RAMA UNIVERSITY

www.ramauniversity.ac.in

FACULTY OF COMMERCE & MANAGEMENT

COURSE: BBA-DM 2nd SEMESTER

SUBJECT: BUSINESS ENVIRONMENT

SUBJECT CODE: BBA204

LECTURE: 9-10-11-12-13

NAME OF FACULTY: DR. H. L. BHASKAR

Lecture-9-10-11-12-13

Unit II

Government Policy on Industrial Location

The fundamental objective of government policy on location is to achieve balanced regional development of the economy through decentralization of industries, with a view to ensuring the following benefits:

1. Reduction of inequalities of income and wealth, in various regions

2. Provision of employment opportunities on an equitable basis.

3. Increase in the standard of living in backward areas through removal of poverty

4. Avoid over-concentration of industries in particular regions for strategic defence considerations

5. Controlling social problems like – development of slums, over-crowding, pollution, traffic-congestion etc.

Measures taken by government towards dispersal of industries are of two types:

(I) Positive measures, for encouraging location of industrial units in backward areas

(II) Negative measure, for restraining establishment of industrial units in over-concentrated areas.

Following is a brief account of positive and negative measures, of the government's policy on industrial location:

(I) Positive Measures:

(i) Provision of basic infrastructure and public utility services like – water, electricity, gas, transportation etc. in backward areas.

(ii) Provision of social services like education, health, entertainment, training etc. for development of backward regions.

(iii) Granting of direct subsidies (like supply of raw-materials and machinery at lower prices) and indirect subsidies (like reducing the cost of certain services to offset the influence of unfavorable factors), for industrial location in rural areas.

(iv) Granting of income-tax, sales-tax and excise duty exemptions to the units set up in backward areas.

(v) Public financial institutions to provide finance at low rates of interest to industrial units to be set up in 246 backward districts, specified by the government.

(vi) Assistance to the State Governments for the development of infrastructural facilities in 'no-industry districts' of their respective States.

(vii) Giving assurance by the government to purchase the products of industrial units established in backward areas.

(viii) Development of industrial estates in backward areas, to provide benefits of common services like land, power, water etc. to a large number of industrial units located in the industrial estate.

(ix) Setting up of growth centres throughout the country to attract industries to backward areas; each growth centre to be endowed with best possible infrastructural facilities like water, power, banking, telecommunications etc.

(II) Negative measures:

(i) Enhanced rates of local taxes in urban areas

(ii) Absolute prohibition to set up new industries in particular areas. Big industrial units shall not be set up within certain limits of big cities.

(iii) Not to allow establishment of chemical and other industries involving hazards to human life in populated areas; in view of Bhopal Gas Tragedy of 1984.

……………………………………………………………………………………………………..;

Forms of Business Organization: Sole Proprietorship, Partnership firm, Joint Hindu Family Firm, Joint Stock Company, Cooperative Organization

Form # 1. The Sole Proprietorship Concern:

The sole proprietorship is the least complex form of business enterprise. This form of business is owned by one individual who makes all the business decisions receives the profits that the business earns, and bears the financial responsibility for losses.

From this description, the simplicity of the individual proprietorship is apparent. Barring legal restrictions any individual can simply decide to go into business except in areas of enterprise where business licences are required. Such restrictions aside, the individual who has accumulated or borrowed sufficient funds to set up a business can do so. No legal work is required to set up a sole proprietorship, although the individual proprietor will often seek legal and accounting advice.

Once in business, the proprietor is responsible for all business decisions. The owner determines how many employees to hire, when they should be rewarded or penalised, what products to produce, how they are to be marketed. The owner need not seek any one's permission to make such decisions. The basic limitation upon decision-making is that the owner must observe the law and honour contracts. Otherwise, the owner is free to make wise or foolish decisions.

Advantages:

The first advantage of the sole proprietorship is that, decision-making authority is clear-cut; it resides with the owner who need not consult anyone.

The second advantage of the sole proprietorship is that the profits of the business enterprise are taxed only once. The individual proprietor will receive any profits that the business earns after meeting its expenses. The proprietor has to pay personal income taxes on these profits.

Disadvantages:

There are three basic disadvantages of the sole proprietorship:

1. Unlimited liability:

The first is that the owner must assume unlimited liability (responsibility) for the debts of the company. The owner enjoys the profit of the business if it is successful, but if the business suffers a loss, the owner is personally liable. If the company borrows money, purchases materials, and incurs other bills that it cannot cover out of its revenues, the owner must personally cover the losses. The owner stands to lose personal wealth accumulated over the years in paying off the debts of the company.

2. Limited capital:

The second disadvantage of the sole proprietorship is its limited ability to raise financial capital. This limitation makes it difficult for sole proprietorships are small businesses. Financial capital for the expansion of the company can be raised in several ways in the case of the sole proprietorship. The owner can choose to flow profits back into business.

