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FACULTY OF COMMERCE & MANAGEMENT

COURSE: BBA-DM 2nd SEMESTER

SUBJECT: BUSINESS ENVIRONMENT

SUBJECT CODE: BBA204

LECTURE: 15-16-17

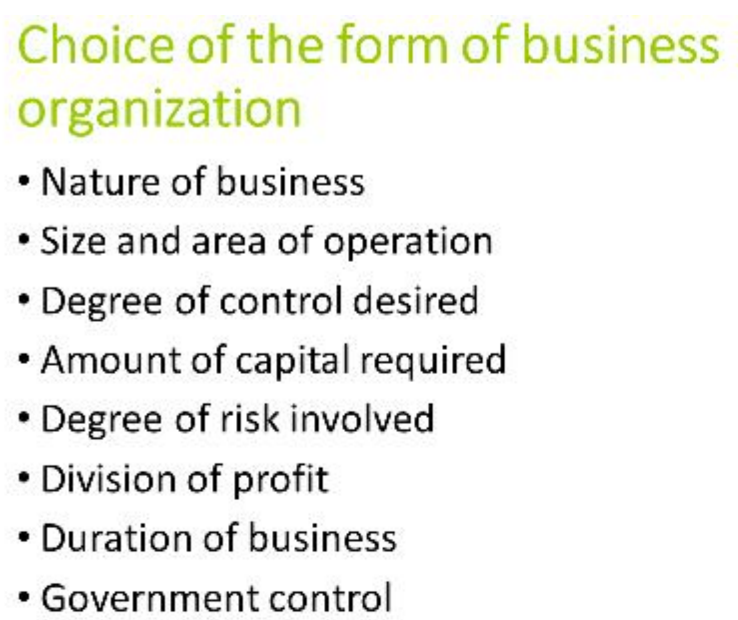
NAME OF FACULTY: DR. H. L. BHASKAR

Lecture-15-16-17

Unit II

Choice of form of organization

The **choice of form of organisation** also depends on degree of control desired. If the owner wants to exercise direct personal control over the **business**, then sole proprietorship may be preferred. However, if the owners are ready to share control and decision-making, then partnership or company **form** can be adopted.



Some of the factors affecting the choice of a suitable or ideal form of business organisation are:-

Factors to Consider while Selecting a Form of Business Organisation

1. Nature of Business 2. Scale of Operations 3. Capital Requirements 4. Degree of Control 5. Extent of Risk and Liability 6. Division of Profit 7. Stability of Business 8. Talent Needs 9. Government Control 10. Area of Operations 11. Duration of Business 12. Cost and Ease in Setting Up the Organisation 13. Liability 14. Continuity 15. Management Ability 16. Relative Management and Control Rights of Owners and Managers 17. Decision-Making Opportunities 18. Flexibility of Operation 19. Maintenance of Secrecy 20. Impact of Taxation.

Factors influencing the choice of form of Business Organisation

Form of organisation		
Factor	**Most advantageous**	**Least advantageous**
Availability of capital	Company	Sole proprietorship
Cost of formation	Sole proprietorship	Company
Ease of formation	Sole proprietorship	Company
Transfer of ownership	Company (except private company)	Partnership
Managerial skills	Company	Sole proprietorship
Regulations	Sole proprietorship	Company
Flexibility	Sole proprietorship	Company
Continuity	Company	Sole proprietorship
Liability	Company	Sole proprietorship

Factors Affecting the Choice of Form of Business Organisation – From the Point of View of the Entrepreneur

From the point of view of the entrepreneur, the first consideration, though not the only one, in the choice of a proper form of organisation is as to which one can be formed with the greatest ease. An ideal form of organisation is, therefore, one which can be brought into existence with the least difficulty.

1. Ease of Formation:

A good form of organisation, as judged from the point of view of ease of formation, is one which involves the least expense in formation and minimum of legal formalities. Besides, it should involve the least difficulty in the choice of proper associates for running the business.

2. Ease of Raising Capital:

Another important feature of a good form of organisation is the facility of raising the required amount of capital. Where a large amount of capital is needed, it is desirable to ensure that investors in the business concerned are assured of safety of investment, fair return on investment and transferability of investment.

