

Basic & Special Forms of Business Ownership

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INTRODUCTION

- ⦿ Business means work, efforts and acts of people which are connected with the production of wealth.
- ⦿ Those human activities which involve production or purchase of goods with the object of selling them at a profit.
- ⦿ According to Urwick & Hunt, “ Business is any enterprise which makes, distributes or provides any article or service which other members of the community need and are able and willing to pay for.”

BUSINESS OBJECTIVES

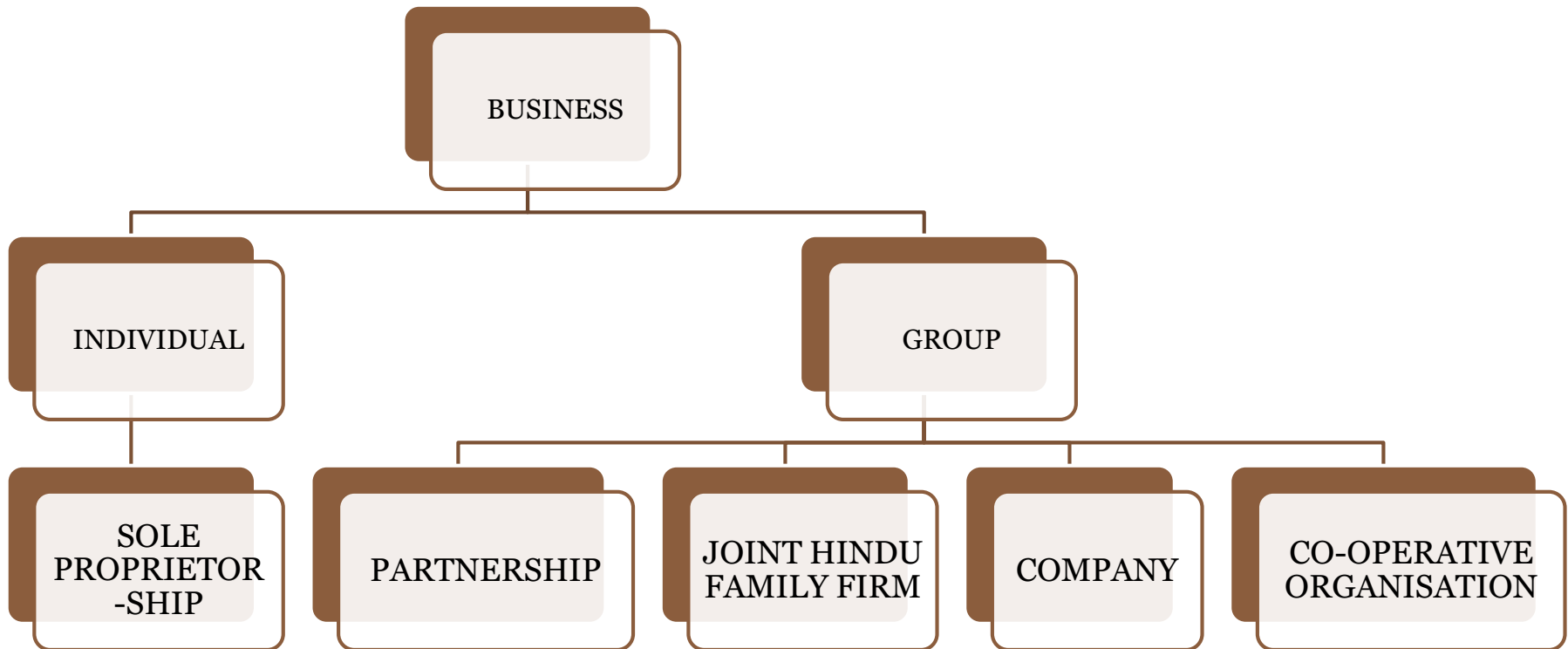
- Economic Objectives
 - Satisfactory Profits
 - Creation of Customers
 - Innovation
- Social Objectives
 - Supply of Quality Goods at Fair Prices
 - Fair Deal to Workers
 - Fair Return to Investors
 - Fair Dealings with Suppliers



FEATURES OF BUSINESS

- Production or Acquisition of Product
- Sale or Transfer of Title
- Dealings in Goods and Services
- Regularity of Dealings
- Profits as Reward for Service Rendered
- Uncertainty or Risk about Future