The owner can use the personal wealth to invest in the company, or the owner can borrow money from relatives, friends, and lending institutions. The ability of the owner to borrow is determined by the owner’s earning capacity (which will depend upon the success of the business) and personal wealth.

Lending money to an individual proprietorship can be risky because the success of the business depends very much on one person, and if that person dies or becomes incapacitated, the lender will have to stand in the line with other creditors.

3. Non-permanence:

The third disadvantage is that the business will typically die with the owner. Since the firm does not have a permanent existence, it may be difficult to find reliable employees. In fact, most employees prefer to work in firms that will exist for long and thus offer employees bright carrier prospects.

Form # 2. Partnership:

A partnership is much like an individual proprietorship but with more than one owner.

A partnership is a business enterprise that is owned by two or more people (called partners) who make all the business decisions, who share the profits of the business, and who bear the financial responsibility for any losses.

Like the individual proprietorship, partnerships are easy to establish. Most partnerships are based upon an agreement that spells out the ownership of shares and duties of each partner. The partners may contribute different amounts of financial capital to the organisation; there may be an agreement on the division of responsibility for running the business.

One partner may make all the business decisions, while the other partner (a “silent partner”) may simply provide financial capital. A partnership can be a corner petrol pump owned by three friends or brothers or a nationally known law firm or brokerage house.

Advantages:

The advantages of partnerships are much like those of the sole proprietorship. Partnerships are easy to set up. The profits of the company accrue to the partners and are taxed only once as personal income.

1. Specialisation:

Unlike the sole proprietorship, however, there is a greater opportunity to specialise and divide managerial responsibility because the partnership consists of two or more individuals. The partner who is the better salesperson will be in charge of the sales department. The partner who is a talented mechanical engineer will be in charge of production. “Two heads are better than one”, when each has different talents that are useful to the business enterprise.

2. Large capital base:

Second a partnership can raise more financial capital than a sole proprietorship because the wealth and borrowing ability of more than one person can be mobilised. In fact, if a large number of wealthy partners can be assembled, such partnership can indeed raise huge sums of capital.

Disadvantages:

1. Limited capital:

The ability of the partnership to raise financial capital is limited by the amount of money the partners can raise out of their personal wealth or from borrowing.

2. Unlimited liability:

The partners have unlimited liability for the debts of the partnership. A business debt incurred by any of the partners is the responsibility of the partnership. Each partner stands to lose personal wealth if the company is a commercial failure. Clearly, a conflict in goals can arise because the richer partner may be more risk-averse than the poorer partner.

3. Complicated decision-making process:

“Two heads are better than one” if the two heads agree. But, if partners fail to agree, decision-making can become quite complicated. In a partnership where all partners are responsible for management decisions, there is no longer one single person who is in charge. Partnerships can be immobilised when partners disagree on a fundamental policy. Partnerships involve a more complicated decision-making process that can become more complicated as the number of partners grows.

4. Instability:

Partnerships can also be unstable. If disagreement over policy causes one partner to withdraw from the partnership, the partnership must be reorganised. When one partner dies, again the partnership agreement must be renegotiated.

5. Great risk:

Finally, partnerships can involve a considerable risk for the individual partners. The sole proprietor does bear unlimited liability for the debts of the company, but at least the owner is the one who makes the business decision that may turn out to be bad. In case of partnership, each partner is responsible for business debts incurred by another partner even if that partner acted without the consent of the other partners.

For this reason partnerships are often made up of family members, close relatives, and close personal friends, who have come to trust one another over the years Partnership with more partners would have a greater ability to raise capital. However, because additional partners complicate decision-making and increase the like-hood of an irresponsible act being committed by a partner, many partnerships have a limited number of partners.

Form # 3. Joint Hindu Family Firm:

Meaning of Joint Hindu Family Firm:

The Joint Hindu Family Firm/Business is the next non-corporate, group ownership distinct form of organisation operative in India. Joint Hindu Family Firm is created by the operation of law. It does not have any separate and distinct legal entity from that of its members.

The business of Joint Hindu Family is controlled under the Hindu Law instead of Partnership Act. In the Hindu Law, there are two schools: (i) Dayabhaga, which is applicable in Bengal and Assam; and (ii) Mitakshara, which is applicable in the rest of India.

The membership in this form of business organisation can be acquired only by birth or by marriage to a male person who is already a member of Joint Hindu Family.

“When two or more families agree to live and work together, throw their resources and labour with joint stock and share profits and the losses together, then this family is known as composite family.”

Characteristics of a Joint Hindu Family Business:

The main characteristics of Joint Hindu Family Business are given below:

1. Governed by Hindu Law:

The business of the Joint Hindu Family is controlled and managed under the Hindu law.