The entrepreneur will do well to consider the comparative ease (or difficulty) with which capital can be raised for the various forms of organisation.

3. Limit to Liability:

From the point of view of risk, the entrepreneur will prefer limited liability. This would mean that in case of insolvency or winding up, the owner or owners will be held responsible only up to the amount of capital agreed to be contributed by them. Unlimited liability (making the personal estates of the owners liable for losses) is preferred in some cases just because it provides the necessary incentive to the owners to work for the success of the chosen form of organisation.

4. Direct Relationship between Ownership, Control and Management:

As a rule, control should lie where ownership lies. This will lead the management and the entrepreneurs to take active interest in the efficient running of the enterprise. If the responsibility for management or the control of management does not lie with the owners, the management may not have a direct personal interest in maximizing profits through increase in efficiency.

However, sometimes, close association of ownership with management may discourage adventure and enterprise on the part of the management. If the owners are all the time worried about the safety of their investment in the enterprise, as they naturally would be, it will be difficult for them to take big risks or follow a bold or adventurous business policy. **5. Flexibility of Operation:**

A good form of organisation offers the maximum flexibility and adaptability. This means that the organisation should lend itself to change and adjustment without much difficulty as the need be. In choosing a form of organisation, the entrepreneur will consider as to whether it will add to the flexibility and efficiency of management to associate some more persons as part owners or as employees.

6. Continuity or Stability:

An ideal form of organisation enjoys uninterrupted existence over a long period of time. From the point of view of the entrepreneur, it is important that he should be able to formulate plans for the future and to make investment paying for considerable periods of time.

From the social point of view also, it is desirable that there should be an agency which meets its economic needs continuously and provides continued employment to a section of the society. "The organisation must both be able, when undisturbed, to last through a long period of time, and also to resist temporary disturbing influences, that is, be stable."

7. Retention of Business Secrets:

The entrepreneur will also have to be careful to ensure that the form of organisation chosen by him will allow vital business secrets to be retained without being leaked out to the competitors. This will naturally mean that he will have to select his associates with utmost care.

8. Freedom from State Regulation: Various forms of organisation are exposed to varying degrees of control and regulation by the State. Where the extent of regulation by Government is considerable, the enterprise may have to spend considerable amount of time, money and energy in complying with legal formalities and instructions. As far as possible, keeping in view the particular requirements of an enterprise, the form that is selected should be such that it does not attract the eye of law at every step.

9. Lighter Tax Liability:

Various forms of business organisation are assessed to income- tax on different bases. Obviously, other things being equal, the ideal form of organisation will be that which attracts the minimum amount of tax liability.

Factors to Consider while Selecting a Form of Ownership – Nature of Business, Scale of Operations, Capital Requirements, Degree of Control and a Few Others

I. Nature of Business: If the intent is to run a small venture and remain happy with the size of profits and quantum of business, proprietary concern is the best choice. Grocery shops, pharmacists, small garment shops, beauty clinics, tailoring units, restaurants usually go this way. The owners know the area. They are close to customers. They watch the trends. They know the gaps and try to bridge them.

If the objective is to pool resources and talent and establish a business in a promising line, partnership form is opted. Infosys Technologies started with an initial seed capital of Rs. 10,000 each from partners dreaming big. Where the entrepreneur wants to set up a business with great potential and wants to do it in a big way, the corporation is a suitable option. Most cement, steel, fertilizer, sugar units have gone this way in India.

II. Scale of Operations:

Big manufacturing units pick up the corporate form of business. The size and scale of operations right from the word go is fairly big. They want to serve local, regional, national as well as international markets. The chosen field has lot of promise and potential (like cement, steel, sugar, aluminum, copper, construction, real estate development etc.).

Partnership ventures have a limited audience and serve local markets well. Here the opportunity is lucrative but the partners do not have the strength to go beyond a point. So they try to limit their scale of operations to areas where they have strength. In a small proprietary concern, the capacity to bring in seed capital, get manpower, and reach out to customers in always limited to the capabilities of the owner. If the owner is dynamic, he can turn it into a successful venture, capable of growing into a big business. Most listed gems and jewellery (Gitanjali Gems, Tangmalai Jewellers etc.) units have gone this way in India.

