Business Organization and Management-1
UB01FBVB01

Unit. 1 Nature & Scope of Business:

Concept of business

Introduction:-

Human Activities

1. Economic Activity :- Example- Business profession, Employment
2. Non Economic Activity :- Example- Daily Routine, Helping Friends, Parents

Distinction Between Economic and Non-Economic Activities:-

Basic of Distinction	Economic Activities	Non- Economic Activities
Objective	To earn money	To satisfy social and psychological needs
Expectation	Money income in expected	Money income is not expected
Basis	Based on rational considerations of cost and benefit	Based on sentiments and emotions
Resources	Involve proper allocation and use of economic resources	Optimum allocation and use of resources not essential
Examples	Business, Profession, Employment	Family oriented, religious, patriotic charitable

Business

Business refers to the **economic activities**, which are **connected with the production or the purchase or sale of goods or supply of services** with the **main objective of earning profit**.

People engaged in business earn income in the form of profit they make out of their venture

Profession

The profession **includes the activities.** which is a **requisite of special knowledge and skill** which is to be **applied by individual in their occupation**.

These activities are generally subject to the guidelines or codes of conduct laid down by the professional bodies. People who are engaged in professions are known as professionals.
Ex. Doctors, Chartered Accountants etc

Employment

Employment is the **occupation in which people work for others and get remuneration in return**.

Those who are employed by others are known as employees, and these employees are hired by the employers.

What is Business?

- Ordinary meaning of word business is busyness.
- Means being busy i.e., doing things
- An economic activity
- refers to an occupation in which people regularly engage in activities related to purchase, production and/or sale of goods and services with a view to earning profits.
- Example: Restaurant, school, HP. Dell. Amazon, Flipkart, Local shops, etc.
- Business starts with production and end with consumption.
- The work of production of good is covered under Industry and the remaining activities belong to commerce.
- Business may be define as an economic activity involving the production and sale of goods and services undertaken with a motive of earning profit by satisfying human needs in society.

Concept of Business:-

Concept is the idea or image or understanding about a thing, activity or a person that emerges in the mind of a person. According to the **Webster's New Collegiate Dictionary,** "A Concept is an abstract idea generalized from particular instances."

Business activity has been conceptualized by many business persons, business managers and academicians in the field of business management ever since business emerged as an organized activity. Therefore, the concept of business has changed over the years of history of business. By far the following concepts of business have emerged:

1. Profit oriented concept of business
2. Customer oriented concept of business
3. Societal or Modern concept of business

1. Profit Oriented Concept of Business:-

In the early age of the business, business was conceived to be a wealth producing or profit making economic activity. Any human activity directed towards the acquisition of wealth or earning profit through production and/or exchange of goods was treated to be a business. The profit- oriented concept is also known as **traditional concept of business.**

According to the old concept of business, business was conceived as, "The business of business is to do business." In those days the sole and exclusive objective of business was profit maximization at any cost. Amazing of wealth and economic power, even at the cost of social justice, was considered very important. Money-chasing was the primary aim of any economic activity. Hence, business was regarded as an end in itself.

The profit-oriented concept is founded on the following assumption:

I. **The sole objective of the business is to earn profit** by production and or distribution of goods.
II. Customers will **buy the products that are available in the market** as the most competitive rates.
III. There is **hardly any need to think for customer's services and satisfaction** for running a business.

This concept existed all over the world prior to the 1950s for the following reasons:

i. **Limited availability** of goods because the production was much smaller than the demand of the goods all over the goods all over the world.
ii. consequently, there was **a lack of competition** and hence no extra efforts were needed to do business.
iii. **Consumers even did not expect** much from business.

2. Customer Oriented Concept of Business

Customer-oriented concept began to come into existence around the 1950s and gained momentum during the 1960s and 1970s.

Around the 1950s, business organization began to think about customers' service and satisfaction. They started conceiving that business should be done for mutual benefits of both business organizations and customers. During the 1960s and 1970s more importance was attached to customers' services and satisfaction. Then business organization began to think that business should earn profits through service and satisfaction of the customers.

Movement went on and business organization were forced to regard customer as the king of the market. The customer-oriented concept is founded on the following assumption:

i. Business organization should **produce and provide the goods/services that are needed by the customers**,
ii. The products and services provided by the business should satisfy the needs of customers.
iii. The business should earn the profits through the services and satisfaction of customers.

The Concept emerged due to the following reasons:

i. **Production** of goods and services increased substantially.
ii. Many substitute product/ services came in market.
iii. In consequent of the above reasons, competition increased among the business organization.
iv. Consumer expectations began to grow more and more due to consumer movement.

