

BUSINESS ORGANIZATION

I BBA (SEMESTER I)

Business Organization is an entity that is formed for the purpose of carrying on the commercial enterprise of selling and buying. These organizations are based on the systems of law that governs contract and this exchange, property rights, and incorporation. The Business Organisation system is concerned with the management and planning of different activities. This is an accumulation and coordination of the resources such as men, material, money, machine to produce the goods and services, the business organisation works to coordinate and control all these factors of production.

Meaning of Business Organization:

Business organisation is defined as an entity which is structured for the purpose of carrying on the commercial system of enterprise. The organisation is governed under principles and laws governing contract and exchange of goods and services.



Business Organization :-

It is a process of establishing effective co operation between the factors of production for producing goods or services to earn profit.

In the present age production and distribution activities are increasing day by day with the rise in world population standard of living is also improving due to the business activities. Today the man is enjoying all the facilities of life due to the business efficiency. But without business organization we can not solve the business problems. Business organization consists of the skillful activities of the business man which are helpful for promoting the trade commerce and industry. business organization plays very effective role for the business development.

Importance Of Business Organization :-

We can discuss its importance as under :

1. Production of Goods :-

Business organization is very useful for the production process of goods and services. It increases the efficiency of various sections.

2. Reduces the Cost :-

Business organization principles are used to minimize the cost of production. So the profit of the business increases.

3. Distribution :-

Marketing and distribution problem is also being solved by the business organization.

4. Common Link :-

It provides a common link between various of the business activities. So effective cooperation among the various factors increases the profit of the enterprise.

5. Saves the Time :-

Due to business organization we can save our time which is more precious in the present age.

6. Minimum Wastage :-

Business organization reduces the wastage of material and other expenditure. So rate of profit increases.

7. Secretariat Function :-

Business organization teaches us the principles of office organization. It tells us the best way of performing the secretarial functions.

8. Finance Management :-

Business organization also guides the businessman that how he should meet his financial needs and expand the business.

9. Transportation Use :-

It guides the businessman that which type of transport he should utilize to increase the sale and profit of his product.

10. Makes the Businessman Efficient :-

Business organization has enabled the businessman to conduct the business affairs efficiently. It also provides the solution of many problems.

11. Fixes Responsibility :-

It fixes the responsibility of every individual in a different manner. It also introduces the scheme or internal check which works automatically.

12. Solve the Market Problems :-

Business organization solves the problems of buying, selling, storage and grading.

13. Technical Development :-

It is also very helpful for improving the technology in the country. New methods and innovations are used in the production process.

14. Decision Making :-

Decision making is a very important factor for the success of business. The business organization is very useful in making the decisions in time.

15. Provides Skill :-

Business organization provides the skilled people like salesmen to satisfy the customers.

16. Supply according to Demand :-

It guides the producer that he should produce the goods according to the demand of the market. Facts about the market are collected and demand is produced accordingly.

Forms of Business Organization

One of the first decisions that you'll have to make as a business owner is how your business should be structured. You need to know the advantages and disadvantages of each of the different forms of business organization to make sure you're making the right decision for your new business.

All businesses must adopt some legal configuration that defines the rights and liabilities of participants in the business's ownership, control, personal liability, lifespan and financial structure. The form of business determines which income tax return form to file and the company's and owners' legal liabilities.

This is a big decision that has long-term implications, so if you're unsure of which form of business is best for your company, you'll want to consult a professional. Luckily, there are several business counselors and centers across Missouri offering free assistance in forming a business that are knowledgeable and ready to help.

When you're forming your new business, you will want to take into account the following:

- Your (practical) vision regarding the size and nature of your business.
- The level of control you wish to have.
- The level of "structure" you are willing to deal with.
- The business's vulnerability to lawsuits.
- Tax implications of the different organizational structures.

- Expected profit (or loss) of the business.

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

The Types of Business Structures

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

1. Sole Proprietorship
2. Hindu Undivided Family
3. Partnership
4. Company
5. Co-operative Societies

Sole Proprietorship form of Business: Features, Advantages and Disadvantages!

Proprietorship (also called sole trade organisation) is the oldest form of business ownership in India. In a proprietorship, the enterprise is owned and controlled by one person. He is master of his show. He sows, reaps, and harvests the output of this effort. He manages the business on his own. If necessary, he may take the help of his family members, relatives and employ some employees.

