

**Indira Gandhi Government PG Collage**  
**Bangarmau, Unnao**  
**Department- Department of Commerce,**  
**Paper Name – Business Organization**  
**Paper Code – C010101T**  
**Name of the Teacher- Dr. Suman Devi**

**Unit-1 (Business-Meaning, Nature, Scope, Objectives of Business):**

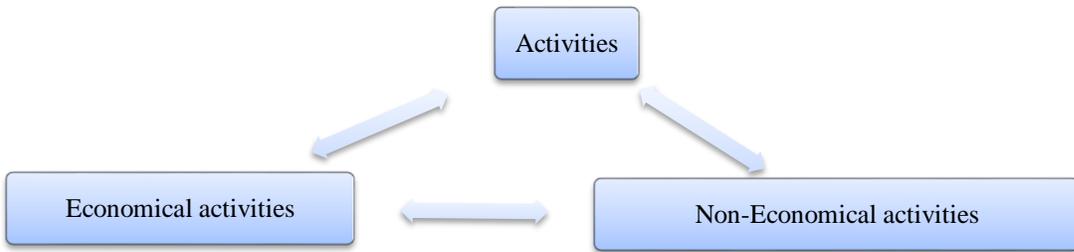
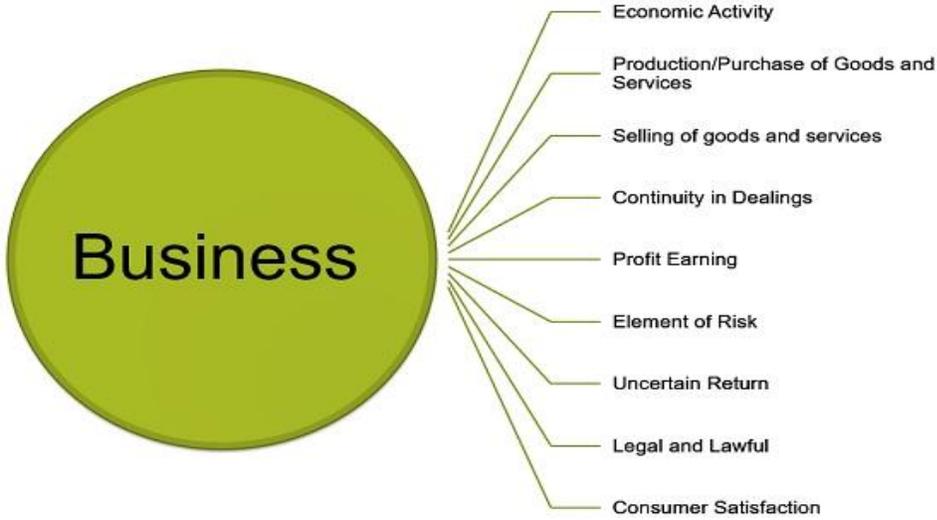
Business-

A business is defined as an organization or enterprising entity engaged in commercial, industrial, or professional activities. The term "business" also refers to the organized efforts and activities of individuals to produce and sell goods and services for profit. Stephenson defines **business** as, "The regular production or purchase and sale of goods undertaken with an objective of earning profit and acquiring wealth through the satisfaction of human wants."

Definition of Professor Owen, "Business is any enterprise engaged in production and distribution of goods for sale in a market or rendering services for a price."

Definition of Keith Davis, "Business may be defined as any form of commercial activity to satisfy the economic wants of people at a profit."

Characteristics of Business-



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Notes

## Nature and Scope of Business

### (i) Economic activities

Activities, which are performed with an objective to earn money, are known as economic activities. For example, farmers grow crops to sell them, a factory or office employees work and get wages or salaries, a business person earns profit through buying and selling of goods or services, these activities are economic activities.



Human Activities

### (ii) Non-economic activities

Activities, which are not performed to earn money but to get some satisfaction, are called non-economic activities. These activities are performed to discharge social obligation or for physical fitness or for recreation etc. People visiting places of worship, providing relief to the victims of flood and earthquake, engaging in sports activities, gardening, listening to radio or watching television are few examples of non-economic activities.

### Difference between Economic and Non-Economic Activities

| Basis             | Economic activities   | Non-economic activities   |
|-------------------|---|---|
| i. Purpose        | Earning motive.   | Social and Psychological motive.  |
| ii. Outcome       | Lead to creation of wealth and assets.  | Lead to satisfaction and happiness.   |
| iii. Expectation  | People expect profits or money income.  | People don't expect profits or money income.  |
| iv. Consideration | They are guided by rational consideration as they involve the use of scarce economic resources such as land, labour, capital etc. | They are motivated by emotional and sentimental reasons. No economic consideration is involved. |



### INTEXT QUESTIONS 1.1

- I. State whether the following statements are true or false by writing 'T' against true statement and 'F' against false statement.
  - i. A doctor attending to patients in his/her clinic is engaged in an economic activity.

