

FACULTY OF JURIDICAL SCIENCES

Lecture-29



Factors influencing the choice of suitable form of organization

Nature of business activities:

The nature of business is an important factor affecting a decision about the firm or organization. If a concern deals with local market, a seasonal product or perishable goods, then sole-trade business will be suitable. The capital requirements of such concerns will be less and scale of operation will be low.

Relationship between ownership and management:

There is a direct relationship between ownership and management in sole-trade concern and partnership firms. In company form of organization, management and ownership are in two different hands. The owners (Shareholders) are spread all over the country and they do not take active interest in the working of the enterprise. Therefore only sole- trade and partnership forms are suitable for above relationship.

Managerial Needs:

Managerial and administrative requirements also affect the decision about form of organisation. When the concern is small and it caters to local needs only then one person will be enough to manage the business. Sole – proprietorship form of organization will be suitable for such a business. If business caters to more areas, then more persons will be needed to look after various business functions. When a business is run on a large – scale basis, it will require the services of specialists to manage various departments. The company form of organization will be suitable for such concerns.

Tax Liability:

A joint stock company has more tax liability as compared to a sole – trade business and a partnership firm. A company faces double taxation liability. A company is taxed as an individual first and the profit distributed to shareholders are again liable for tax as income of the recipients. A partnership concern and a sole-trade business are not separately taxed. A small scale concern will be able to avoid higher tax liability.

Continuity:

This is another factor influencing a decision about the form of ownership. If the concern is stable and there is no fear of discontinuity it will attract more investment. The trained and qualified

persons will like to join the concern. The only company form of organization is the only form which ensure stability and continuity.

Capital Requirement:

The need for capital will depend upon the nature of business and scale of operators. A manufacturing concern may require more capital or compared to a retail shop. On the other hand, if scale of operations is large then, capital requirements will also be more. After determining the capital needs the form of organization should be selected.

Flexibility:

A good form of organization should also provide for flexibility in its operations.

Easy information:

The nature and extent of formalities required at the time establishing a concern also influence a decision about the form of organization.

Liability:

In sole – trade and partnership business, the liability of owners is unlimited. In case of companies the liability of shareholders is limited to the value of shares they have purchased.