Sole proprietorship is the simplest and easiest to form. It does not require legal recognition and attendant formalities. This form is the most popular form in India due to the distinct advantages it offers. William R. Basset opines that “The one-man control is the best in the world if that man is big enough to manage everything”.

MAIN FEATURES:

The main features of proprietorship form of business can be listed as follows:

1. One Man Ownership:

In proprietorship, only one man is the owner of the enterprise.

2. No Separate Business Entity:

No distinction is made between the business concern and the proprietor. Both are one and the same.

3. No Separation between Ownership and Management:

In proprietorship, management rests with the proprietor himself/herself. The proprietor is a manager also.

4. Unlimited Liability:

Unlimited liability means that in case the enterprise incurs losses, the private property of the proprietor can also be utilized for meeting the business obligations to outside parties.

5. All Profits or Losses to the Proprietor:

Being the sole owner of the enterprise, the proprietor enjoys all the profits earned and bears the full brunt of all losses incurred by the enterprise.

6. Less Formalities:

A proprietorship business can be started without completing much legal formalities. There are some businesses that too can be started simply after obtaining necessary manufacturing licence and permits.

Advantages:

The various advantages that proprietorship form of business offers are as follows:

1. Simple Form of Organisation:

Proprietorship is the simplest form of organisation. The entrepreneur can start his/her enterprise after obtaining license and permits. There is no need to go through the legal formalities. For starting a small enterprise, no formal registration is statutorily needed.

2. Owner's Freedom to Take Decisions:

The owner, i.e. the proprietor is free to make all decisions and reap all the fruits of his labour. There is no other person who can interfere or weigh him down.

3. High Secrecy:

Secrecy is another major advantage offered by proprietorship. This is because the whole business is handled by the proprietor himself and, as such, the business secrets are known to him only.

Added to it, the proprietor is not bound to reveal or publish his accounts. In present day business atmosphere, the less a competitor knows about one's business, better off one is. What the competitors can make is guesstimates only.

4. Tax Advantage:

As compared to other forms of ownership, the proprietorship form of ownership enjoys certain tax advantages. For example, a proprietor's income is taxed only once while corporate income is, at occasions taxed twice, say, double taxation.

5. Easy Dissolution:

In proprietorship business, the entrepreneur is all in all. As there are no co-owners or partners, therefore, there is no scope for the difference of opinion in the case the proprietor/entrepreneur wants to dissolve the business. It is due to the easy formation and dissolution, proprietorship is often used to test the business ideas.

Disadvantages:

Proprietorship form of ownership suffers from some disadvantages also.

The important ones are:

1. Limited Resources:

A proprietor has limited resources at his/her command. The proprietor mainly relies on his/her funds and savings and, to a limited extent, borrowings from relatives and friends. Thus, the scope for raising funds is highly limited in proprietorship. This, in turn, deters the expansion and development of an enterprise.

2. Limited Ability:

Proprietorship is characterised as one-man show. One man may be expert in one or two areas, but not in all areas like production, finance, marketing, personnel, etc. Then, due to the lack of adequate and relevant knowledge, the decisions taken by him be imbalanced.

3. Unlimited Liability:

Proprietorship is characterised by unlimited liability also. It means that in case of loss, the private property of the proprietor will also be used to clear the business obligations. Hence, the proprietor avoids taking risk.

4. Limited Life of Enterprise Form:

The life of a proprietary enterprise depends solely upon the life of the proprietor. When he dies or becomes insolvent or insane or permanently incapacitated, there is very likelihood of closure of enterprise. Say, enterprise also dies with its proprietor.

5. Low competitiveness.

Due to its limited size and resources, your business often faces stiff competition from more established companies. As a result, it is difficult to beat the competition and survive in the market.

6.Relying heavily on the owner

Your business success highly depends on your qualities and skills as an owner. In addition to business management skills, you also need interpersonal skills to build good relationships with stakeholders and make your business a success. Suppose you pass the business on to your relatives, for example, your children. In that case, the business may not achieve the same success. Or, conversely, businesses are more successful than when you manage them because they are more proficient.