## Nature and Scope of Business

- ii. A mother stitching clothes for her children is engaged in an economic activity.
  - iii. A tailor stitching clothes for his customers is engaged in an economic activity.
  - iv. Distributing food to beggars outside the temple is a non-economic activity.
  - v. Sachin Tendulkar playing cricket for the country is performing a non-economic activity.
- II. State which of the following activities are economic and which are non-economic :-
- i. Playing football with friends.
  - ii. Teaching in a school.
  - iii. Attending to one's relative who is unwell.
  - iv. Listening a radio.
  - v. Selling fruits and vegetables in the local market.
  - vi. Preparing food at home for family members.
  - vii. Working in an office.

## 1.2 TYPES OF ECONOMIC ACTIVITIES

We know that economic activities are undertaken to earn money. Generally, people engage themselves in such activities on a regular basis and are said to be engaged in their occupation. Occupations may be classified into three broad categories.

- (i) **Business:** Business refers to an occupation in which goods and services are produced and sold in return of money. It is carried out on a regular basis with the prime objective of making profit. Mining, manufacturing, trading, transporting, storing, banking, and insurance are examples of business activities.



- (ii) **Profession:** A person may not be an expert in every field. So, we require services of others who specialize in one field or other. For example, we need the services of doctors for our treatment, lawyers to get legal support etc. They are all engaged in profession.



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Thus, profession refers to an occupation, which requires specialized knowledge and training to pursue it and primary objective of every profession is to provide service. A professional body regulates every profession. These professionals have a code of conduct developed by the concerned professional body.

- (iii) **Employment:** Employment refers to an occupation in which a person works regularly for another and gets wages/salary in return. Government servants, company executives, bank officials, factory workers are said to be in employment. In employment there are certain terms and conditions regarding work to be performed, hours of work, amount of wages/salary and other facilities, if any. The employer who offers employment normally decides these conditions. The person seeking a job must join the work only after being satisfied with the terms and conditions. The remuneration payable to an employee is fixed and is paid in the form of wage or salary.



Employment

### Differences between Business, Profession and Employment

| Basis of difference | Business   | Profession   | Employment  |
|---------------------|--|--|---|
| 1. Nature of work   | Supply of goods and services to the customers for money.                         | Specialized personal services for a fee with discretion to work. | Performing work according to the orders of the employer with no discretion. |
| 2. Qualifications   | No minimum qualifications required.  | Education and training in a specific field is necessary.         | Specialised knowledge not necessary in all cases.                           |
| 3. Capital          | Capital investment required according to the nature, size and scale of business. | Limited capital required for establishment.                      | No capital required.  |



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|                    |   |  |   |
|--------------------|---|--|---|
| 4. Motivation      | Earning profits from sale of goods and providing services to the customers. | Fixed professional fees for services rendered.                                 | Fixed wage or salary.                           |
| 5. Risk            | There is risk of loss. Profits are uncertain.                               | Fixed income. Liability for negligence of duty.                                | Regular fixed wages or salaries, no risk.       |
| 6. Code of conduct | No specific code of conduct.  | A rigid professional code of conduct to maintain high standards of profession. | Contractual terms and conditions of employment. |



**INTEXT QUESTIONS 1.2**

- I. Fill in the blanks with suitable words :
- The economic activity in which one is engaged on a regular basis is called his/her\_\_\_\_\_.
  - A professional requires \_\_\_\_\_ and training in a particular field.
  - The occupation in which people work for others and earn fixed income is called \_\_\_\_\_.
  - A professional body regulates every profession by laying down the \_\_\_\_\_ for all professionals.
  - The terms and conditions of employment are decided by the \_\_\_\_\_.
- II. Match the phrases in column A with those in column B:
- |   |                       |
|---|-----------------------|
| <b>Column A</b>                             | <b>Column B</b>       |
| i. Primary objective of business            | (a) Special skill     |
| ii. Primary objective of profession         | (b) Making profit     |
| iii. Essential requirement for a profession | (c) Profession        |
| iv. Occupation of a Chartered Accountant    | (d) Providing service |



### 1.3 MEANING OF BUSINESS

You find a variety of goods available in the market. You buy those goods as and when you require them. Do you know how these goods come to the market? Who makes these goods and who brings them to the market? Actually, all these goods are produced at some specific places, then somebody brings these goods from the place of production to the place of distribution. Only then we are able to buy these goods and use them as per our requirement.