3. Societal or Modern Concept of Business:-

During the 1980s, societal concept of business began to emerge. People began to criticise the customer-oriented concept of business. It was alleged that the customer-oriented concept laid emphasis only on profit through satisfaction of the customers but neglects the social responsibility of business.

The modern concept of business considers a business enterprises as a social and economic institution. Business is not and end but a valuable means to achieve an end. Human welfare and public good are considered very important according to the modern concept.

In brief, the modern concept of business consists of the following three aspects:

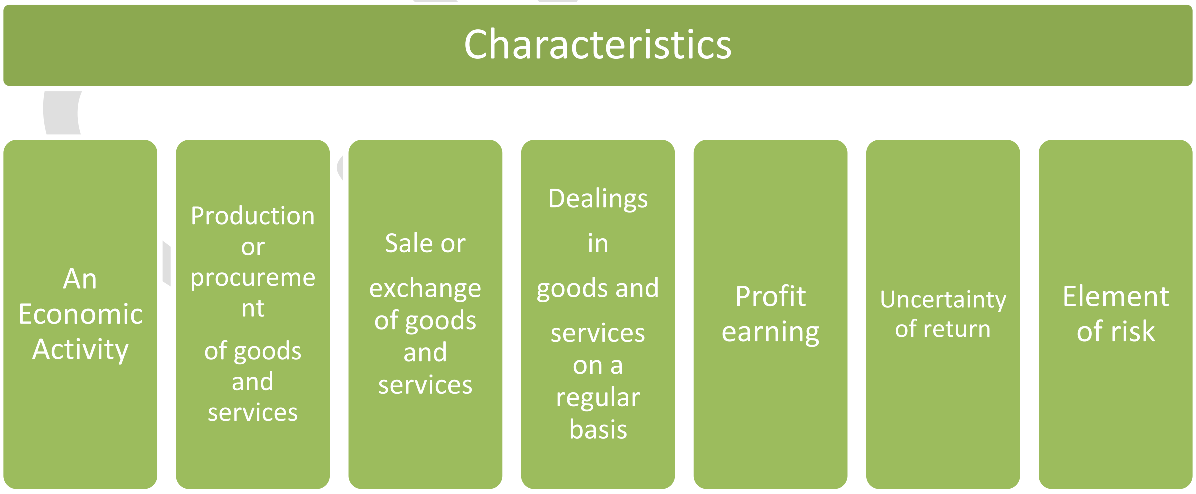
i. Business organization should find out the needs, wants and interest of their customers,
ii. Satisfaction of customer's needs and wants by providing goods and services,
iii. Improving the standard of living and quality of life of the members of the society.

The societal concept has emerged on account of the following reasons:

i. Better legal framework for customers protection.
ii. Emergence and development of environmentalism and legal framework for environment protection
iii. Professionalization of business management
iv. Adoption of the concept of social responsibility of business
v. Increasing competition due to globalised business
vi. Development of eco-friendly technology and products.

- **According to L.H.Haney,** "Business may be defined as human activity directed towards producing or acquiring wealth through buying and selling of goods."

Characteristics of business



1. An Economic Activity:

Business is undertaken with the objective of earning money or livelihood and not out of earning money or livelihood and not out of love, affection, sympathy or any other emotion.

2. **Production or procurement of goods and services**
   - Every business enterprise either manufactures the goods it deals in or acquires them from producers, to be further sold to consumers or users.
   - Goods may consist of consumable items of daily use, such as sugar, ghee, pen, notebook, etc., or capital goods, like machinery, furniture, etc. Services may include facilities offered to consumers, business firms and organizations in the form of transportation, banking, electricity, etc.
3. **Sale or exchange of goods and services**
   - Directly or indirectly, business involves transfer or exchange of goods and services for value.
   - If good are produced not for the purpose of sale but for personal consumption, it cannot be called a business activity.
4. **Dealing in goods and services on a regular basis**
   - Business involves dealing in goods or services on a regular basis.
   - One single transaction of sale or purchase, therefore, does not constitute business.
5. **Profit earning**
   - One of the main purpose of business is to earn income by way of profit. No business can survive for long without profit.
   - That is why, businessmen make all possible efforts to maximize profits, by increasing the volume of sales or reducing costs.
6. **Uncertainty of return**
   - Every business invests money (capital) to run its activities with the objective of earning profit.
   - But it is not certain as to what amount of profit will be earned.
   - Also, there is always a possibility of losses being incurred, despite the best efforts put into the business.
7. **Element of risk**
   - Risk is the uncertainty associated with an exposure to loss. It is caused by some unfavorable or undesirable event.