7. Low continuity

Since it has no separate legal status, the sustainability of the business depends on the owner. The business can end if the owner dies unless passed on to the next generation.

8.The difficulty for recruitment

You may have difficulty recruiting talent and professionals. They usually prefer more established companies which offer more job security and income.

9.Stress

Sole proprietorships usually do not have a clear and formal division of labor. As a business owner, you must make decisions, manage day-to-day operations, and develop competitive strategies. In other words, you have to perform many different roles in the business. It can involve long and tiring work hours, leading to stress.

HINDU UNDIVIDED FAMILY BUSINESS

Hindu Undivided Family business is a precise kind of business structure found only in India. This is one of the classical methods of business structure in the nation. It is administered by the Hindu Law. The source of membership in the company is birth in a family and 3 consecutive generations be members of the company.



The business is managed by the head of the family (eldest member) and he is called Karta. However, all the members hold equal ownership over the property of an ancestor and they are called as co-parceners.

Meaning of Joint Hindu Family Business

- It refers to a form of business organization which is owned and carried on jointly by the members of the Hindu Undivided Family (HUF).
- It is also known as Hindu Undivided Family Business.

Characteristics of Joint Hindu Family Business:

Formation

- There should be at least two male members in the family to form a HUF.
- Ancestral property should have been inherited by members of HUF.
- All of the members enjoy this property and have an equal share in that property.
- Thus, any child taking birth in that family becomes a member of the HUF.
- There is no requirement for an agreement to become a member.

Liability

- There is limited liability of all the members or co-parceners in the Hindu Undivided Family business.
- All the co-parceners have equal rights and shares in the property of Hindu Undivided Family business
- The Karta has unlimited liability.

Control

- Karta is the person who has full control over the Hindu Undivided Family business.

- Karta can take advice from all the members but he is not bound to accept their decisions.

Continuity

- After the “Karta” is deceased, the very next eldest member takes up the position of Karta in Hindu Undivided Family business.
- The business can be divided and ended up by the mutual consent of the members.

Minor Members

- The person who has taken birth in Hindu Undivided Family can be a member of the family business.
- Therefore, a minor can also be a member of the family.

Important terms which are used in a Joint Hindu Family Business:

(1) Hindu Undivided Family

- The family who runs or carry on the business organization.
- Hindu Undivided Family includes an eldest male member ‘Karta’ and the other male members called co-parceners.

(2) Karta

- He is the person who is the head and eldest member of the family.
- Karta is the person who has full control over business activities.

(3) Ancestral Property

- It is the property of forefather or an ancestor and over which the members have equal right.

(4) Co-parceners

- It consists of propositus and three lineal descendants.
- They have equal ownership rights over the property of an ancestor.

Systems which are used in a Joint Hindu Family Business

There are two systems which are used in joint Hindu family business :

(1) Dayabhaga System

- It prevails in West Bengal & Assam and allows both the male and female members of the family to be co-parceners.
- A son gets right in the ancestral property only after the death of his father.

(2) Mitakashara System

- There are four sub-schools – Benares, Mithila, Maharashtra or Bombay, and Dravida or Madras school.
- The application of schools of Mitakshara is regionwise.
- Mostly, it prevails in most parts of India, except West Bengal.
- It allows only the male members to be co-parceners in the business.

Note: The Hindu Succession (Amendment) Act, 2005 gave Hindu women the right to be coparceners or joint legal heirs in the same way a male heir does.

Recommended Link: [Advantages of Sole Proprietorship](#)

What are the merits of a Joint Hindu Family Business?

The merits of the joint Hindu family business are as follows:

(1) Effective Control

- The Karta has full control over the business activities and takes a decision quickly.
- No one can interfere in the decision of Karta as every member is bound to accept his decision.
- Hence, it avoids clashes among the members and results in very speedy decision making.

(2) Continued Business Existence

- After the death of Karta, the next eldest member takes up his position. So, it does not affect the activities of the business.
- Hence, all the business activities are done smoothly, continuously without any threat.

(3) Limited Liability of Members

- As all the liability of the members is restricted to the extent of their share in the business.
- But the Karta has unlimited liability due to his complete hold on the business.
- Hence, in case of dissolution of the business, Karta's personal assets and his share will be liable.