Again you must have observed some people are engaged in activities like transportation of goods and passengers, banking, insurance, advertising, supply of electricity, telephone etc. These are all service activities and are performed by the people to earn their livelihood.

In all the above activities, be it production, distribution, purchase or sale of goods and services, monetary gain is expected in each case and also, they are performed on a continuous basis. Thus, business refers to any human activity undertaken on a regular basis with the object to earn profit through production, distribution, sale or purchase of goods and services.

**Business may be defined as “an activity involving regular production or purchase of goods and services for sale, transfer and exchange with an object of earning profit”.**

### 1.4 CHARACTERISTICS OF BUSINESS

The essential characteristics of business are as follows:

- (i) **Deals in goods and services:** People in business are engaged in production and distribution of goods and services. The goods may be consumer goods like bread, butter, milk, tea, etc. or capital goods like plant, machinery, equipments, etc. The services may be in the form of transportation, banking, insurance, warehousing, advertising and so on.
- (ii) **Sale or exchange of goods and services:** If a person produces or buys a product for self-consumption or for gifting it to another, he is not engaged in business. But when he produces or buys goods to sell it to somebody, he is engaged in business. Thus, in business the goods and services produced or purchased must be exchanged for money or for goods (under barter system) between the buyers and sellers. Without sale or exchange of goods the activities cannot be treated as business.

## Nature and Scope of Business

- (iii) **Regular exchange of goods and services:** The production or buying and selling activities must be carried out on a regular basis. Normally, an isolated transaction is not treated as business. For example, if Raju sold his old car to Hari, it is not considered as business, unless he continues to carry buying and selling of cars on a regular basis.
- (iv) **Requires investment:** Every business activity requires some amount of investment in terms of land, labour or capital. These resources are utilised to produce a variety of goods and services for distribution and consumption.
- (v) **Aims at earning profit:** Business activities are performed with the primary objective of earning income by way of profit. Without profit it is not possible to survive for a long period. Earning of profit is also required to grow and expand the business.
- (vi) **Involves risk and uncertainty of income:** We know that every business aims of earning profit. The businessman who invests the various resources expects a fair amount of return. But, inspite of his/her best efforts, the reward he/she gets is always uncertain. Sometimes he/she enjoys profits and also times may come when he suffers heavy losses. This happens because the future is unpredictable and businessperson has practically no control over certain factors that affects his/her earnings.

## 1.5 EVOLUTION OF BUSINESS

We all know that India has a very rich cultural heritage. However, it is not known to many that India was a well developed country in terms of its economy and business. Excavations, written records, literature and above all, India's immense wealth that attracted several foreigners to attack India are testimony to this fact. The Indian civilization was not only agriculture based but there was also flourishing trade and commerce both inside and outside the country. It had contributed immensely to the world of business in different fields. Indian business was unique, innovative, dynamic and qualitatively superior to many other countries of that time.

In the early days Indian economy was totally based on agriculture. People used to produce whatever they required for their self-consumption. There was no need for sale or exchange of goods. But later on, needs of the people increased and so did the production. People began to specialise in producing different items of luxury and daily use and did not have skills and time left for producing other items of their use. However, they were able to produce surplus items

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- iii. He sold his old television set to his neighbour for Rs. 3,000.
  - iv. Rahul bought eggs from the poultry farm to sell to his customers.
  - v. Rahul sells a packet of milk worth Rs. 10 to a customer for Rs. 12.
  - vi. Rahul bought vegetables worth Rs. 30 for his family.
  - vii. He distributed biscuits free of cost to poor children from his shop.
- II. Given below are some statements about business. Some are right and some are wrong. Write 'R' against right statements and 'W' against wrong statements:
- i. Business has no role to play in national integration as it only deals in goods and services.
  - ii. Business does not contribute to improvement in the standard of living of the people.
  - iii. Industrial research is carried out to develop new and innovative products.
  - iv. Business does not allow import of goods from foreign countries.
  - v. Business helps in reducing poverty by generating employment.
  - vi. Business creates a positive image of the country through display and sale of products in international trade fairs and exhibitions.