Classification of business activities

❖ **Understanding the Types of Business Activities**

The business activities are classified into three different types namely operating activity, investing activity, and financing activity. Let us discuss the three types of business activities briefly:

- **Operating Activities:** Operating activities refer to all those business activities that are directly or indirectly related to the provision of goods and services. As such they have a direct impact on cash flow, and eventually on income.

- **Investing Activities:** Investing activities refers to all those activities that aimed to be capitalized for more than a year. This includes capital expenditure such as purchase of long term assets or real estate.

- **Financing Activities:** Financing activities refer to all those activities that fund the business but are not directly related to the revenues from goods and services. Common financing activities include bonds, loans, and share issues.

Classification of Business Activities

The business activities are broadly classified into two categories namely:

1. Industry
2. Commerce.

Let us have brief information about both the terms.

1. Industry

The industry sector is defined as a sector where raw material gets transformed into beneficial products. An industry may create capital goods or consumer goods such as cloth, radio, bread, butter, etc. The industry can be classified into three categories namely:

1. Primary Industry
2. Secondary Industry
3. Tertiary Industry

Let Us Understand Briefly About the Three Types of Industries:

1. Primary Industry

Primary industry is known as extractive industries. It involves activity connected with the production of wealth directly from natural resources such as water, air, land, etc. The primary sector involves activities like processing and extraction of natural resources etc. These primary industries are further divided as:

- **Extractive Industry:** Industries that draw out or extract products from natural sources are known as Extractive Industry. Some of the examples of extractive industries involve lumbering, farming, mining, hunting, and fishing operations.
- **Genetic Industry:** The industries that involve the ventures of breeding and rearing of living organisms, such as plants, birds, animals, etc. are known as genetic industry. For example, rearing of cattle dairy farms or rearing of plants in the nursery is covered in the genetic industry.

2. Secondary Industry

The industry that uses raw materials as input and produces finished products as output is known as the secondary industry. Secondary industries are divided into two parts:

- **Manufacturing Industries:** These industries are involved in the process of transformation of semi-finished goods or raw materials into finished goods.
- **Construction Industries:** These industries are involved with the construction of dams, roads, buildings, etc. These industries use the commodities of manufacturing industries such as iron and steel, cement or lime.

3. Tertiary industry

Tertiary industries are regarded as providing services that promote the flow of services and goods. This industry helps in the actions of the primary and secondary sectors.

2. Commerce

Commerce refers to the sum total of all the activities related to the placing of products before the ultimate consumers. It provides a significant link between the producer and consumers of goods. The term " commerce" is defined as an activity that aims to remove the hindrance in the process of exchange. Commerce includes all those business activities which are related to the sale and purchase of goods and services and facilitate their availability for consumption and use through trade, banking, insurance,and warehousing. Commerce is classified into two different categories namely:

A. Trade

B. Auxiliary to trade

A. Trade

Trade is an essential part of commerce. It involves selling and buying goods and services. There are two types of trades namely - Internal and External Trade.

- **Internal Trade:** It refers to the selling and buying of goods or services within the geographical contours of a country. Internal trade is also known as domestic trade or home trade. Internal trade is divided into two types: Retail trade and Wholesale trade.
- **External Trade:** External trade is referred to the selling and buying of goods or services beyond the geographical contours of the country. In external trade, the market is vast. External trade is of 3 types: export trade, import trade, and entrepot trade.

B. Auxiliary To Trade

In terms of business, the term "Auxiliary to Trade " refers to all those activities which provide support to performing activities related to trade and industry. In fact, the auxiliary to trade provides a facilitating base to industry and trade. Such activities include insurance, banking, warehousing, advertising, and communication.

Interrelationship between Industry, Commerce, Trade

Business= Trade + Commerce + Industry

1. **Trade**
   Process of buying and selling goods
   Domestic Trade
   International Trade
2. **Commerce**
   Facilities provided to help trade. Ex. Transporting, Financing, Storing
3. **Industry**

All processes responsible for the extraction and production of goods

Interrelationship Between Industry, Trade, and Commerce:-

The three branches namely Industry, Trade, and Commerce are associated with each other. Each branch is dependent upon the other for the achievement of the aims and objectives of the business.

For example, industry refers to the production of goods and services,
trade refers to the sale and purchase of products, and
commerce refers to the arrangement for their distribution.
Industry can only succeed if goods are marketed, and without the production of goods, trades and commerce are not possible. Hence, trade provides necessary support to both industry and commerce.