(4) Expanded Loyalty and Cooperation

- All the business operations are carried on by the members of a family jointly.
- So, this increases loyalty and cooperation with each other without any hindrance.
- Therefore, all the targets of the business can be achieved by the cooperation among the members and the Karta.

Limitations of a Joint Hindu Family Business

Below-mentioned are the few demerits of a joint Hindu family business:

(1)Limited Resources

- All the members of Joint Hindu Family Business totally depend upon the ancestral property due to their limited liability.
- Many commercial banks resist extending the credit limit due to the weak financial position of the business.
- Hence, this will result in limited expansion and growth of the business.

(2)Unlimited Liability of Karta

- All the important decision regarding management of various business activities are taken by Karta.
- But there is a disadvantage with the Karta that he has unlimited liability.
- Hence, all the business debts are paid by using the personal assets of the Karta.

(3)Dominance of Karta

- The Karta takes all the decisions individually and manages the business
- He also involves other members in decision making.
- But Karta is not bound to accept the decisions of the members which may create conflicts between the Karta and the other members.
- Hence, due to clashes in decision making, lack of cooperation between Karta and other members occurs.

(4)Limited Managerial Skills

- Sometimes the members suffer due to unfair decisions taken by the Karta in respect of business operations.
- Unfair decisions are taken due to the lack of managerial skills.
- So, the Karta cannot be knowledgeable or proficient in all managerial functions.
- Nowadays, the joint Hindu family business is declining due to the decreasing number of joint Hindu families in the nation.

PARTNERSHIP FIRM

Partnership is an association of two or more persons to carry on a business in the capacity of co-owners. Each such person is called a partner. All the partners share the profits and losses in proportion of their respective ownership, or as agreed between them.

The amount of money that can be committed by a partnership firm is much larger. This is possible because each partner can bring in a part of the total amount of capital required rather than only one person arranging the money. There are more people to take care of different functions of the business (such as Marketing, Finance, Production, etc.). Thus business can be managed better. However, decision making is collective. There is a need to involve and convince other partners before any decision can be taken.

A partnership can be formed either orally or in writing. There is a limit on the number of partners who can start an enterprise together.

Definitions:

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

“Partnership is the relation which subsists between persons, who have agreed to combine their property, labour or skill in some business and share the profits thereof between them” -Indian Contract Act, 1872.

Main Features:

Based on the above definitions, we can now list the main features of partnership form of business ownership/organisation in a more orderly manner as follows:

1. More Persons:

As against proprietorship, there should be at least two persons subject to a maximum of ten persons for banking business and twenty for non-banking business to form a partnership firm.

2. Profit and Loss Sharing:

There is an agreement among the partners to share the profits earned and losses incurred in partnership business.

3. Contractual Relationship:

Partnership is formed by an agreement-oral or written-among the partners.

4. Existence of Lawful Business:

Partnership is formed to carry on some lawful business and share its profits or losses. If the purpose is to carry some charitable works, for example, it is not regarded as partnership.

5. Utmost Good Faith and Honesty:

A partnership business solely rests on utmost good faith and trust among the partners.

6. Unlimited Liability:

Like proprietorship, each partner has unlimited liability in the firm. This means that if the assets of the partnership firm fall short to meet the firm's obligations, the partners' private assets will also be used for the purpose.

7. Restrictions on Transfer of Share:

No partner can transfer his share to any outside person without seeking the consent of all other partners.

8. Principal-Agent Relationship:

The partnership firm may be carried on by all partners or any of them acting for all. While dealing with firm's transactions, each partner is entitled to represent the firm and other partners. In this way, a partner is an agent of the firm and of the other partners.