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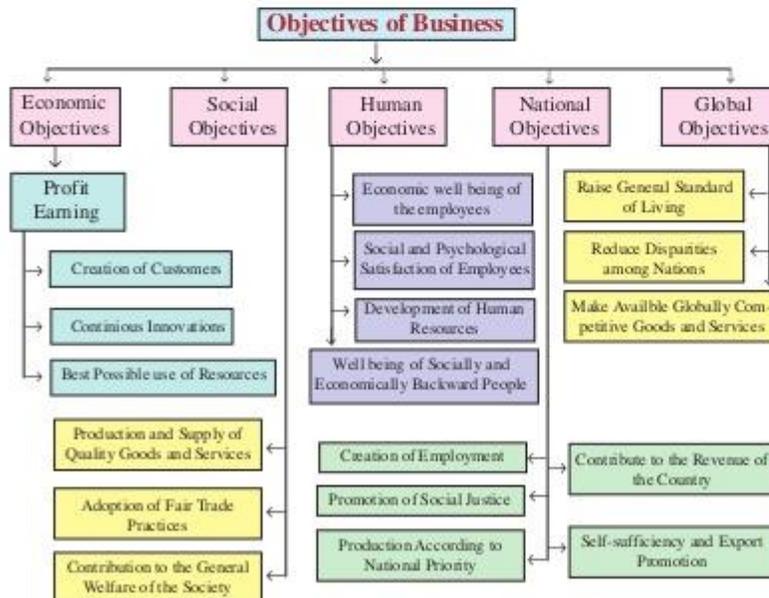
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## 1.6 CLASSIFICATION OF OBJECTIVES OF BUSINESS

All the business activities are performed with some objectives. The objectives of business may be classified as –



**1.6.1 ECONOMIC OBJECTIVES**

Economic objectives of business refer to the objective of earning profit and also other objectives that are necessary to be pursued to achieve the profit objective, which includes creation of customers, regular innovations and best possible use of available resources.

**Profit Earning**

Profit is the lifeblood of business, without which no business can survive in a competitive market. Thus, profit making is the primary objective for which a business unit is brought into existence. Profits help businessmen not only to earn their living but also to expand their business activities by reinvesting a part of the profits.

In order to achieve this primary objective, certain other objectives are also necessary to be pursued by business, which are as follows:

**i) Creation of customers**

A business unit cannot survive unless there are customers to buy the products and services. Again a businessman can earn profits only when he/she provides quality goods and services at a reasonable price. For this it needs to attract more customers for its existing as well as new products. This is achieved with the help of various marketing activities.

**ii) Continuous innovations**

Business is highly dynamic and an enterprise can continue to be successful only by adopting itself to change in its environment. Innovation means changes, which bring about improvement in products, process of production and distribution of goods. Reduction in cost and increase in sales gives more profit to the businessman. Use of power-looms in place of handlooms, use of tractors in place of hand implements in farms etc. are the results of innovation.

**iii) Best possible use of resources**

As you know, to run any business you must have sufficient capital or funds. The amount of capital may be used to buy machinery and raw materials, to employ men and have cash to meet day-to-day expenses. Thus, business activities require various resources like men, materials, money and machines. This objective can be achieved by employing efficient workers, making full use of machines and minimizing wastage of raw materials.



### INTEXT QUESTIONS 1.4

Given below are some statements relating to the economic objectives of business. Some statements are true and some are false. Identify the true statements:

- i. Creation of demand for goods is the primary objective of business.
- ii. Profits are expected to be earned by businessmen in proportion to the amount of capital invested in business.
- iii. It is not always necessary for businessmen to make the best possible use of materials.
- iv. Businessmen should use profits earned from the business only for their own living.
- v. Generation of employment is the primary economic objective of business.

#### 1.6.2 SOCIAL OBJECTIVES

Social objectives are those objectives of business, which are desired to be achieved for the benefit of the society. No activity of the business should be aimed at giving any kind of trouble to the society. Social objectives of business include production and supply of quality goods and services, adoption of fair trade practices and contribution to the general welfare of society and provision of welfare amenities.

(i) **Production and supply of quality goods and services**

Since the business utilizes the various resources of the society, the society expects to get quality goods and services from the business. The objective of business should be to produce better quality goods and supply them at the right time and at a right price. They should charge the price according to the quality of the goods and services provided to the society.

(ii) **Adoption of fair trade practices**

In every society, activities such as hoarding, black-marketing and over-charging are considered undesirable. Besides, misleading advertisements often give a false impression about the quality of products. The business unit must not create artificial scarcity of essential goods or raise prices for the sake of earning more profits. All these activities earn a bad name and sometimes make the businessmen liable for penalty and even imprisonment under the law. Therefore, the objective of business should be to adopt fair trade practices for the welfare of the consumers as well as the society.



