to express his opinion.

→to share equally the profits as per in the agreement mentions.

→to receive interest on loans, if any, extended to the firm.

**Kinds of partners:**

* **Active partner:** It takes active part in the affairs of the partnership. He is also called working partner.
* **Sleeping partner:** It contributes to capital but does not take part in the affairs of the partnership.
* **Nominal partner:** This type of partner is just for namesake. He neither contributes to capital nor takes part in the affairs business. Nominal partners are those who have good business connections and as well placed in the society.
* **Partner by Estoppels:** Estoppels means behavior (or) conduct. It gives an impression to outsiders that he is the partner in the firm. The neither of the contributes to capital. Nor takes any role in the affairs of the partnership. Partner by estoppels is held liable for the claims.
* **Minor partner:** Minor has a special status in the partnership. A minor can be admitted for the business of the firm. After getting majority, the minor is free to continue as partner to server his relations with the firm.

**JOINT STOCK COMPANY**

The joint stock company emerges from the limitations of partnership such as joint& several liabilities, unlimited liability limited resources and uncertain duration & so on.

The system of Joint Stock Company has been very useful for larger undertakings which require huge capital. Here the capital is divided into certain units. Each unit is called a share. The price of each share is kept so low that even a common man can find it comfortable to pick up it.

The word company has a Latin origin **COM** means “**come together**”, **PANY** means ‘**bread**’. Joint stock company means, people come together to earn their livelihood by investing in the stock of the company. Section 3(1) of the campiness act 1956 defines a company. As a company formed and registered under the act (or) an existing company.

**Features:**

* Artificial **Person:** The Company has no form (or) shape. It is an artificial person created by slow.
* **Capital is directed into shares:** The total capital is defined into a certain number of units. Each unit is called share.
* **Transferability of shares:** In the company the shares can be transferred from one person to the other. It share holder of a public company can sell his holdings of shares at his will. Where, the **shares of a private company cannot be transferred. A private company restricts the transferability of the shares.**

**Advantages:**

* **Separate legal entity:** The Company has separate legal entity. It is registered under Indian company’s act 1956**.**
* **Liquidity of investments:** By providing the transferability of shares, shares can be converted into cash.
* **Transferability of shares:** The shares can be transferred to others. However, the private company shares cannot be transferred.
* **Institutional confidence:** Financial institutions prefer to deal companies in view of their professionalism & financial strengths**.**
* **Limited liability:** the condition by which shareholders are legally responsible for the debts of a company only to the extent of the nominal value of their shares.
* **High profits:**

**Disadvantages:**

* Formation of company is a long drawn procedure.
* High degree of government interference.
* Lack of initiative.
* Lack of responsibility and commitment
* Conflicting interests
* High taxes
* Delay in decision making

**PUBLIC ENTERPRISES**

**Introduction:**

It occupies an important position in the Indian economy. Public enterprises provide the substance and heart of the economy**.**

**Need for public enterprise:** The industrial policy resolution 1956 states the need for promoting public enterprises as follows:

1. To accelerate the rate of economic growth by planned development.
2. To increase infrastructural facilities.
3. To increase the opportunities of gainful employment.
4. To help in raising the standards of living**.**

**Forms of public enterprise:** public enterprises can be classified into three forms:

* Departmental undertaking.
* Public corporation.
* Government Company.

**DEPARTMENTAL UNDERTAKING**

this is the earliest form of public enterprise. The affairs of public enterprise are carried out under the overall control of one of the departments of the govt. the government appoints a managing director (normally a civil servant) for the departmental undertaking. He will be given the executive authority to take necessary decisions. E.g.: For departmental undertakings are railways, department of posts, Door Darshan & so on…..

**Features:**

1. Under the control of government department.
2. More financial freedom.
3. Like any other government department.
4. Budget, accounting and audit controls**.**

**Advantages:**

1. Effective control.
2. Responsible executives.
3. Adds to government revenue.

**Disadvantages:**

1. Decisions delayed.
2. Slow response to market condition.
3. Incidence of more taxes.

**PUBLIC CORPORATION**

The rout line government administration would not be able to cope up with the demand of its business enterprise. The government of India, in 1948 decided to organize some of its enterprises as statutory corporations.

Industrial finance corporation, employee’s state insurance corporation were setup in 1948. Public corporation is a right mix of public owner ship, public accountability and business management for public ends.

**Definition:** A Public corporation is defined as a “body corporate created by an act of parliament or legislature and notified by the name in official gazette of the central or state government. E.g. LIC of India, I.F.C.I, unit trust of India.

