

# FACULTY OF JURIDICAL SCIENCES

# Lecture-18



# Factors affecting the Business Forms

Business organizations can be of different types, depending upon factors like their nature, the extent of operation, ownership, legalities, terms, financial structure, liabilities, etc. The form of a business is likely to have long-term impacts on the company. Thus, the members of an organization must choose wisely as to which sort of business would be ideal for them.

The primary aspect, based on which forms of business organizations are decided, is its characteristics. Various factors determining the character of business include:

- 1) Ease of Formation
- 2) Capital or Financial Requirements
- 3) Nature of Liability
- 4) Control
- 5) Stability and Continuity
- 6) Flexibility to Conduct Operations
- 7) Secrecy
- 8) Legal Aspects

## Types of Business Structures

Depending on the factors mentioned above, there can be different forms of business organizations. They are as follows:

- 1) Sole Proprietorship
- 2) Partnership
- 3) Limited Liability Partnerships
- 4) Company
- 5) **One Person Company**

### 1. Sole Proprietorship

Sole proprietorship or individual entrepreneurship is a business concern owned and operated by one person. The sole proprietor is a person who carries on business exclusively by and for himself. He alone contributes the capital and skills and is solely responsible for the results of the enterprise. In fact sole proprietor is the supreme judge of all matters pertaining to his business subject only to the general laws of the land and to such special legislation as may affect his particular business.

**According to J. L. Hanson** – “A type of business unit where one person is solely responsible for providing the capital and bearing the risk of the enterprise, and for the management of the business.”

**The salient features of the proprietorship are as follows:**

- i. Single ownership
- ii. One man control
- iii. Undivided risk
- iv. Unlimited liability
- v. No separate entity of the business
- vi. No Government regulations.

**Advantages:**

(a) Simplicity – It is very easy to establish and dissolve a sole proprietorship. No documents are required and no legal formalities are involved. Any person competent to enter into a contract can start it. However, in some cases, i.e., of a chemist shop, a municipal license has to be obtained. You can start business from your own home.

(b) Quick Decisions – The entrepreneur need not consult anybody in deciding his business affairs. Therefore, he can take on the spot decisions to exploit opportunities from time to time. He is his own boss.

(c) High Secrecy – The proprietor has not to publish his accounts and the business secrets are known to him alone. Maintenance of secrets guards him from competitors.

(d) Direct Motivation – There is a direct relationship between efforts and rewards. Nobody shares the profits of business. Therefore, the entrepreneur has sufficient incentive to work hard.

(e) Personal Touch – The proprietor can maintain personal contacts with his employees and clients. Such contacts help in the growth of the enterprise.

(f) Flexibility – In the absence of Government control, there is complete freedom of action. There is no scope for difference of opinion and no problem of co-ordination

**Disadvantages:**

(a) Limited Funds – A proprietor can raise limited financial resources. As a result the size of business remains small. There is limited scope for growth and expansion. Economies of scale are not available.

(b) Limited Skills – Proprietorship is a one man show and one man cannot be an expert in all areas (production, marketing, financing, personnel etc.) of business. There is no scope for specialization and the decisions may not be balanced.

(c) Unlimited Liability – The liability of the proprietor is unlimited. In case of loss his private assets can also be used to pay off creditors. This discourages expansion of the enterprise.

(d) Uncertain Life – The life of proprietorship depends upon the life of the owner. The enterprise may die premature death due to the incapacity or death of the proprietor. The proprietor has a low status and can be lonely.