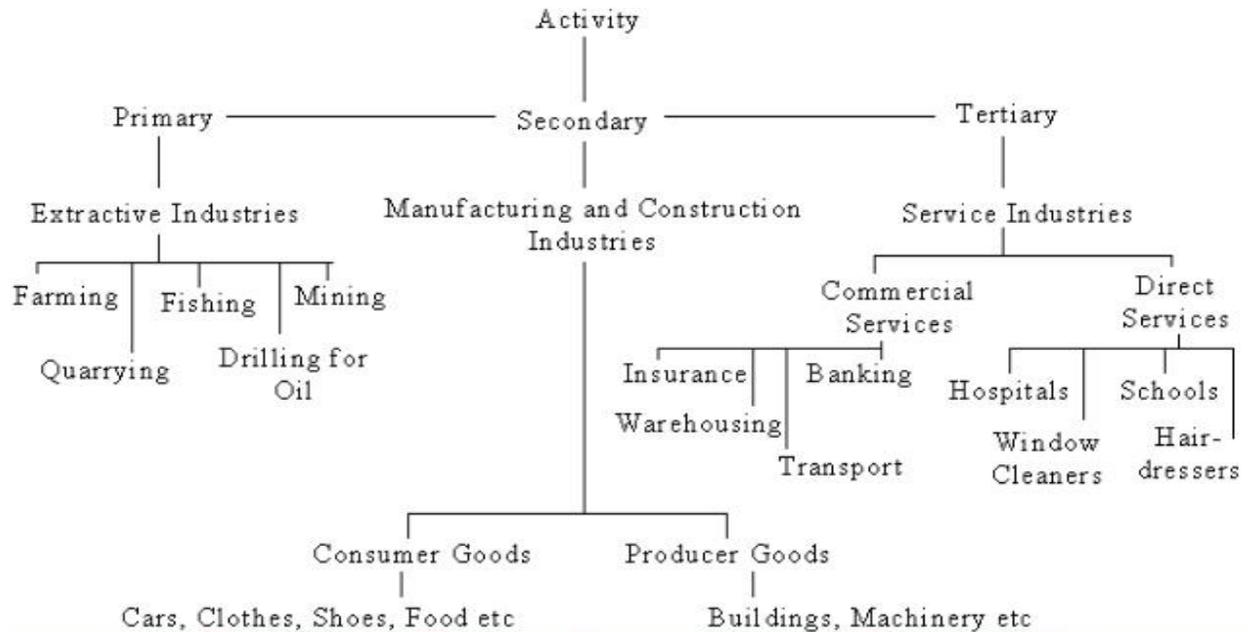
Notes

## NATURE OF BUSINESS

- ENTREPRENEUR
- ECONOMIC ACTIVITIES
- EXCHANGE OF GOODS AND SERVICES
- PROFIT MOTIVES
- RISK AND UNCERTAINTY
- CONTINUITY OF TRANSACTIONS
- CREATION OF UTILITY
- ORGANISATION
- FINANCING
- CONSUMER SATISFACTION
- SATISFYING SOCIAL NEEDS

### Scope of the Business-

The scope of **business** is very comprehensive. It encompasses all human activities, which tend to satisfy needs and wants of the human beings living in a society. A large part of the business is concerned with providing the final or finished products or goods to the desired people.



## 1.8 RESPONSIBILITY TOWARDS DIFFERENT INTEREST GROUPS(OBLIGATIONS OF BUSINESS)

After getting some idea about the concept and importance of social responsibility of business let us look into the various responsibilities that a business has towards different groups with whom it interacts. The business generally interacts with owners, investors, employees, suppliers, customers, competitors, government and society. They are called as interest groups because by each and every activity of business, the interest of these groups is affected directly or indirectly.

### (i) Responsibility towards owners and Investor

The primary responsibilities of business towards its owners are to:

- a. run the business efficiently;
- b. proper utilisation of capital and other resources;
- c. growth and appreciation of capital;
- d. regular and fair return on capital invested;
- e. ensuring safety of their investment;
- f. regular payment of interest; and
- g. timely repayment of principal amount.

### (ii) Responsibility towards Creditors

- a. to make payment timely;
- b. to ensure safety of credit allowed by them; and
- c. to follow norms of business as followed by others.

### (iii) Responsibility towards employees

The responsibilities of business towards its employees include:

- a. timely and regular payment of wages and salaries;
- b. proper working conditions and welfare amenities;
- d. opportunity for better career prospects;
- e. job security as well as social security like facilities of provident fund, group insurance, pension, retirement benefits etc;
- f. better living conditions like housing, transport, canteen, crèches etc; and
- g. timely training and development.