There are two schools of Hindu law:

(i) Dayabhaga, and

(ii) Mitakshara.

2. Management:

All the affairs of a Joint Hindu Family are controlled and managed by one person who is known as ‘Karta’ or ‘Manager’. The Karta is the senior most male member of the family. He works in consultation with other members of the family but ultimately he has a final say.

The members of the family have full faith and confidence in Karta. Only Karta is entitled to deal with outsiders. But other members can deal with outsiders only with the permission of Karta.

3. Membership by Birth:

The membership of the family can be acquired only by birth. As soon as a male child is born in family, he becomes a member. Membership requires no consent or agreement.

4. Liability:

Except the Karta, the liability of all other members is limited to their shares in the business. The Karta is not only liable to the extent of his share in the business but his separate property is equally attachable and amount of debt can be recovered from his separate property.

5. Permanent Existence:

The death, lunacy or insolvency of any member of the family does not affect the existence of the business of Joint Hindu Family. The family goes on doing its business.

6. Implied Authority of Karta:

In a joint family firm, only Karta has the implied authority to contract debts and pledge the credit and property of the firm for the ordinary purpose of the businesses of the firm.

7. Minor also a Partner:

In a partnership, minor cannot become co-partner though he may be admitted to the benefit of partnership. In a Joint Hindu Family firm minor is a partner.

8. Dissolution:

The Joint Hindu Family Business can be dissolved only at the will of all the members of the family. Any single member has no right to get the business dissolved.

Advantages of Joint Hindu Family Business:

The chief advantages of Joint Hindu Family Business are given below:

1. Easy to Start:

It is very easy to start the Joint Hindu Family Business. No legal formalities are required to be faced, such as registration. It requires no agreement.

2. Efficient Management:

The management of Joint Hindu Family Business is centralised in the hands of Karta of family. In this business, Karta takes all decisions and gets them implemented with the help of other member. No other member interferes in his management.

3. Secrecy: In Joint Hindu Family Business, all the decisions are taken by the 'Karta' himself. He is in a position to keep all the affairs to himself and maintains perfect secrecy in all matters.

4. Prompt Decision:

The Karta is the only person who exercises control and direction over the business. He may not consult anyone in taking decisions. This ensures prompt or quick decisions. Being the sole master, he takes prompt decisions and makes advantage of the opportunity.

5. Economy:

For the success of any business, economy is a must. It is well- balanced and maintained in Joint Hindu Family Business. The Karta of family spends money with great caution and economy.

6. Credit Facilities:

In Joint Hindu Family Business the credit facilities are more. One reason for this is that liability of the 'Karta' is unlimited. Karta is having personal relations with others, which are also helpful in raising credit.

7. Natural Love between Members:

In Joint Hindu Family Business, it is the natural love and affection which the members are having for each other. It helps to run the business more efficiently and smoothly.

8. Freedom regarding Selection of Business:

The Karta is at freedom to select any business of his choice. He has not to depend on others.

Disadvantages of Joint Hindu Family Business:

The disadvantages of Joint Hindu Family Business are given below:

1. Limited Membership:

The membership of the business is limited to the members of family only. No outsider can become the member of Joint Hindu Family Business.

2. Limited Sources of Capital:

The capital is limited only upto the resources of one family. This is not sufficient to meet the business requirements for expansion. Thus the size of the business remains small. The Karta cannot take the advantage of economies of large size due to limited finance.

3. Limited Managerial Skill:

All the managerial functions which are essential for the successful operation of a business are performed by the Karta of the family. The Karta may not be able to perform all managerial functions because of limitation of time, energy and skills. Because of limited scale of operations and financial resources, it may not be feasible to secure the services of experts in different fields like purchasing, production and marketing.

4. Unlimited Liability:

The liability of the Karta is unlimited. The Karta is not only liable to the extent of his share in the business but his separate property is equally attachable and amount of debt can be recovered from his separate property. This factor puts a ceiling on the growth and expansion of the business.

5. Misuse of Power:

The management of a Joint Hindu Family Business is centralised in the hands of Karta of the family. No other member can interfere in his management. This may lead to the misuse of power and the Karta may use the power for his personal interest.

Form # 4. Joint Stock Company:

With the growing needs of modern business, collection of vast financial and managerial resources became necessary. Proprietorship and partnership forms of ownership failed to meet these needs due to their limitations, e.g., unlimited liability, lack of continuity and limited resources.

The company form of business organisation was evolved to overcome these limitations. Joint stock company has become the dominant form of ownership for large scale enterprises because it enables collection of vast financial and managerial resources with provision for limited liability and continuity of operations.