BASIC FORMS OF BUSINESS OWNERSHIP



SOLE PROPRIETORSHIP

- A sole proprietorship or one man business is a form of organisation in which an individual produces independently with his own capital, skill and intelligence and is entitled to receive all the profits and assumes all the risks of ownership. This form of organisation is the oldest form of business ownership.
- FEATURES:
 - I. One-man Ownership
 - II. Personal Control
 - III. Total or Undivided Risk
 - IV. Unlimited Liability
 - V. Free from Government Regulations
 - VI. Proprietor & Firm are Identical



Advantages & Disadvantages of Sole Proprietorship

ADVANTAGES

- I. Ease of Formation
- II. Direct Motivation
- III. Complete Degree of Control
- IV. Promptness in Decision Making
- V. Flexibility in Operation
- VI. Maintenance of Secrecy
- VII. Catering for Individual Tastes
- VIII. Credit Standing
- IX. Minimum Government Regulation

DISADVANTAGES

- I. Limited Amount of Capital
- II. Limited Managerial Ability
- III. Unlimited Liability
- IV. Uncertainty of Continuity

PARTNERSHIP

- Section 4 of the Partnership Act, 1932 defines Partnership as
“The relation between persons who have agreed to share profits of a business carried on by all or any of them acting for all.”
- FEATURES :
 - I. Contractual Relationship
 - II. Plurality of Persons
 - III. Existence of Business
 - IV. Sharing of Profits
 - V. Mutual Agency

Advantages & Disadvantages of Partnership

ADVANTAGES

- I. Facility of Formation
- II. Benefits of Larger Resources
- III. Flexibility
- IV. Personal Element
- V. Benefits of Combined Ability
- VI. Prompt Decisions
- VII. Sharing of Risk
- VIII. Wholesome Effect of Unlimited Liability
- IX. Protection of Minority Interests

DISADVANTAGES

- I. Lack of Harmony
- II. Limited Resources
- III. Restricted Enterprise
- IV. Instability
- V. Social Loss
- VI. Lack of Public Confidence
- VII. Heavy Burden through Implied Authority

JOINT HINDU FAMILY FIRM

- ◉ In India, there are family businesses in the form of Joint Hindu Family Firm, which are in a sense individual entrepreneurs possessing all the merits and limitations.
- ◉ FEATURES:
 - I. Governed by Hindu Law
 - II. Managed & Controlled by Karta
 - III. Membership by Birth
 - IV. Limited Liability for all except Karta
 - V. Implied Authority of Karta
 - VI. Minor also a Partner
 - VII. Dissolution

ADVANTAGES & DISADVANTAGES OF JOINT HINDU FAMILY FIRM

ADVANTAGES

- I. East to Start
- II. Efficient Management
- III. Secrecy
- IV. Prompt decision
- V. Economy
- VI. Credit Facilities
- VII. Natural Love between Members
- VIII. Freedom regarding Selection of Business

DISADVANTAGES

- I. Limited Membership
- II. Limited Sources of Capital
- III. Limited Managerial Skill
- IV. Unlimited Liability
- V. Misuse of Power



COMPANY

- A company is a voluntary association of persons, recognised by law, having a distinctive name, a common seal, formed to carry on business for profit, with capital divisible into transferable shares, limited liability, a corporate body and perpetual succession.
- FEATURES:
 - I. Created by Law
 - II. Distinct Legal Entity
 - III. Limited Liability of Members
 - IV. Perpetual Succession
 - V. Common Seal
 - VI. Divorce between Ownership & Management



Advantages & Disadvantages of Company

ADVANTAGES

- I. Vast Amount of Capital
- II. Greater Scope for Expansion
- III. Diffused Risk
- IV. Democratisation of Ownership
- V. Transferability of shares
- VI. Stability
- VII. Organised Intelligence
- VIII. Dominant Financial Advantage
- IX. Definite Standing
- X. Limited Liability
- XI. Social Advantage
- XII. Tax Relief

DISADVANTAGES

- I. Difficulty & Cost of Formation
- II. Incapable or Fraudulent Management
- III. Reckless Speculation Encouraged
- IV. Waste & Inefficiency Associated with Indirect Management
- V. Clash of Interests between Members & Management
- VI. Bureaucratic Approach
- VII. Excessive Regulation by law
- VIII. Social ill-effects of a Large Company

CO-OPERATIVE ORGANISATION

- A co-operative organisation is a voluntary association with **unrestricted membership**, and **collectively owned funds**, organised on democratic **principle of equality** by persons of **moderate means and incomes**, who join together to supply their needs and wants through **mutual action**, in which the motive of production and distribution is **service rather than profit**.
- FEATURES :
 - I. Voluntary Association
 - II. Equal Voting Rights to Members
 - III. Democratic Management
 - IV. Render Services & not make Profit
 - V. Payment of Surplus as Bonus to Members
 - VI. Trading on Cash Basis
 - VII. State Control & Corporate Status