### (iv) Responsibility towards suppliers

The responsibilities of business towards the suppliers are:

- a. giving regular orders for purchase of goods;
- b. dealing on fair terms and conditions;
- c. availing reasonable credit period; and
- d. timely payment of dues.





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### (v) Responsibility towards customers

The responsibilities of business towards its customers:

- a. products and services must be able to take care of the needs of the customers;
- b. products and services must be qualitative;
- c. there must be regularity in supply of goods and services;
- d. price of the goods and services should be reasonable and affordable;
- e. all the advantages and disadvantages of the product as well as procedure to use the products must be informed to the customers;
- f. there must be proper after-sales service;
- g. grievances of the consumers, if any, must be settled quickly; and
- h. unfair means like under weighing the product, adulteration etc. must be avoided.

### (vi) Responsibility towards competitors

The responsibilities of business towards its competitors are not to :

- a. offer exceptionally high sales commission to distributors, agents etc;
- b. offer to customers heavy discounts and/or free products in every sale; and
- c. defame competitors through false or ambiguous advertisements.

### (vii) Responsibility towards government

The various responsibilities of business towards government are:

- a. setting up units as per guidelines of government;
- b. payment of fees, duties and taxes regularly as well as honestly;
- c. not to indulge in monopolistic and restrictive trade practices;
- d. conforming to pollution control norms set up by the government; and
- h. not to indulge in corruption through bribing and other unlawful activities.

### (viii) Responsibility towards society (community)

A society consists of individuals, groups, organizations, families etc. They all are the members of the society. They interact with each other and are also dependent on each other in the performance of almost all activities. There exists a relationship among them, which may be direct or indirect. Business, being a part of the society, also maintains its relationship with all other members of the society. Thus, it has certain responsibilities towards society, which may be as follows:

- a. to help the weaker and backward sections of the society;
- b. to preserve and promote social and cultural values;
- c. to generate employment;
- d. to protect the environment;
- e. to conserve natural resources and wildlife;



BBA-3<sup>rd</sup> Business combination - meaning, causes, merits and demerits of business combinations, Types of Business combination - Horizontal, vertical diagonal, lateral and circular combinations. (1)

Rationalization - meaning, objectives, Techniques merit and demerits. Rationalization without tests  
Methods of labour remuneration - Time, Piece and Incentive plans, Factors affecting wages, Essentials of an ideal or good wage system. 1/3

① Business combination are combinations formed by two or more business units, with a view to achieving certain common objective. (especially elimination of competition); such combination is merely a union of persons, to make a whole or group for the prosecution of some common purposes.

- ② causes of combination →
- ① Reduce wasteful competition.
  - ② Economies of large scale organization.
  - ③ Desire for monopoly power.
  - ④ Reduce the effect of Business cycles.
  - ⑤ Joint stock companies.
  - ⑥ Influence on traffic.
  - ⑦ Cult of the colossal. (Big is better)
  - ⑧ Individual organizing ability.
  - ⑨ Reduction in cost of production.
  - ⑩ Uninterrupted production.

## Types of Business Combination ⇒

- ① ① Horizontal combinations.
- ② ② Vertical combinations.

- ③ ③ Lateral / Allied combination.

refers to the combination of those firms which manufacture diff. kinds of products, though they are allied in some way. Types of lateral comb.:-

(A) Convergent lateral combination ⇒ in it different industrial units which supply raw-material to a major firm, combine together with the major firm. The best illustration is found in a printing press, which may combine with units engaged in supply of paper, ink, types, cardboard, printing machinery etc.

(B) Divergent lateral combination :- It takes place when a major firm supplies its product to other combining firms, which use it as their raw material. The exp. steel mill which supplies steel to a no. of allied concerns for the manufacture of a variety of products like tubing, wires, nails, machinery etc.

(4) Diagonal (or service) combination :- when a unit providing essential auxiliary goods / services to an industry is combined with a unit operating in the main line of production. Thus, if an industrial enterprise combines with a repair workshop for maintaining tools and machines in good order.