A joint stock company is an incorporated and voluntary association of individuals with a distinctive name, perpetual succession, limited liability and common seal, and usually having a joint capital divided into transferable shares of a fixed value.

Chief Justice John Marshall of U.S.A defined a company in the famous Dartmouth College case as "an artificial being, invisible, intangible and existing only in contemplation of law; being the mere creature of law it possesses only those properties which the charter of its creation confers upon it, either expressly or as incidental to its very existence; and the most important of which are immortality and individuality.

"Thus, a company is an artificial legal person having an independent legal entity.

Merits of Company Organisation:

The company form of business ownership has become very popular in modern business on account of its several advantages:

1. Limited Liability:

Shareholders of a company are liable only to the extent of the face value of shares held by them. Their private property cannot be attached to pay the debts of the company. Thus, the risk is limited and known. This encourages people to invest their money in corporate securities and, therefore, contributes to the growth of the company form of ownership.

2. Large Financial Resources:

Company form of ownership enables the collection of huge financial resources. The capital of a company is divided into shares of small denominations so that people with small means can also buy them. Benefits of limited liability and transferability of shares attract investors. Different types of securities may be issued to attract various types of investors. There is no limit on the number of members in a public company.

3. Continuity:

A company enjoys uninterrupted business life. As a body corporate, it continues to exist even if all its members die or desert it. On account of its stable nature, a company is best suited for such types of business which require long periods of time to mature and develop.

4. Transferability of Shares:

A member of a public limited company can freely transfer his shares without the consent of other members. Shares of public companies are generally listed on a stock exchange so that people can easily buy and sell them. Facility of transfer of shares makes investment in company liquid and encourages investment of public savings into the corporate sector.

5. Professional Management:

Due to its large financial resources and continuity, a company can avail of the services of expert professional managers. Employment of professional managers having managerial skills and little financial stake results in higher efficiency and more adventurous management. Benefits of specialisation and bold management can be secured.

6. Scope for Growth and Expansion:

There is considerable scope for the expansion of business in a company. On account of its vast financial and managerial resources and limited liability, company form has immense potential for growth. With continuous expansion and growth, a company can reap various economies of large scale operations, which help to improve efficiency and reduce costs.

7. Public Confidence:

A public company enjoys the confidence of public because its activities are regulated by the government under the Companies Act. Its affairs are known to public through publication of accounts and reports. It can always keep itself in tune with the needs and aspirations of people through continuous research and development.

8. Diffused Risk:

The risk of loss in a company is spread over a large number of members. Therefore, the risk of an individual investor is reduced.

9. Social Benefits:

The company organisation helps to mobilise savings of the community and invest them in industry. It facilitates the growth of financial institutions and provides employment to a large number of persons. It provides huge revenues to the Government through direct and indirect taxes.

Demerits of Company:

A company suffers from the following limitations:

1. Difficulty of Formation:

It is very difficult and expensive to form a company. A number of documents have to be prepared and filed with the Registrar of Companies. Services of experts are required to prepare these documents. It is very time-consuming and inconvenient to obtain approvals and sanctions from different authorities for the establishment of a company. The time and cost involved in fulfilling legal formalities discourage many people from adopting the company form of ownership. It is also difficult to wind up a company.

2. Excessive Government Control:

A company is subject to elaborate statutory regulations in its day-to-day operations. It has to submit periodical reports. Audit and publication of accounts is obligatory. The objects and capital of the company can be changed only after fulfilling the prescribed legal formalities. These rules and regulations reduce the efficiency and flexibility of operations. A lot of precious time, effort and money have to be spent in complying with the innumerable legal formalities and irksome statutory regulations.

3. Lack of Motivation and Personal Touch:

There is divorce between ownership and management in a large public company. The affairs of the company are managed by the professional and salaried managers who do not have personal involvement and stake in the company. Absentee ownership and impersonal management result in lack of initiative and responsibility. Incentive for hard work and efficiency is low. Personal contact with employees and customers is not possible.

4. Oligarchic Management:

In theory the management of a company is supposed to be democratic but in actual practice company becomes an oligarchy (rule by a few). A company is managed by a small number of people who are able to perpetuate their reign year after year due to lack of interest, information and unity on the part of shareholders. The interests of small and minority shareholders are not well protected. They never get representation on the Board of Directors and feel oppressed.

5. Delay in Decisions:

Too many levels of management in a company result in red-tape and bureaucracy. A lot of time is wasted in calling and holding meetings and in passing resolutions. It becomes difficult to take quick decisions and prompt action with the consequence that business opportunities may be lost.

6. Conflict of Interests:

Company is the only form of business where in a permanent conflict of interests may exist. In proprietorship there is no scope for conflict and in a partnership continuous conflict results in dissolution of the firm. But in a company conflict may continue between shareholders and board of directors or between shareholders and creditors or between management and workers.