Advantages & Disadvantages of Co-operative Organisation

ADVANTAGES

- I. Consumer Control
- II. No Surplus Stock
- III. Expenses Saved
- IV. Complete Integration
- V. No Expense on Publicity
- VI. No profit for Special Class of Investors
- VII. Device for getting Necessaries Cheaper

DISADVANTAGES

- I. Limited Area
- II. Guaranteed Market makes Management Inefficient
- III. Lack of Technical or Professional Knowledge
- IV. Lack of Secrecy
- V. Rate of Return is Limited by Law

SPECIAL FORMS OF OWNERSHIP

FRANCHISING

LICENSING

LEASING

FRANCHISE

- Franchise is a continuing relationship between the parent company (called the franchisor) and an individual business unit (called the franchisee); under which the parent company provides a licensed privilege to the business unit to use its trade mark, in return for a royalty payment made to the parent company.
- FEATURES:
 - I. Based on Agreement
 - II. Term of 5 Years
 - III. Undertaking by Franchisee
 - IV. Specified Royalty
 - V. Selling Same Product & Similar Shop Decor
 - VI. Follow Parent Company's Policies
 - VII. Training to Personnel by Franchisor

Advantages & Disadvantages of Franchise

ADVANTAGES

- I. From the Viewpoint of Franchisor**
 1. Expansion of Business
 2. Regular Income
 3. Economical Advertising
 4. Advantage of Market Feedback
- II. From the Viewpoint of Franchisee**
 1. Little Investment Needed
 2. Advantage of Goodwill to Franchisee
 3. Management Assistance
 4. Advantage of Research & Development

DISADVANTAGES

- I. From the Viewpoint of Franchisor**
 1. Danger of Image Tarnishing
 2. Problems & Costs for the Franchisor
 - A. Demanding Attitude of Franchisee
 - B. Problems & Costs of Communicating with Franchisees
 - C. Costs of Training, Financing & Advertising
- II. From the Viewpoint of Franchisee**
 1. Lack of Freedom
 2. Limited Range of Products
 3. Fixed Royalty Payment

LICENSING

- ◎ A company that owns rights in a patent, know-how, or other IP assets, but cannot or does not want to be involved in the manufacturing of products, could benefit from the licensing out of such IP assets by relying on the better manufacturing capacity, wider distribution outlets, greater local knowledge and management expertise of another company(the Licensee).
- ◎ FEATURES:
 - I. Licensors give license for Production
 - II. Gain Access to New Markets
 - III. Improvements in Product
 - IV. Royalty Income

Advantages & Disadvantages of Licensing

ADVANTAGES

- I. Product reaches Market Faster
- II. R&D Support to Small Companies
- III. Quick Access to New Technology
- IV. Create New Products & Market Opportunities

DISADVANTAGES

- I. Extra Expense added to the Product
- II. Dependent on Agreement & its Renewal
- III. Financial Commitment even if market not ready

LEASING


- A lease can be defined as an arrangement between the lessor (owner of the asset) and lessee (user of the asset) whereby the lessor purchases an asset for the lessee and allows him to use it in exchange for periodical payments called lease rentals or minimum lease payments(MLP).
- FEATURES:
 - I. Renewed Periodically
 - II. Asset goes back to lessor on termination
 - III. Asset sold to third party by lessor
 - IV. Asset may be sold to lessee by lessor

ADVANTAGES & DISADVANTAGES OF LEASING

ADVANTAGES

- I. Balanced Cash Outflow
- II. Quality Assets
- III. Better use of Capital
- IV. Tax Benefit
- V. Better Planning
- VI. Low Capital Expenditure
- VII. Termination Rights

DISADVANTAGES

- I. Lease Expenses
 - II. Limited Financial Benefits
 - III. Debt
 - IV. Processing & Documentation
 - V. No Ownership
 - VI. Maintenance of Asset
 - VII. Limited Tax Benefit
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CHOOSING A FORM OF BUSINESS OWNERSHIP

- ◉ Ease of Formation
- ◉ Ease of Raising Capital
- ◉ Extent of Liability
- ◉ Relative Management & Control Rights of Owners and Managers
- ◉ Decision Making Opportunities
- ◉ Flexibility of Operation
- ◉ Maintenance of Secrecy
- ◉ Continuity of Existence
- ◉ Freedom from Government Regulations
- ◉ Impact of Taxation

THANK YOU