III. Capital Requirements:

If the venture requires heavy investments in the form of machines, equipment, a large factory supported by fairly number of skilled and unskilled hands, raw materials from different locations, and the company form of ownership is to be preferred. Such a business would be demanding heavy doses of capital time and again.

In a partnership firm, capital needs are relatively speaking small. Whatever money and effort is needed to support the venture, the partners can bring in through their contacts. Proprietary concerns do not consume monetary resources in a big way. Where the need for funds is limited and the owners do not intend to grow big in the near future—sole proprietorship or partnership forms are preferred routes.

IV. Degree of Control:

If owners want to oversee everything from close quarters, sole proprietary concerns or partnership firms need to be chosen. Riding over people gives a kick in the belly to many. Some people want to drown themselves with truckloads of work. They want to be in the thick of action always. For them handing over reins to others is not even thinkable.

But where the intent is to exploit it an opportunity and see it grow big, the company form of ownership is the best one. Because there is enough scope for talent to step in. Professional managers can bring in skills, knowledge and expertise and contribute in a big way. The venture gets profited from useful inputs, suggestions, ideas from every one. Everyone is given a chance to express, experiment and gain from mistakes. In such a learning environment, businesses inevitably grow.

V. Risk Taking Ability:

If the intent is to diffuse risk, the company form of business is to be preferred. Risk is spread over a large number of shareholders. In case of proprietary concerns, risk is disproportionately high. The owner may get crushed by unexpected turn of events. The entire business gets wiped out if things do not go according to a plan. Partners can deal with such negatives to a large extent.

In any case, each partner is exposed to risks and uncertainties of various kinds. To a large extent, business risks (say from floods, earthquakes, riots, strikes, terrorist attacks etc.) can be covered by taking an insurance cover these days. The only requirement is that the business must be profitable enough to cover the annual insurance charges.

VI. Division of Profit:

If the owner wants to have everything for himself, then proprietary concern is the best option. The fruits of hard mental labour need not be shared with anyone. You are the unquestioned king of your business and you do not have to give a penny to anyone for any reason whatsoever.

If the intent to jointly share the gains arising out of joint contributions in the form of resources and effort, partnership venture is to be picked up. In a company form of business, the intent is to grow business, exploit the markets globally, make profits and share wealth with a large number of stakeholders.

VII. Stability of Business:

The company form of business ensures stability, continuity and durability. Businesses in this format grow big, achieve economies of scale, venture into new fields and areas, and reach out to national as well as global audience through continuous improvements and innovations. They do not want to die young. They want to live forever.

Size helps them ward off threats from the environment in various forms and shades. Smaller outfits do not have the capacity to absorb business shocks. They die pretty soon. One event may push a firm toward bankruptcy. To ensure survival and growth, every entity even though they might be small when they started off would always be interested in expanding and growing continually.

VIII. Talent Needs:

Small firms do not depend on talent from outside. The owner has this in abundance. Firms eventually grow in sync with the capabilities of the owner. If the owner is dynamic and is able to understand the market well, he does not have to look back. Same is the case with partners. If they combine their skills well, the firm can survive, grow and flourish. Both businesses cannot grow beyond a point simply because of non-infusion of fresh blood into the venture.

In a company form of business, professional talent is needed time and again. You have to get qualified people and give them freedom to do things on their own. The success mantra here is to pick the right man for the right job and give them a free hand to deliver results. So, where the intent is to hand over reins to professionals, the obvious choice falls on the company form of organisation.

IX. Government Control:

If the owners want to avoid interference and control from government, proprietary concern or a partnership venture is the option. The long arm of law cannot come in the way of making a right choice. Because most of the rules, regulations and procedures are aimed at strengthening businesses only. The intent here is to make the owners accountable to a large body of shareholders. And professionally run companies should not shy away from this statutory responsibility.