Therefore, industry, trade, and commerce are interrelated to each other and cannot be operated individually. Service facilities also provide necessary enhancement to trade.

Functions of business

The main objective of Business organization is to **earn profit**.
By fulfilling the need and wants of customer through **Product and Services**
This objectives is fulfilled by performing several functions.

1. **Production function**
   Plant location, Plant layout, Raw material, Production Planning and Control (PPC), TQM. Inventory Control, R&D etc.
2. **Marketing function (communication)**
   Related to distribution of goods and services like: Consumer survey, Advertising, Pricing, Promotion, etc.
   Gathering and analyzing market information, product designing and development, Standardization and grading, Packaging and labeling, Customer support service
3. **Finance function**
   - Availability of capital for the smooth run of the business
   - Proper utilization of available funds
   - Ensure the liquidity profitability and solvency of the business
   - Managing finance, Investment, Dividend, Working Capital etc.
4. **Personal (HR) function**
   HRP, Recruitment and selection, Training & Development, Performance Appraisal, IR, Benefits, Promotion, Transfer, Remuneration of employees, Provision for labor welfare etc.
5. **Other Function**
   Material management, Public relations, Office and legal work, after sales services etc

Unit. 2 Forms of business organization:

Sole proprietorship:

❖ Concept

A sole proprietorship is an unincorporated business that has just one owner who pays personal income tax on profits earned from the business. Many sole proprietors do business under their own names because creating a separate business or trade name isn't necessary.

Also referred to as a sole trader or a proprietorship, a sole proprietorship is the easiest type of business to establish or take apart, due to a lack of government regulation. As such, they are very popular among sole owners of businesses, individual self-contractors, and consultants. Most small businesses start as sole proprietorships and either stay that way or expand and transition to a limited liability entity or corporation.

KEY TAKEAWAYS

- A sole proprietorship is an unincorporated business with only one owner who pays personal income tax on profits earned.
- Sole proprietorships are easy to establish and dismantle due to a lack of government involvement, making them popular with small business owners and contractors.
- Most small businesses start as sole proprietorships and end up transitioning to a limited liability entity or corporation as the company grows.
- One of the main disadvantages of sole proprietorships is that they do not have any government protection, as they are not registered. This means that all liabilities extend from the business to the owner.
- Sole proprietors report their income and expenses on their personal tax returns and pay income and self-employment taxes on their profits.

Understanding a Sole Proprietorship

If you want to start a one-owner business, the simplest and fastest way is through a sole proprietorship. Sole proprietorship begins when you begin conducting business. It doesn't require filing federal or state forms and has few regulatory burdens, making it an ideal way for self-employed people to start out.

A sole proprietorship is very different from a corporation, a limited liability company (LLC), or a limited liability partnership (LLP), in that no separate legal entity is created. As a result, the business owner of a sole proprietorship is not exempt from liabilities incurred by the entity

For example, the debts of the sole proprietorship are also the debts of the owner. However, the profits of the sole proprietorship are also the profits of the owner, as all profits flow directly to the business owner.

A Sole proprietorship can be explained as a kind of business or an organization that is owned, controlled and operated by a single individual who is the sole beneficiary of all profits or loss, and responsible for all risks. It is a popular kind of business, especially suitable for small business at least for its initial years of operation. This type of businesses is usually a specialized service such as hair salons, beauty parlors, or small retail shops.

Definition of Sole Proprietorship:

- It is that type of business organization which is owned, managed and controlled by a single owner.
- The word "sole" means "only" and "proprietor" notes to "owner".
- A sole proprietor is the beneficiary of all profits.
- All risks are to be borne by the sole proprietor.
- The sole proprietor has unconditional and full control over its business.
- **Example:** *Beauty parlour, barbershop, general store and sweet shop run by a single owner.*

❖ Characteristics

1. Complete the command

As a sole proprietor, you own and control your whole firm. You are totally in command of a wide variety of company choices, from how your functions are managed to how you wish to expand your firm or spend your earnings, and you do not need to confer with the directors or shareholders of the company before making a decision.

2. Consistency

This connects to the previous point. A single trader is dependent on its owner since there is no legal separation between the individual and the firm. Depending on the owner's situation, such as illness, retirement, insolvency, or jail, the firm will cease to exist.

3. It is not a distinct legal entity

As a single proprietor, you and your firm are treated as one and the same. Because there is no independent legal identity, you will be held accountable for any transactions and acts in which your firm is involved.