7. Frauds in Promotion and Management:

There is a possibility that unscrupulous promoters may float a company to dupe innocent and ignorant investors. They may collect huge sums of money and, later on, misappropriate the money for their personal benefit. The case of South Sea Bubble Company is the leading example of such malpractices by promoters.

Moreover, the directors of a company may manipulate the prices of the company's shares and debentures on the stock exchange on the basis of inside information and accounting manipulations. This may result in reckless speculation in shares and even a sound company may be put into financial difficulties.

8. Lack of Secrecy:

Under the Companies Act, a company is required to disclose and publish a variety of information on its working. Widespread publicity of affairs makes it almost impossible for the company to retain its business secrets. The accounts of a public company are open for inspection to public.

9. Social Evils:

Giant companies may give rise to monopolies, concentration of economic power in a few hands, interference in the political system, lack of industrial peace, etc.

Suitability:

Despite its drawbacks, the company form of organisation has become very popular, particularly for large business concerns. This is because its merits far outweigh the demerits. Many of the drawbacks of a company are mainly due to the weaknesses of the people who promote and manage companies and not because of the company system as such. The company organisation has made it possible to accumulate large amounts of capital required for large scale operations.

Due to its unique characteristics, the company form of ownership is ideally suited to the following types of business:

(i) Heavy or basic industries like ship-building, coach-making factory, engineering firms, etc., requiring huge investment of capital.

(ii) Large scale operations are very crucial because of economies of scale, departmental stores, chain stores and enterprises engaged in the construction of bridges, dams, multistoried buildings, etc.

(iii) The line of business involves great uncertainty or heavy risk, e.g., shipping and airline concerns.

(iv) The law makes the company organisation obligatory, e.g., banking business can be run only in the form of company.

(v) The owners of the business want to enjoy limited liability.

Form # 5. Corporation:

The corporation or the corporate form of business was set up to overcome some of the disadvantages of the proprietorship and partnership.

A corporation is a form of business enterprise that is owned by a large number of shareholders. The corporation has the legal status of a fictional individual and is authorised by law to act as a single person. The shareholders elect a board of directors that appoints the management of the corporation, usually headed by a president. Management is charged with the actual operation of the corporation.

Unlike the sole proprietorship and partnerships that can be established with minimal paperwork, a corporate charter is required to set up a corporation. The laws of each state are different, but typically, for a fee, corporations can be established (incorporated) and can become legal "persons" subject to the laws of that state.

According to state and Central laws, the corporation has the legal status of a fictional individual. Officers of the corporation can act in the name of the corporation without being personally liable for its debts. If corporate officers commit criminal acts, however, they can be prosecuted.

The corporation is owned by individuals (shareholders) who have purchased equity shares of stock in the corporation. A shareholder's share of ownership of the corporation will equal the number of shares owned by that individual divided by the total number of shares outstanding (owned by shareholders).

If a person owns 1,00,000 shares of PAL stock and there are 630 million PAL shares outstanding, then the person would own only 0.016 per cent of PAL. Owners of shares of stock have the right to vote for the board of directors and to vote on special referenda at the annual meeting of the corporation.

The management of the corporation is required by law to issue periodic reports to its shareholders describing the financial and business activities of the corporation during the reporting period. The shareholders may cast their votes in person at the annual meeting (the greater is the number of shares owned, the greater is the weight of the individual's vote) or can vote by proxy (that is, turn over voting privileges to the current management or to some other group).

The shareholder who owns 1 percent of the stock of PAL will receive 1 per cent of the dividends; the PAL management choose to pay to its shareholders out of profits. In the case of the sole proprietorship and partnership, the owners decide what to do with the profits.

In the case of the corporate stockholder, the management determines what to do with the profits of the corporation. The shareholder who does not approve of the way these profits are handled can vote to change the current board of directors or sell the stock and buy some other asset. Ordinary shares preference shares and convertible bonds are three types of corporate stock!

Ordinary shares confers voting privileges but no prior claim on dividends. Common stock dividends are paid only if they are declared by the board of directors in any given year.

Preference shares confer a prior claim on dividends but no voting privileges. Dividends on preference shares must be paid before paying dividends on ordinary shares but after meeting interest obligations.

Convertible stock is a hybrid between a stock and a bond. The owner of convertible stock receives fixed interest payments but has the privilege of converting the convertible stock into ordinary share at a fixed rate of exchange.

Corporations often have thousands or millions of shares are typically owned by a large number of stockholders. In the case of closely held corporations, the number of shareholders is limited and each shareholder owns a substantial share of the corporation's stock.

Unlike the sole proprietor or the partner, shareholders do not participate directly in the running of the corporation unless they happen to own a substantial share of the outstanding stock. Moreover, even if an effort was made to involve shareholders in corporate decision-making, there would be too many of them they would be graphically dispersed, and they would be too involved in their own business affairs.