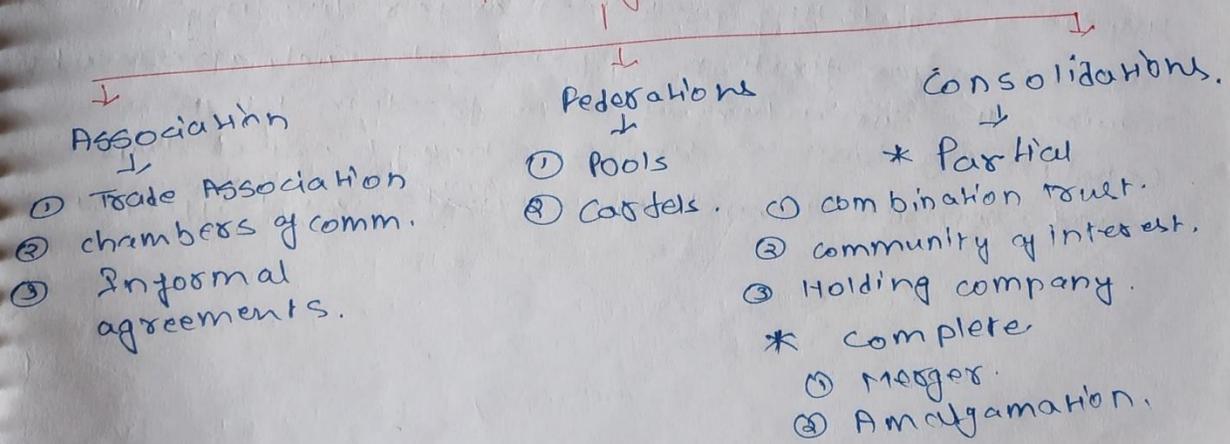
RCEP Trade

⑤ circular (or mixed) combination ⇒  
 When firms engaged in the manufacture of diff. Types of products join together. It is known as circular or mixed combination. Ex. if a sugar mill combines with a steel works and a cement factory.

Forms of Business combination :-

- ① Associations :- Trade associations, chambers of commerce, Informal agreements.
- ② Federations :- ① Pools ② Cartels.
- ③ consolidations - partial and complete.
  - ↓
  - Combination result  
Community of interest  
Holding company.
  - ↓
  - Merger  
Amalgamation

Forms of Bus. combination.



|        |   |
|--------|---|
| Unit 2 | Factors influencing the choice of a suitable form of Business organization. Sole Proprietorship-Meaning, Features, Advantages & Disadvantages. Partnership-Meaning, features, Merits, Demerits, partnership deed, touchstone of partnership. Registration of Partnership firm, Limited Partnership, dissolution of firm. Company-Definition, characteristics, Merits, Demerits, private co. vs. public co. Privileges of Pvt. Co. |
|--------|---|

**Factors influencing the choice of a suitable form of Business organization-**

- (i) Selection of line business
- (ii) Size of the firm
- (iii) Choice of form of ownership
- (iv) Location of business enterprise
- (v) Financing the proposition
- (vi) Physical facilities
- (vii) Plant layout
- (viii) Competent and committed worked force

Various forms of business organizations from which one can choose the right one include:

- (a) Sole proprietorship,
- (b) Joint Hindu family business,
- (c) Partnership,
- (d) Cooperative societies, and
- (e) Joint Stock Company

Let us start our discussion with sole proprietorship—the simplest form of business organization, and then move on to analyzing more complex forms of organizations.

## Sole Proprietorship

Do you often go in the evenings to buy registers, pens, chart papers, etc., from a small neighborhood stationery store? Well, in all probability in the course of your transactions, you have interacted with a sole proprietor.

Sole proprietorship is a popular form of business organization and is the most suitable form for small businesses, especially in their initial years of operation. Sole proprietorship refers to a form of business organization which is owned, managed and controlled by an individual who is the recipient of all profits and bearer of all risks. This is evident from the term itself. The word “sole” implies “only”, and “proprietor” refers to “owner”. Hence, a sole proprietor is the one who is the *only owner* of a Business.

This form of business is particularly common in areas of personalized services such as beauty parlours, hair salons and small scale activities like running a retail shop in a locality.

### Features

Salient characteristics of the sole proprietorship form of organization are as follows:

- (i) Formation and closure: There is no separate law that governs sole proprietorship. Hardly any legal formalities are required to start a sole proprietary business, though in some cases one may require a license. Closure of the business can also be done easily. Thus, there is ease in formation as well as closure of business.
- (ii) Liability: Sole proprietors have unlimited liability. This implies that the owner is personally responsible for payment of debts in case the assets of the business are not sufficient to meet all the debts. As such the owner’s personal possessions such as his/her personal car and other assets could be sold for repaying the debt.
- (iii) Sole risk bearer and profit recipient: The risk of failure of business is borne all alone by the sole proprietor. However, if the business is successful, the proprietor enjoys all the benefits. He receives all the business profits which become a direct reward for his risk bearing.
- (iv) Control: The right to run the business and make all decisions lies absolutely with the sole proprietor. He can carry out his plans without any interference from others.
- (v) No separate entity
- (vi) Lack of business continuity

| <b>Merit</b>                   | <b>Demerit</b>                     |
|--------------------------------|------------------------------------|
| Quick decision making          | Limited resources                  |
| Confidentiality of information | Limited life of a business concern |
| Direct incentive               | Unlimited liability                |
| Sense of accomplishment        | Limited managerial ability         |
| Ease of formation and closure  | Individual limitation              |