Factors to Consider while Selecting a Form of Ownership – 7 Important Factors

1. Nature of Business:

The selection of an appropriate form of business ownership depends upon, to a great extent, the nature of the proposed business itself. For example, the business that requires personal attention and skill for their success are usually organised as and proprietary concern.

Business requiring pooling of funds and skills are generally run as partnership firm. For business involved in large scale production, the company form of business ownership is preferred.

2. Area of Operations:

If the operation of a business is confined to an area or locality only, the appropriate form of ownership will be proprietorship/partnership. On the contrary, if the area of operation is widespread catering to national or international markets, the suitable form of business ownership may be company.

3. Degree of Control:

In case, direct control over business operations is required, the suitable form of ownership may be proprietorship or partnership. In case direct control over business operations is not needed, the suitable form of ownership may be a company.

4. Capital Requirements:

If a business requires a small amount of capital, the best form of ownership may be either proprietorship or partnership. In case of huge capital requirements, the company form of ownership will be the best.

5. Duration of Business:

If business is proposed for a definite duration and on adhoc basis, proprietorship or partnership are better forms of business ownership. The reason is that they are easy to form and dissolve. In case, the business is to be run on permanent basis, it can be organised as company or a co-operative because they enjoy perpetual succession.

6. Extent of Risk and Liability:

Business involves risk. If an entrepreneur is ready and capable to bear risk involved in business, he can organise his business on proprietorship or partnership. But if the entrepreneur is hesitant to bear the risk involved in business, he can go for a company where individual risk is limited.

7. Govt. Regulation:

If an entrepreneur does not like much government involvement in his business, he can select proprietorship or partnership as the form of his business ownership instead of a company or co-operative where the government rules and regulations apply more.

Factors to Consider while Selecting a Form of Ownership – 10 Most Important Factors

1. Ease of Formation:

One of the primary considerations in making the choice of the most suitable form of organisation is the ease with which it can be set up. Facility of formation, minimum or no legal requirements, freedom from payment of any fees to the stale or attorneys are the ideal conditions favouring the choice of an ideal form of organisation to own and run a business.

2. Ease of Raising Capital:

Another important factor that contributes to the suitability of an organisation is the ease with which the requisite amount of capital can be raised. Small amount of capital can be invested by the entrepreneur himself and he would be content to set up his own business, and individual proprietorship form of organisation would serve his purpose effectively. If a large business, requiring huge amount of capital, is to be set up, company form may be necessary which will entail certain formalities to be followed for raising the necessary amount.

3. Extent of Liability:

By liability is meant the extent to which a person can be made to account at law. He is either fully liable, i.e., he can be made to pay the full amount of the debts owed, or he is liable only to a limited extent, i.e., he can be made to pay towards those debts only up to a certain limit, but not beyond it. In the former case his liability is said to be unlimited and in the latter case it is limited.

Since, where the liability of the owner is unlimited, his personal or private estate will be liable for his business debts, he will ordinarily prefer a type of organisation where his liability is limited to the capital which he has agreed to contribute. Unlimited liability, on the other hand, often acts as a stimulus to hard work which may result in good gain for his own personal use. He may in that case select sole proprietorship or partnership organisation.

4. Relative Management and Control Rights of Owners and Managers:

The golden rule of capitalism is that control should be where ownership lies. Where the owner is also the manager, the degree of control is complete. The direct relationship between effort and reward acts as a stimulus to maximum exertion. Paid managers have no direct personal interest in maximizing profits by working efficiently as there is no relationship between profit and reward. But an owner manager may hesitate to take risks and be venturesome.

5. Decision-Making Opportunities:

Some entrepreneurs, particularly those who place great value upon their rights of personal leadership, would prefer sole proprietorship as the form of organisation. If a very high level of leadership is required which he may not possess, he will then be compelled to form a company in order to attract able leadership to assume responsibility for the operation of the enterprise.

6. Flexibility of Operation:

A good form of organisation lends itself to maximum flexibility, as changes can be introduced promptly without let and hindrance. Individual proprietorship, for Sample, enjoys to the maximum degree this characteristic of flexibility of operation.