For these reasons, there is usually a separation of ownership and management in the modern corporation. The board of directors appoints a professional management team that makes decisions for the corporation. The professional management team serves as agents for the corporation.

As long as the corporation is run successfully, the management team is allowed to continue. If the corporation falls on hard times, then the shareholders may vote out the current board of directors or the board of directors itself may decide to bring in a new management team.

Statistical studies of modern corporations have demonstrated the magnitude of the separation of ownership and management. Shareholders, however, can exercise substantial indirect control over management by simply selling their shares. The sale of shares by a large number of unhappy stockholders will depress the price of each share and invite possible takeovers by other corporate teams.

Advantages:

1. Limited liability:

The first advantage of the corporation is limited liability. The owners of the corporation (the shareholders) are not personally liable for the debts of the corporation. If a corporation incurs debts that it cannot meet, its creditors will have claim to the assets of the corporation (its bank accounts, equipment, supplies, buildings and real-estate holdings), but they cannot file claims against the shareholders. The worst thing that can happen to shareholders is that the value of their stock will decline (in extreme circumstances, it can become worthless).

2. Large capital base:

Limited liability contributes to a second advantage of the corporation. Corporation can raise large sums of financial capital by selling corporate bonds, by issuing stock, and by borrowing from public financial institutions.

3. Separate legal status:

The third advantage of the corporation follows from its status as a legal individual distinct from the officers of the corporation. A change in the board of directors, the death or resignation of the current president, or a transfer ownership could destroy a partnership or sole proprietorship, but these events do not alter the legal status of the corporation.

The continuity of the corporation is a distinct advantage. Many major US corporations are more than a century old. Few corporations have the same owners and officers that they had when the corporations started their operations.

New shareholders can also be brought into the operation because they know that the existence of the corporation is not dependent upon the individuals that currently run the corporation. Continuity also makes it easier for the firm to hire a carrier-minded and talented labour force.

4. Separation of ownership from management:

The fourth advantage of the corporation follows from the separation of ownership and management.

Because, the two functions are separated, professional managers who specialise in running different parts of the corporation's operations can be hired. Experience shows that the owners of businesses (those individuals with money to invest) do not always make the best managers. In the modern corporation, talented officers can be brought into the business who own little (or no) capital to invest.

Disadvantages:

1. Double taxation:

The major disadvantage of the corporation is the double taxation of corporate income. The profits (earnings) of the corporation can either be distributed to shareholders as dividends or kept as retained earnings to be reinvested (ploughed back) in the corporation. The profits of the corporation are subject to a Central income tax.

If the corporation chooses to plough back all profits into the company, corporate profits will be taxed only once, but if it distributes some of its profits to shareholders in the form of dividends, shareholders must pay personal income tax on these dividends. Corporate profits can, therefore, be taxed twice, first by the corporate income tax and second by the personal income tax on dividends.

The double taxation of corporate earnings is indeed a disadvantage, but the prevalence of the corporate form of business enterprise suggests that the advantages of corporations (more specifically limited liability) can compensate for double taxation.

2. Complexity:

A second disadvantage of the corporation is its complexity. A modern corporation can have thousands or even millions of different owners (shareholders). Often ownership is so dispersed that it is difficult to get the owners to agree (or even assemble), even when important issues are at stake. Power struggles among shareholding groups can break out and paralyse decision-making.

It is difficult to mobilise widely dispersed stockholders to get rid of incompetent management. The costs of gathering information about the complex dealings of the corporation are high to individual shareholders, who are often poorly informed about the corporation.

3. Conflicting objectives:

A third disadvantages of the corporation is the possibility of conflicting objectives between the principals (the shareholders) and the agents (the corporation's professional management team). Share-holders are interested in maximising the long-run profits of the corporation (thereby getting the best return from their shares of stock.) The professional management team may be more interested in preserving their jobs or in maximising their personal income or perquisites than in profit maximisation.

Form # 6. Corporations

A corporation is considered by law to be a unique entity, separate from those who own it. A corporation can be taxed, sued and enter into contractual agreements. The corporation has a life of its own and does not dissolve when ownership changes.

There are three types of corporations: C-corporation, S-corporation and Limited Liability Company.

C-corporation

A C-corporation is a corporation that is taxed separately from its owners. It gives the owners limited liability encouraging more risk-taking and potential investment.