4. Indefinite liability

Sole proprietors are fully liable for any business obligations. There is no maximum amount of debt for which a single trader is personally liable, and as a result, your assets may be confiscated to compensate for business losses.

5. Individual taxation

On taxable business earnings, you pay income tax rather than corporation tax. You must additionally register for GST if your company's annual revenue exceeds the existing GST level of ₹20 lakhs(for the fiscal year ending in 2021/22).

6. Privacy

As a sole trader, you have more privacy since you don't have to disclose your confidentiality reports to any government authority. Unlike private limited company directors, you are not obligated to disclose your firm's accounts or data on the Income Tax portal.

7. Few administrative and filing obligations

Operating as a sole proprietor requires little documentation. Sole traders are not obliged to file accounts or other papers with Companies House, save from your yearly Self Assessment tax return. Remember that you must still keep track of your company costs and income to file your tax returns.

❖ Merits

Some of the important merits of a sole proprietorship are as follows:

(1) Quick Decision Making

- A sole proprietor exercises his right in making business choices.
- It is easy for a sole trader to make decisions quickly, as he is the sole receiver of all the profits.
- There is no need to share profits with anyone because he is the only investor who has invested money in the business.

(2) Confidentiality of Information

- A sole proprietor has the authority to make his decisions regarding business activities.
- Since a sole owner is the only decision-maker of the business, he keeps all the business-related information confidential.
- Hence, a sole trader is not bound by law to bring out its accounts in the eye of the public.

(3) Direct Incentive

- A profit is a reward for bearing risk by the proprietor in its business.
- A sole proprietor is the only person who gains all the benefits arising from the business.
- Hence, getting profits motivates the sole proprietor to give more efforts to get more benefits and higher growth in the business.

(4) Sense of Accomplishment

- A small success of the business gives the feeling of fulfillment of goals of the business and he gets motivated.
- Hence, getting profits or long term benefits gives him a feeling of personal satisfaction.

❖ Demerits

Some of the primary limitations of a sole proprietorship are as follows:

(1) Limited Resources

- Resources of a sole proprietor are limited to his savings and borrowings from the relatives.
- Banks also hesitate or deny giving the long term loans or extend the limit of long term loans due to the weak financial position of the business.
- Lack of all these resources results in hindrance in the growth of the sole proprietorship business
- Above mentioned are the reason why the business generally remains small.

(2) Life of a Business Concern

- The owner and its business is the same entity and due to lack of successor or heir, the life of the business is limited.
- Due to death, insolvency, illness of a proprietor gives a detrimental impact on the business which results in closure of the business.

(3) Unlimited Liability

- The major demerit of a sole proprietorship is that the owner has unlimited liability.
- If the sole owner becomes fails to pay the debts, due to the failure of a business, the creditors would not only claim from business assets but also from his personal estate.
- Taking a large amount of loan is too risky and also put the burden on the sole owner of the business.
- Hence, this is the reason why sole traders do not intend to take the risk for the survival and growth of the business.

(4) Limited Managerial Ability

- The sole proprietor has to accept all the responsibilities to carry out its business.
- Sometimes the proprietor has to perform all the managerial functions like sales, purchase, marketing, selling, dealings with clients, etc.
- He may not be able to employ and retain aspiring employees.

Partnership :

❖ Concept

What is Partnership?

A partnership is a kind of business where a formal agreement between two or more people is made who agree to be the co-owners, distribute responsibilities for running an organization and share the income or losses that the business generates.

In India, all the aspects and functions of the partnership are administered under 'The Indian Partnership Act 1932'. This specific law explains that partnership is an association between two or more individuals or parties who have accepted to share the profits generated from the business under the supervision of all the members or behalf of other members.

Indian Partnership Act 1932

Most of the businesses in India adopt a partnership business, so to monitor and govern such partnership The Indian Partnership Act was established on the 1st October 1932. Under this partnership act, an agreement is made between two or more persons who agrees to operate the business together and distribute the profits they gain from this business.

Different Kinds of Partners

1. **Active Partner-** A working or active partner takes part in daily operations and activities that take place within the business. Sometimes they draw remuneration as salary for their hard work.
2. **Dormant Partners-** Dormant partners only contribute capital to the firm and enjoy his/her share of profit without participating in business affairs. However, like other partners, they have liabilities to business.
3. **Partner in Profit Only-** This kind of partners venture into Partnership on the condition that they shall only get a portion of the profit of the firm but they will not be entitled to compensate for any loss of it. Mostly, these partners contribute their goodwill and reputation to the company.
4. **Limited Partner-** Unlike an Active partner, this partner’s endowment is limited to the sum of his/her investment.
5. **Secret Partner-** As the name suggests, this partner does not want to reveal himself/herself. However, the rights of these partners are equal to any other partner of Partnership.