7. Maintenance of Secrecy:

Secrecy, especially in the case of small business concerns, is of supreme importance. For that purpose the entrepreneur would most probably prefer sole proprietorship. In case, he has to take oilier persons as partners, he shall have to exercise great care in choosing his partners.

8. Continuity of Existence:

Continuity of existence and stability are factors which make an organisation superior in status as against those which lack continuity. Company, as a legal person, may outlive many generations of individual producers. The life span of a sole proprietorship is often limited to the life span of the proprietor, and in case of partnership to the life span of the partners.

9. Freedom from Government Regulation:

Different forms of organisation are subject to varying degrees of government regulation and control. In sole proprietorship the government regulation is minimum but a partnership is exposed to more legal complications, particularly regarding ownership and sharing of profits. A company is created by the process of law and the Government reserves the right to control its actions more closely than of the other two types of organisation.

10. Impact of Taxation:

The basis of taxation is different in case of each of the forms of organisation. Some of the business taxes affect all forms of enterprise alike, and need not affect the choice, such as- excise duties, sales tax, property tax and customs duties. But individual income tax has an important bearing upon the choice of the form of business organisation.

Making a Choice of Proper Form of Organisation:

In making the choice of a suitable form of organisation, the factors mentioned above will have to be weighed against each other. This will ensure the best realization of the result. Of the various factors discussed above, facility in formation, ease in raising the requisite amount of capital are the most important. Limited liability, especially if the capital requirements are large and relationship between ownership and management is not direct, is another important factor. There should also be available flexibility of operation, continuity, secrecy, freedom from government regulation and minimum tax liability.

These factors are inter-related and cannot be taken into account singly. The entrepreneur will make his choice after weighing all of them. The capital will, of course, influence him most and then the limitation of liability. Some other factors, such as the type of the product to be manufactured and sold, competitive conditions in the chosen industry and so on. All of these factors will be considered in relation to each of the forms of organisation.

Factors to Consider while Selecting a Form of Ownership – Several Factors Dictating the Choice of the Form of Ownership

A business enterprise can be organised into several forms. Every form of organisation has its own merits and demerits. A businessman has to keep in view these merits and demerits while selecting an appropriate form of organisation. Tie choice has to be made both at the time of setting up a new enterprise and at the time of expansion and growth of an existing concern.

At the time of launching a new business enterprise, the choice of the form of ownership is dictated by several factors as given below:

1. Nature of business —Service, trade, manufacturing.

2. Scale of operations — Volume of business (large medium, small) and size of the market area (local, national, international) served.

3. Degree of direct control desired by owners.

4. Amount of capital required initially and for expansion.

5. Degree of risk and liability and the willingness of owners to assume personal liability for debts of business.

6. Division of profits among the owners.

7. Length of life desired by the business.

8. Relative freedom from government regulations (flexibility of operations).

9. Scope and plan of internal organisation.

10. Comparative tax liability.

It must be noted that these factors are interrelated and interdependent. For instance, the amount of capital required and the degree of risk involved depend upon the nature and volume of business operations. The degree of control and the division of profits are both related to risk and liability. Therefore, an entrepreneur should not consider these factors in isolation. The interrelationship between these factors should be duly considered.

The impact of each one of these factors on the choice of a suitable form of ownership is described as follows:

1. Nature of Business:

The nature of business has an important bearing on the choice of the form of ownership. Business providing direct services, e.g., small retailers, hair-dressing saloons, tailors, restaurants, etc. and professional services, e.g., doctors, lawyers, etc. depend for their success upon personal attention to customers and the personal knowledge or skill of the owner and are, therefore, generally organised as proprietary concerns.

Business activities requiring pooling of skills and funds, e.g., wholesale trade, accounting firms, tax consultants, Stock brokers, etc. are better organised as partnerships. Manufacturing organisations of large size are more commonly set up as private and public companies.

2. Size and Area of Operations:

Large scale enterprises catering to national and international markets can be organised more successfully as private or public companies. The reason is that large-sized enterprises require large financial and managerial resources which are beyond the capacity of a single person or a few partners. On the other hand, small and medium scale firms are generally set up as partnership and proprietorship.