C-corporation advantages

- Limited liability
- Transfer of ownership, shareholders can sell their shares
- Capital is easier to raise through the sale of stock
- Company paid fringe benefits
- Tax benefits

C-corporation disadvantages

Double taxation (corporation and shareholder earnings taxed)

Can be costly to form

More administrative duties - required by law to have annual meetings, notify stockholders of the meeting, must keep minutes of meetings and turn in

Pay corporate taxes at a different time than other forms of business

S-Corporation

An s corporation also known as subchapter S-corporation offers limited liability to the owners. S-corporations do not pay income taxes rather the earnings and profits are treated as distributions. The shareholders must report their income on their individual income tax returns.

S-Corporation advantages

- Limited liability
- Avoids double taxation
- Profits taxed only once

- Capital is easier to raise through the sale of stock
- Transfer of ownership

S-Corporation disadvantages

- Can be costly to form
- Stockholders limited to individuals, estates or trustees
- Required administrative duties
- Cannot provide company paid fringe benefits
- Stockholders are limited to citizens or resident aliens of the United States

Limited Liability Company

A limited liability company or LLC is a hybrid business structure that provides the limited legal liability of a corporation and the operational flexibility of a partnership or sole proprietorship. However, the formation is more complex and formal than that of a general partnership.

Tip: Forming an LLC requires the business owner to file legal paperwork. You may want to consult an attorney to assist you with the process. Here is a list of service providers in Missouri that provide legal assistance.

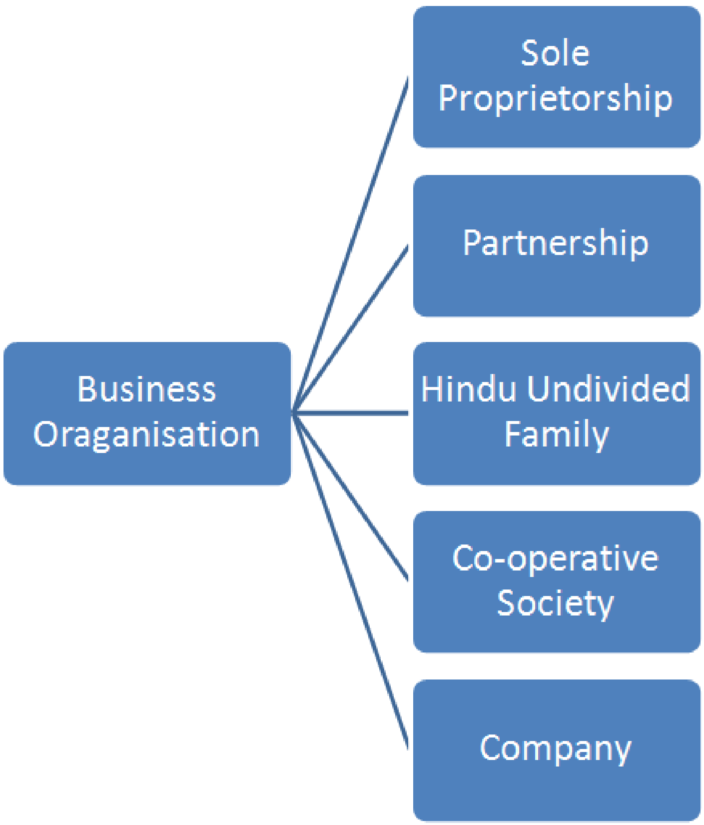
Limited liability company advantages

- Most common business structure and specifically created for small businesses
- Must have insurance in case of a suit
- Separate legal entity
- Usually taxed as a sole proprietorship
- Unlimited number of owners

Limited liability company disadvantages

- Can be costly to form
- Yearly administrative costs
- Personal tax liability

- Legal and accounting assistance is recommended



Form # 7. One Person Company (OPC):

According to The Companies Act, 2013 of India “One Person Company is a company registered under the proposed Companies Act with just one member and shall have ‘(OPC)’ added in brackets to its name.” The Memorandum of such a company shall indicate the name of the person.

The concept of ‘one person company’ has the following characteristics:

(i) OPC may be registered as a private company with one member.

(ii) Adequate safeguards in case of death/disability of the sole owner are provided.

(iii) OPC will have a corporate entity of its own.

(iv) The owner of an OPC shall be liable only to the extent of its capital. If the activities are carried out in a mala fide manner the liability of the owner extends to his personal property.

(v) An OPC may be managed by the owner or his representative.

(vi) An OPC will get its annual accounts audited and file a copy of the same with the Registrar of Companies.

(vii) A minimum share capital may be prescribed for an OPC.

(viii) Every OPC shall have at least one director.

(ix) The one person shall have to indicate the name of the person who in the event of the subscriber’s death, disability, etc. becomes the members of the company.

Merits:

(i) OPC will enable small entrepreneurs and professionals, e.g., chartered accountants, lawyers, doctors, etc. to avail the benefits of companies,

(ii) The procedure for forming the OPC is very simple.

(iii) Running an OPC is easy as it does not require compliance with many legal formalities.