The possibilities and opportunities are, therefore, immense for partnership firms to expand its horizon with the best bunch of professional partners associated.

Partnership Examples:

Few co-branding partnership examples are listed below:

- Red Bull and GoPro
- Spotify and Uber
- Levi’s & Pinterest
- Maruti Suzuki
- Hindustan Petroleum

❖ Characteristics

A few distinct characteristics of partnerships are mentioned below:

- **Agreement-** Partners, who decide to start this business, have to make a formal mutual contract between them. This agreement is usually written following the norms of government act.
- **Number of Partners-** According to section 11 of Indian Parliament Act 1932, the maximum number would be 10 for a banking Partnership business. Furthermore, this number rises to 20 for other Partnership businesses.
- **Share of Profit-** One of the primary features of Partnership is to make and share the profit among the partners as per agreed ratios. However, the income will be distributed equally if there's no clause mentioned in the agreement about the same.
- **Liabilities-** In general partnerships, all the partners are subjected to liabilities. It means all of them are collectively responsible for recovering all debts of the firm, even if they have to liquidate their personal assets.
- **Non-Transferability of Interest-** By any means, a partner cannot shift his/her interest from existing firm to others. There is a strict restriction upon inclusion and retirement of the partners. Even a minor change in the ownership of a business has to make with the consent of the other members involved in Partnership.

❖ Types

A partnership is divided into different types depending on the state and where the business operates. Here are some general aspects of the three most common types of partnerships.

- **General Partnership**

A general partnership comprises two or more owners to run a business. In this partnership, each partner represents the firm with equal right. All partners can participate in management activities, decision making, and have the right to control the business. Similarly, profits, debts, and liabilities are equally shared and divided equally.

In other words, the general partnership definition can be stated as those partnerships where rights and responsibilities are shared equally in terms of management and decision making. Each partner should take full responsibility for the debts and liability incurred by the other partner. If one partner is sued, all the other partners are considered accountable. The creditor or court will hold the partner's personal assets. Therefore, most of the partners do not opt for this partnership.

- **Limited Partnership**

In this partnership, includes both the general and limited partners. The general partner has unlimited liability, manages the business and the other limited partners. Limited partners have limited control over the business (limited to his investment). They are not associated with the everyday operations of the firm.

In most of the cases, the limited partners only invest and take a profit share. They do not have any interest in participating in management or decision making. This non-involvement means they do not have the right to compensate the partnership losses from their income tax return.

You might also want to know: Different modes of reconstitution of Partnership Firm

- **Limited Liability Partnership**

In Limited Liability Partnership (LLP), all the partners have limited liability. Each partner is guarded against other partners legal and financial mistakes. A limited liability partnership is almost similar to a Limited Liability Company (LLC) but different from a limited partnership or a general partnership.

- **Partnership at Will**

Partnership at Will can be defined as when there is no clause mentioned about the expiration of a partnership firm. Under section 7 of the Indian Partnership Act 1932, the two conditions that have to be fulfilled by a firm to become a Partnership at Will are:

- The partnership agreement should have not any fixed expiration date.
- No particular determination of the partnership should be mentioned.

Therefore, if the duration and determination are mentioned in the agreement, then it is not a partnership at will. Also, initially, if the firm had a fixed expiration date, but the operation of the firm continues beyond the mentioned date that it will be considered as a partnership at will.

❖ Advantages

- **Easy Formation –** An agreement can be made oral or printed as an agreement to enter as a partner and establish a firm.

- **Large Resources –** Unlike sole proprietor where every contribution is made by one person, in partnership, partners of the firm can contribute more capital and other resources as required.

- **Flexibility –** The partners can initiate any changes if they think it is required to meet the desired result or change circumstances.

- **Sharing Risk –** All loss incurred by the firm is equally distributed amongst each partner.

- **Combination of different skills –** The partnership firm has the advantage of knowledge, skill, experience and talents of different partners.

❖ Disadvantages

Just like the coin has a flip side, there are also demerits for partnership. A few of them are mentioned below:

- Disagreement from partners on the ideas and discussions can cause losing growth opportunities.
- The vision of the firm may be entitled just to the founder. However, a partner will not be following the same.
- Having no co-operation.
- Exiting the firm environment work culture after taking away the profit obtained so far.