### **JOINT HINDU FAMILY BUSINESS**

Joint Hindu family business is a specific form of business organization found only in India. It is one of the oldest forms of business organization in the country. It refers to a form of organization wherein the business is owned and carried on by the members of the Hindu Undivided Family (HUF). It is governed by the Hindu Law. The basis of membership in the business is birth in a particular family and three successive generations can be members in the business. The business is controlled by the

head of the family who is the eldest member and is called *karta*. All members have equal ownership right over the property of an ancestor and they are known as *co-parceners*.

#### **Features:**

- (i) Formation
- (ii) Liability
- (iii) Control
- (iv) Continuity
- (v) Minor Members

| <b>Merit</b>                      | <b>Demerit</b>                      |
|-----------------------------------|-------------------------------------|
| Effective control                 | Limited resources                   |
| Continued business existence      | Unlimited liability of <i>karta</i> |
| Limited liability of members      | Dominance of <i>karta</i>           |
| Increased loyalty and cooperation | Limited managerial skills           |
| Family feeling                    | Personnel influence                 |

### 3. Partnerships-

The Indian Partnership Act, 1932 defines partnership as “the relation between persons who have agreed to share the profit of the business carried on by all or any one of them acting for all.”

According to L. H. Haney, “Partnership is the relation between persons competent to make contracts who have agreed to carry on a lawful business in common with a view to private gain.”

Features:

- (i) Formation
- (ii) Liability
- (iii) Risk bearing
- (iv) Decision making and control
- (v) Continuity
- (vi) Number of Partners
- (vii) Mutual agency

| <b>Merit</b>                  | <b>Demerit</b>            |
|-------------------------------|---------------------------|
| Ease of formation and closure | Unlimited liability       |
| Balanced decision making      | Limited resources         |
| More funds                    | Possibility of conflicts  |
| Sharing of risks              | Lack of continuity        |
| Secrecy                       | Lack of public confidence |

### **Cooperative Society**

The word cooperative means working together and with others for a common purpose. The cooperative society is a voluntary association of persons, who join together with the motive of welfare of the members. They are driven by the need to protect their economic interests in the face of possible exploitation at the hands of middlemen obsessed with the desire to earn greater profits.

The cooperative society is compulsorily required to be registered under the Cooperative Societies Act 1912. The process of setting up a cooperative society is simple enough and at the most what is required is the consent of at least ten adult persons to form a society. The capital of a society is raised from its members through issue of shares. The society acquires a distinct legal identity after its registration.

## **Features**

The characteristics of a cooperative society are listed below:

- (i) Voluntary membership
- (ii) Legal status
- (iii) Limited liability
- (iv) Control
- (v) Service motive

| <b>Merit</b>              | <b>Demerit</b>             |
|---------------------------|----------------------------|
| Ease of formation         | Limited resources          |
| Support from government   | Inefficiency in management |
| Equality in voting status | Lack of secrecy            |
| Limited liability         | Government control         |
| Stable existence:         | Differences of opinion     |

## **Joint Stock Company**

A company is an association of persons formed for carrying out business activities and has a legal status independent of its members. A company can be described as an artificial person having a separate legal entity, perpetual succession and a common seal. The company form of organization is governed by The Companies Act, 2013. As per section 2(20) of Act 2013, a company means company incorporated under this Act or any other previous company law.

The shareholders are the owners of the company while the Board of Directors is the chief managing body elected by the shareholders. Usually, the owners exercise an indirect control over the business. The capital of the company is divided into smaller parts called 'shares' which can be transferred freely from one shareholder to another person (except in a private company).

## **Features**

The definition of a joint stock company highlights the following features of a company:

- (i) Artificial person
- (ii) Separate legal entity
- (iii) Formation
- (iv) Perpetual succession

- (v) Control
- (vi) Liability
- (vii) Common seal
- (viii) Risk bearing

| <b>Merit</b>            | <b>Demerit</b>              |
|-------------------------|-----------------------------|
| Perpetual existence     | Complexity in formation     |
| Scope for expansion     | Impersonal work environment |
| Limited liability       | Lack of secrecy             |
| Transfer of interest    | Numerous regulations        |
| Professional management | Delay in decision making    |