Small scale enterprises like hairdressers, bakeries, laundries, workshops, etc. cater to a limited market and require small capital. The risk and liability are not heavy and the management problems can be handled by the owner himself. Therefore, the owner likes to be his own master by organising as a sole proprietor. He can maintain face-to-face relationship with his customers which is important in small service enterprises like painters, decorators, repair shops, beauty parlours, etc.

Medium-size enterprises and professional firms, e.g., health clinic, chartered accountants etc. are predominantly partnerships. They pool their capital and expertise to operate on a larger scale and to avail of the benefits of specialisation. Large scale enterprises and enterprises involving heavy risk, e.g., engineering firms, departmental stores, five star hotels, chain stores, etc. are normally organised as companies.

These enterprises require huge capital, heavy risks and expert managers. Proprietary and partnership forms are unable to provide these resources. The company form is, therefore, best suited to large scale enterprises. Similarly, where the area of operations is widespread (national or international), company ownership is appropriate. But if the area of operations is confined to a particular locality, sole proprietorship or partnership will be a more suitable choice.

3. Degree of Control Desired:

A person who desires direct control of business prefers proprietorship rather than the company because there is a separation of ownership and management in the latter case. In case the owner is not interested in direct personal control but in large scale operations, it would be desirable to adopt the company form of ownership.

4. Amount of Capital Required:

The funds required for the establishment and operations of a business have an important impact on the choice. Enterprises requiring heavy investment, i.e., iron and steel plants, etc. should be organised as joint stock companies. A partnership has to be converted into a company when it grows beyond the capacity and resources of few persons.

Requirements of growth and expansion should also be considered in making the choice. There is maximum scope for expansion in case of a public company. Where the funds required initially are small and scope for expansion is not desired, proprietorship or partnership is a better choice.

5. Degree of Risk and Liability:

The volume of risk and the willingness of owners to bear it is an important consideration. A single individual may have large financial resources sufficient for a medium scale enterprise but due to unlimited personal liability he may not like to organise as a proprietor or a partnership. Due to limited liability and a large number of shareholders, there is maximum diffusion of risk in a public company. But an enterprising individual not afraid of unlimited liability may go in for sole proprietorship.

6. Division of Surplus:

A sole trader receives all the profits of his business but he also bears all the risks. If a person is ready to bear unlimited personal liability and desires maximum share of profits, proprietorship and partnership are preferable to company form of organisation.

7. Duration of Business:

Temporary and ad hoc ventures can be organised as proprietorships and partnerships as they are easy to form and dissolve. But they lack continuity and stability. Enterprises of a permanent nature can be better organised as joint stock companies and cooperatives because they enjoy perpetual succession. A business requiring a long period for establishment and constitution should be organised as a corporate body.

8. Government Regulation and Control:

Proprietorships and partnerships are subject to little regulation and control by the Government. Companies and co-operatives are, on the other hand, subject to several restrictions and have to undergo several legal formalities. But this factor is not very important and it can be helpful in making the choice only when all other factors are unable to indicate a clear-cut choice.

9. Managerial Requirements:

Organisational and administrative requirements depend upon the size and nature of business. Small businesses using simple processes of production and distribution can be managed effectively as proprietorships and partnerships. On the other hand, giant enterprises involving the use of complex techniques and procedures require professional management.

Such enterprises can be managed efficiently only as joint stock companies. Due to identity of ownership and management, motivation is very high in proprietorships and partnerships. Such motivation is lacking in a company due to separation of ownership from management.

10. Flexibility of Operations:

Businesses which require a high degree of administrative flexibility should better be organised as proprietorships or partnerships. Flexibility of operations is linked with the internal organisation of a business. The internal organisation of sole proprietorship and partnership is much more simple and less elaborate than the internal organisation of joint stock company. Moreover, the objectives and powers of a company cannot be changed easily or without legal formalities.