(iv) As the risk is limited to the value of shares held by one person, small entrepreneurs have not to fear litigation and attachment of personal assets.

(v) There is no need to share business information with any other person, therefore, business secrecy is ensured.

(vi) The motivation and commitment of the owner are high due to absence of profit sharing.

(vii) Quick decisions can be taken due to complete control by the owner. There is freedom of action.

(viii) OPC would provide the start-up entrepreneurs and professionals the much needed flexibility in setting up business without losing control.

Demerits:

(i) The life of OPC is uncertain and instable.

(ii) The concept of OPC makes mockery of the corporate concept because company means more than one person.

(iii) A company should operate as a democratic institution with discussion and decision by voting. But in an OPC there is no democracy.

(iv) An OPC has to be incorporated. It has also to comply with some legal formalities.

The concept of OPC has been introduced in a half-hearted and incomplete manner. How would OPC work and what would be the regulatory provisions concerning their formation and functioning has not been made clear. Hence, the provisions concerning OPC require a re-look and redrafting.

Form # 8. Limited Liability Partnership (LLP):

According to the Limited Liability Partnership Act, 2008, an LLP is a body corporate formed and incorporated under this Act. It is a legal entity separate from that of its members.

Features:

(i) An LLP must be registered under the LLP Act 2008.

(ii) It is a body corporate having a separate entity of its own.

(iii) It has perpetual succession. Any change in its members does not affect its existence, rights and liabilities,

(iv) Any individual or a body corporate can be a partner in an LLP.

(v) Every LLP must have at least two partners.

(vi) There must be at least two designated partners and one of them must be a resident in India.

(vii) An LLP must maintain proper books of accounts as per the double entry system.

(viii) An LLP must file with the Registrar a Statement of Account and solvency along with its annual return in the prescribed form.

Merits:

a. An LLP enjoys stability as changes in partners do not affect its existence.

b. The liability of an LLP and its partners in Limited.

c. A body corporate and a foreigner can be partners in an LLP.

d. An LLP can raise, large amount of funds as there is no restriction on the number of members and risk involved is limited.

Demerits:

a. Time and money are involved in the formation and registration of an LLP.

b. There is less flexibility of operations because an LLP has to comply with certain legal formalities.

c. There is lack of business secrecy as an LLP has to file the prescribed documents with the Registrar. Its accounts are open to the public for inspection.

The LLP gives an entrepreneur the twin benefits of limited liability and a flexible internal structure. It is also free from dividend distribution tax and minimum alternate tax.

Form # 8. A cooperative organization:

It is an association of persons, usually of limited means, who have voluntarily joined together to achieve a common economic end through the formation of a democratically controlled organisation, making equitable distributions to the capital required, and accepting a fair share of risk and benefits of the undertaking.

The following are the characteristic features of a cooperative organisation as a form of business organisation:

1. Voluntary Association:

A cooperative society is a voluntary association of persons and not of capital. Any person can join a cooperative society of his free will and can leave it at any time. When he leaves, he can withdraw his capital from the society. He cannot transfer his share to another person.

2. Spirit of Cooperation:

The spirit of cooperation works under the motto, 'each for all and all for each.' This means that every member of a cooperative organisation shall work in the general interest of the organisation as a whole and not for his self-interest. Under cooperation, service is of supreme importance and self-interest is of secondary importance.

3. Democratic Management:

An individual member is considered not as a capitalist but as a human being and under cooperation, economic equality is fully ensured by a general rule—one man one vote. Whether one contributes 50 rupees or 100 rupees as share capital, all enjoy equal rights and equal duties. A person having only one share can even become the president of cooperative society.

4. Capital:

Capital of a cooperative society is raised from members through share capital. Cooperatives are formed by relatively poorer sections of society; share capital is usually very limited. Since it is a part of govt. policy to encourage cooperatives, a cooperative society can increase its capital by taking loans from the State and Central Cooperative Banks.

5. Fixed Return on Capital:

In a cooperative organisation, we do not have the dividend hunting element. In a consumers' cooperative store, return on capital is fixed and it is usually not more than 12 p.c. per annum. The surplus profits are distributed in the form of bonus but it is directly connected with the amount of purchases by the member in one year.

6. Cash Sale:

In a cooperative organisation "cash and carry system" is a universal feature. In the absence of adequate capital, grant of credit is not possible. Cash sales also avoided risk of loss due to bad debts and it could also encourage the habit of thrift among the members.

7. Moral Emphasis:

A cooperative organisation generally originates in the poorer section of population; hence more emphasis is laid on the development of moral character of the individual member. The absence of capital is compensated by honesty, integrity and loyalty. Under cooperation, honesty is regarded as the best security. Thus cooperation prepares a band of honest and selfless workers for the good of humanity.