**Features:**

1. A body corporate.
2. More freedom in day-to-day operations.
3. Freedom regarding personnel.
4. Commercial audit**.**

**Advantages:**

1. Public interests protected.
2. Employee friendly work environment.
3. Competitive prices.
4. Economics of scale.
5. Public accountabilit**y.**

**Disadvantages:**

* 1. Continued political interference.
  2. Burden for government**.**

**GOVERNMENT COMPANY**

According to section 617 of Indian companies act defines a government company has “any company in which not less than 51% paid up share capital is held by the state or central government**.**

**Features:**

1. Like any other registered company.
2. Share holding.
3. Directors are nominated.
4. Subject to ministerial control**.**

**Advantages:**

* 1. Formation is easy.
  2. Separate legal entity.
  3. Ability to complete**.**
  4. Quick decisions & prompt actions**.**

**Disadvantages:**

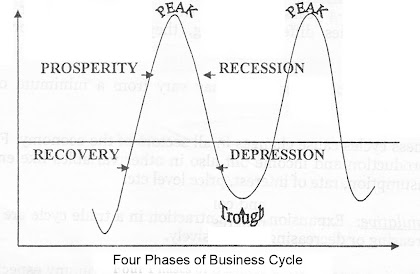
* 1. Continued political & government interference.
  2. Higher degree of government control.
  3. Divide loyalties**.**

**BUSINESS CYCLE**

**Introduction:**

Business Cycle is a part of the capital economic system. An economy never runs smooth. There are upwards swings and then down ward swings in business. The business cycle is associated with the fluctuations in economic activity such as production, prices, employment etc.

**Definition:** According to Fredric Benham “A trade cycle may be defines rather badly as a period of prosperity followed by a period of depression.

**Phases of Business Cycle**: The four phases of business cycles are shown in the following diagram:

The business cycle starts from a trough (lower point) and passes through a recovery phase followed by a period of expansion (upper turning point) and prosperity. After the peak point is reached there is a declining phase of recession followed by a depression. Again the business cycle continues similarly with ups and downs

**Explanation of Four Phases of Business Cycle**

**1. Depression Phase**: When there is a continuous decrease of output, income, employment, prices and profits, there is a fall in the standard of living and depression sets in.

**The features of depression** **are:**

* Fall in volume of output and trade.
* Fall in income and rise in unemployment.
* Decline in consumption and demand.
* Fall in interest rate.
* Deflation.
* Contraction of bank credit.
* Overall business pessimism.

Fall in MEC (Marginal efficiency of capital) and investment.

In depression, there is under-utilization of resources and fall in GNP (Gross National Product). The aggregate economic activity is at the lowest, causing a decline in prices and profits until the economy reaches its Trough (low point).

**2. Recovery Phase:** The turning point from depression to expansion is termed as Recovery or Revival Phase. During the period of revival or recovery, there are expansions and rise in economic activities. When demand starts rising, production increases and this causes an increase in investment. There is a steady rise in output, income, employment, prices and profits. The businessmen gain confidence and become optimistic (Positive). This increases investments. The stimulation of investment brings about the revival or recovery of the economy.

The banks expand credit, business expansion takes place and stock markets are activated. There is an increase in employment, production, income and aggregate demand, prices and profits start rising, and business expands. Revival slowly emerges into prosperity, and the business cycle is repeated. Thus we see that, during the expansionary or prosperity phase, there is inflation and during the contraction or depression phase, there is a deflation

.**3. Prosperity Phase:** When there is an expansion of output, income, employment, prices and profits, there is also a rise in the standard of living. This period is termed as Prosperity phase.

**The features of prosperity are**:

* High level of output and trade.
* High level of effective demand.
* High level of income and employment.
* Rising interest rates.
* Inflation.
* Large expansion of bank credit.
* Overall business optimism.

A high level of MEC (Marginal efficiency of capital) and investment. Due to full employment of resources, the level of production is Maximum and there is a rise in GNP (Gross National Product). Due to a high level of economic activity, it causes a rise in prices and profits. There is an upswing in the economic activity and economy reaches its Peak. This is also called as a Boom Period.

**4. Boom (Peak):** In this stage a rapid expansion in business activity to new marks resulting in high stocks and commodity prices, high profits and overall employments. Boom is a situation develops in which the number of jobs exceeds the number of workers available in the Market.

**5. Recession Phase:** The turning point from prosperity to depression is termed as Recession Phase. During a recession period, the economic activities slow down. When demand starts falling, the overproduction and future investment plans are also given up. There is a steady decline in the output, income, employment, prices and profits.

The businessmen lose confidence and become pessimistic (Negative). It reduces investment. The banks and the people try to get greater liquidity, so credit also contracts. Expansion of business stops, stock market falls. Orders are cancelled and people start losing their jobs. The increase in unemployment causes a sharp decline in income and aggregate demand. Generally, recession lasts for a short period.