11. Tax Burden:

Various forms of ownership are taxed differently under the Income-tax Act in India. If the expected volume of profit is very high it may be profitable to start a company. A company is taxed at a uniform rate, i.e., the rate of tax remains the same irrespective of the volume of profits, whereas in case of partnership and proprietorship the rate of tax increases with the volume of taxable income.

The above analysis indicates that the basic consideration in the choice of a form of ownership is the nature and size of business. All other factors are dependent on this basic consideration. The scope and plan of organisation will also vary with the size and nature of business. In a grocery store, for example, the organisation will be simple as few employees will be needed. Thus, the nature and size of business is the key factor in the choice of a form of ownership.

Factors Affecting the Choice of Form of Business Organisation – Liability, Continuity, Management Ability, Capital Considerations, Degree of Control and Nature of Business

After studying the various forms of business organisations, it is observed that each form has certain merits as well as limitations. Therefore, it is important to identify the basic considerations, which should be kept in mind while choosing an appropriate form of organisation.

1. Cost and Ease in Setting up the Organisation:

The first and foremost consideration in selecting the form of organisation is the ease and cost with which it can be formed.

Sole proprietorship is very easy to start with minimum costs and legal requirements. Partnership also has the advantage of lower cost and less legal formalities due to limited scale of operations. Cooperative societies and companies have to be compulsorily registered. Formation of a company is a complex task and involves lengthy and expensive legal procedure.

According to this consideration, sole proprietorship is the preferred form as it involves least expenditure. However, it has limited scale of operation.

2. Liability:

Every business creates certain liabilities for the owner of the business undertaking. In sole proprietorship and partnership, the owner/partners have unlimited liability, i.e. their personal property can be used to pay off business debts. In Hindu undivided family business, only the karta has unlimited liability. However, in case of cooperative society and company, the members have limited liability, i.e. their personal property cannot be used for business debts.

According to this consideration, the company form of organisation is more suitable as the risk involved is limited.

3. Continuity:

An ideal form of organisation should ensure the continuity of the business. Hindu undivided family business, cooperative societies and companies enjoy continued or perpetual existence, whereas, continuity of sole proprietorship and partnership is affected by death, insolvency or insanity of the owners.

If the business needs a permanent structure, company form is more suitable. However, for short-term ventures, proprietorship or partnership may be preferred.

4. Management Ability:

The nature of operations and the need for professionalized management affect the choice of the form of organisation.

A sole proprietor may find it difficult to have expertise in all functional areas of management. Under partnership, cooperative society and company, division of work is possible, which allows the members to specialise in specific areas, leading to better decision-making. However, there may be conflicts because of differences of opinion.

If operations of the organisation are complex and require professionalized management, then company form is a better alternative. However, in case of simplicity of operations, proprietorship or partnership may be suitable.

5. Capital Considerations:

Finance is the basic requirement of any business operation. An entrepreneur must consider the total amount of capital required for the business he wants to start.

If the capital needed is small and owner can manage with his own resources, then sole proprietorship is appropriate. Partnership firms also have the advantage of combined resources of all partners. However, if large amount of capital is needed, then company form is preferred as companies are in a better position to collect large amounts of capital by issuing shares to a large number of investors. Company is also more suitable at the time of expansion because of its capability to raise more funds.

If scale of operations is large, company form is more suitable. However, for medium and small sized business, partnership or sole proprietorship may be chosen

6. Degree of Control:

The choice of form of organisation also depends on degree of control desired. If the owner wants to exercise direct personal control over the business, then sole proprietorship may be preferred. However, if the owners are ready to share control and decision-making, then partnership or company form can be adopted. The company has an added advantage that there is complete separation of ownership and management and professionals are appointed to independently manage the affairs of a company.

7. Nature of Business:

The nature of business is also considered while selecting a suitable form of business organisation. Sole proprietorship is preferred if direct personal contact is needed with the customers. Partnership is more suitable when professional services are required. However, in case of large manufacturing units, company form of organisation may be adopted.

It should be noted that these are the general guidelines for the choice of an ideal form of a business organisation. No factor can be considered in isolation as a determining factor. So, all the relevant factors must be taken into consideration while making a decision with respect to the form of organisation that should be adopted.