Joints Stock Company :

❖ Concept

A joint stock company is an organization which is owned jointly by all its shareholders. Here, all the stakeholders have a specific portion of stock owned, usually displayed as a share.

Each joint stock company share is transferable, and if the company is public, then its shares are marketed on registered stock exchanges. Private joint stock company shares can be transferred from one party to another party. However, the transfer is limited by agreement and family members.

Few examples are mentioned below.

- Indian Oil Corporation Ltd.
- Tata Motors Ltd.
- Reliance Industries Ltd.

❖ Features

1. **Separate Legal Entity –** A joint stock company is an individual legal entity, apart from the persons involved. It can own assets and can because it is an entity it can sue or can be sued. Whereas a partnership or a sole proprietor, it has no such legal existence apart from the person involved in it. So the members of the joint stock company are not liable to the company and are not dependent on each other for business activities.
2. **Perpetual –** Once a firm is born, it can only be dissolved by the functioning of law. So, company life is not affected even if its member keeps changing.

3. **Number of Members –** For a public limited company, there can be an unlimited number of members but minimum being seven. For a private limited company, only two members. In general, a partnership firm cannot have more than 10 members in one business.
4. **Limited Liability –** In this type of company, the liability of the company's shareholders is limited. However, no member can liquidate the personal assets to pay the debts of a firm.
5. **Transferable share –** A company's shareholder without consulting can transfer his shares to others. Whereas, in a partnership firm without any approval of other partners, a partner cannot move his share.
6. **Incorporation –** For a firm to be accepted as an individual legal entity, it has to be incorporated. So, it is compulsory to register a firm under a joint stock company.

❖ Types of companies

The joint stock company is divided into three different types.

- **Chartered Company –** A firm incorporated by the king or the head of the state is known as a chartered company.
- **Statutory Company –** A company which is formed by a particular act of parliament is known as a statutory company. Here, all the power, object, right, and responsibility are all defined by the act.
- **Registered Company –** An organization that is formed by registering under the law of the company comes under a registered company.

❖ Advantages

Joint stock companies are a form of business that allow for more than one investor. This offers the advantage of having many sources to invest in the company, which can make the company more stable and secure. The shareholders have voting power on decisions made by the Board of Directors, so they have a say in how the company is run. Other advantages of Joint Stock Company are as follows:

- **Larger Capital –** With a joint-stock company, the capital of the company is divided up and sold to shareholders. This means that there is no limit on how much money can be raised. Unlike a corporation, there are also no restrictions on who can buy shares in the company.

- **Limited Liability –** With a joint-stock company, the shareholders have limited liability. The protection and responsibility of the company are divided between its shareholders. This means that if the company goes bankrupt and it can't pay off its debts, the shareholders are responsible for paying back only what they invested. Hence, they will not lose their personal assets like their home or car.

- **Economies of Scale –** Economies of scale refers to the cost advantages that a large company has over smaller companies. The larger the production, the lower the per-unit-cost will be. A joint stock company offers economies of scale to their shareholders. One of the main benefits is that it can provide a steady stream of capital for businesses with large investment requirements. The smoothing in the volatility of earnings, and the larger pool of shareholders also help to reduce risk for each shareholder.

- **Scope for Growth and Expansion –** Joint stock companies have the potential for growth and expansion that is not available to other types of corporations. People can purchase shares in a joint stock company with the expectation that the company will grow over time and make significant profits. The corporation's board of directors decides how much emphasis to put on growth, what sectors to expand into, where to invest, etc.

- **Increased Public Confidence –** A Joint Stock Company will have a board of directors who are responsible for the company and its shareholders. They must make decisions that benefit shareholders and not just ones that benefit themselves. There is a lower risk of fraud because records are more transparent and it is easier to prosecute crimes in this system.

- **Tax Benefits –** When a company is organised as a joint stock company, the shares of stock aren't taxed until they are sold. This type of organisation also needs less paperwork and is easier to enter into the market because the company's capital can be divided up among many investors.

- **Increased Accountability –** Shareholders now have a stake in the company, which means they will want to know that their investment is being used wisely. They can then vote on decisions, like whether to move the company's headquarters or divest from a certain product. This increased accountability improves decision-making and makes it easier to assess risks.

- **Easily Adaptable –** A joint stock company is a company that can be owned by anyone. This makes it very adaptable as the company doesn't need to worry about holding a specific type of stake or shares. The shareholders are able to hold as many stocks or shares as they want and can sell them at any time. If a shareholder buys more shares, then their percentage of the ownership increases.

❖ Disadvantages

Though a joint stock company has many advantages, it also has certain disadvantages. Some of the most prominent ones are as follows:

- **Difficult to Form –** Joint Stock Companies are difficult to form for a variety of reasons. One reason is that many individuals need to approve the company's formation. If even one person objects, the company cannot be formed. Moreover, there are a lot of legal issues that also need to be addressed.
- **Lack of Secrecy –** The company will have to disclose information about its operations, finances, and other sensitive matters because they are expected to be open and transparent with their shareholders. Another possible disadvantage is that it's easier for outsiders (or other competitors) to get insider information and privileges as they will have access to certain levels of information.
- **Delays in Decision Making –** One of the disadvantages of Joint Stock Company is that decision making is usually delayed. This can be seen in the case when there are people who are not willing to compromise on their ideas and it makes it difficult for them to make decisions. Another disadvantage of Joint Stock Company is that there is a high chance for internal conflict between the board members when interests are not aligned. Lastly, one more disadvantage is that decision making might be blocked by different levels of power within the company.
- **More Government Restrictions and regulations –** Joint Stock Companies are very restricted by the government. They can only be formed in certain circumstances and they have to go through a lot of paperwork and regulation before they are even able to operate. They also have to follow the same rules as any other Corporation, with limits on the amount of foreign investment allowed for example.

- **Immoral / Unethical Management –** Joint stock companies have numerous disadvantages, but the most notable is how unscrupulous management can control the company. The board of directors sets their own pay, and some managers are even able to take advantage of their employees in order to make more money for themselves. In addition, there are conflicts of interest between executives and shareholders. There is also a high risk of overvaluing company shares because they cannot be sold until they have been issued by the company.
- **Separation between Management and Ownership –** Joint stock companies have many disadvantages. One of the major disadvantages is that the owners don't often have a say in how their company is managed. Instead, a board of directors or other body decides on this for them. Sometimes, this can lead to mistakes being made that could be harmful for the company's success.

Cooperative society:

❖ Concept

There are different types of business organisations, one such form is of cooperative society. Cooperative societies are formed with the aim of helping their members. This type of business organisation is formed mainly by weaker sections of the society in order to prevent any type of exploitation from the economically stronger sections of the society.

Cooperative societies need to be registered under the Cooperative Societies Act, 1912 in order to function as a legal entity. Members of the society raise the capital within themselves.

❖ Characteristics

cooperative society are defined by the following characteristics.

1. Voluntary Association: The membership of a cooperative society is voluntary in nature, i.e it is as per the choice of people. Any individual can join the cooperative society and can also exit the membership as per his/her desire. The member needs to serve a notice before deciding to end the association with the society.

2. Open Membership: The membership of a cooperative society is open to all i.e, membership is open to all, irrespective of their caste, creed and religion.

3. Registration: A cooperative society needs to get registered in order to be considered a legal entity. After registration it can enter into contracts and acquire property in its name.

4. Limited liability: The members of a cooperative society will have limited liability. The liability is limited to the amount of capital contributed by the member.

5. Democratic Character: Cooperative society forms a managing committee and elected members have the power to vote and choose among themselves. The managing committee is formed so as to take important decisions regarding the operations of the society.

6. Service Motive: The formation of a cooperative society is for the welfare of the weaker sections of the community. If the cooperative society earns profit it will be shared among the members as dividend.

7. Under state control: In order to safeguard the interests of society members, the cooperative society is under the control and supervision of the state government. The society has to maintain accounts, which will be audited by an independent auditor.

❖ Distinction between cooperative and company

1. **Objectives:**

   There is a difference in basic objectives of cooperatives from companies. The basic objective of a cooperative organisation is to provide essential service for the benefit of members.

   On the other hand, a company is a business organisation with the objective of earning profit.

2. **Membership:**

   The membership of a cooperative society is generally drawn from a particular locality while the shareholders of a company are drawn from all over the country. The minimum number of members required for the registration of a cooperative is 10 while the Companies Act requires at least 7 persons for the formation of a public limited company and at least 2 persons for the formation of private limited company.

3. **Members' Liability:**

   The liability of members of a company is limited but the liability of the members of cooperative society is generally unlimited.

4. **Capital:**

   A cooperative society may or may not have share capital. A member cannot transfer the shares of the society. On the other hand, a company must have capital divided into shares by its shareholders. The shares of a company are freely transferable.

5. **Surplus:**

   In a company, the profits are distributed among members by way of dividend which varies according to the amount of capital by individual members. But a cooperative society does not distribute its profit according to the capital held by the shareholders. The surplus or profit earned by a cooperative is given away to the members on tine basis of the purchase made by them.