Advantages of Partnership:

i. Ease of Formation:

Any two persons capable of entering into contract can start partnership. The partnership deed can be oral or written. Registration is not compulsory. Thus, partnership is very easy to form. However, business conditions or requirements may force partnerships to be formed through a partnership deed, which is in writing. For example, banks may not allow a partnership firm to open a banking account unless there is a written partnership deed.

ii. Flexibility of Operations:

There is considerable freedom in carrying out business operations. There is no need for taking approvals from Government or any other authority, to change the nature, scope or location of the business.

iii. Greater Financial Resources:

Partnership combines the financial strength of all partners, as the liability of partners is joint and several. Not only is the ability to contribute capital greater, it also enhances the borrowing capacity of the firm.

iv. Greater Managerial Resources:

Partnerships are often formed by people looking for advantages of synergy. If one partner has technical knowledge, other could be marketing or finance expert. Thus, the managerial resources of the firm are enhanced. The financial resources available with the firm enables the firm to employ a good manager on salary basis for taking care of the business in a professional manner.

v. Greater Creditworthiness:

When a lender evaluates the proposal for loan, he looks at the creditworthiness of the borrower. A partnership firm, by definition, has more than one person responsible for the business. All partners are jointly and severally liable for the debt taken by the firm. The personal assets of all the partners can be used for repayment of the loan. All this gives greater confidence to the lenders. Thus, a partnership firm enjoys greater creditworthiness and therefore raise more debt for the business.

vi. Balanced Judgement:

In a partnership, the day to day management might be taken care of by one or few partners. However, in case of major issues, partners are likely to discuss the circumstances and arrive at a balanced judgement. Decisions are unlikely to be taken in haste, or in emotion.

vii. Specialisation:

Partnership can benefit from division of labour. Partners may choose to specialise in an area of interest. Partners can clearly define responsibilities and duties amongst themselves. This will result in expertise in management, apart from increase in efficiency, thereby maximising profits.

viii. Maintenance of Secrecy:

A partnership firm is a closely held business. It is not required by law to share its performance and position with others. Thus, all knowledge about the firm is restricted to only the partners of the firm.

ix. Personal Contacts with Staff and Customers:

A partnership concern is a relatively small organisation, whose activities can be managed by a group of people. Thus, partners keep in close contact with customers and staff. They are thus able to note the changing tastes and attitudes and react faster to such changes.

x. Economies in Management:

Partners have a stake in the profits of the business. They ensure that wastage is kept at the minimum. All expenses are closely supervised. Thus, expenses of management are controlled.

xi. Conservative Management:

Partners have unlimited liability. Unlimited liability prevents the partners from taking reckless decisions. They not only ensure that the decisions taken by them are acceptable to all, but also confirm that no other partner is acting needlessly aggressive.

xii. Protection of Minority Interest::

A partner being jointly and severally liable for any action of the firm, he has a right to stop the firm from taking action that is not in the interests of the firm. Such a partner cannot be ignored even if majority of partners feel otherwise. Decisions of partnership need the consent of all partners.

xiii. Incentive to Hard work:

Partners have share in the profits of the firm. Partners put in hard work and try to increase profits of the firm. A sincere and committed effort brings in extra rewards.

xiv. Risk Reduction:

The profits and losses are shared by all partners. Similarly, if the firm is unable to meet any of its payment obligations, all partners are responsible. Thus, partnership offers risk reduction as the risk is spread across partners.

xv. Greater Scope for Expansion:

As number of partners is larger, the firm can plan for faster expansion. It can also have geographical expansion, as a partner can be mobile and sufficiently experienced to handle the organisational activities from a new place.

xvi. Easy Dissolution:

It is very easy to dissolve the partnership firm. Any partner can ask for dissolution of firm by giving a 14 day notice. The firm can be dissolved on death, insolvency or lunacy of any partner. No legal formalities are required.

xvii. Taxation:

The Income Tax Act, 1961 treats a Partnership as a separate 'person' and its tax is calculated separately. This allows scope for partners to do tax planning and reduce total tax payable to minimum.

Disadvantages of Partnership:

i. Unlimited Liability:

Partners become fully liable for all claims against the firm to an unlimited extent. The partner might lose all the savings of his life on account of a loss or a mistake in business. This is one of the reasons that the selection of a partner or association with a like-minded partner is the most important thing in forming a partnership business.

ii. Restriction on Transfer of Interest:

One of the golden rules of any investment is that there must be an easy exit. If partner needs money, or is not in agreement with others, he cannot transfer his interest in the firm to outsiders without the consent of outsiders. A partner will not be able to reduce or increase his stake in the partnership.

iii. Inadequacy of Capital:

The number of partners in a firm is restricted to a maximum of twenty persons. Thus, a partnership firm may not be in a position to raise the required capital to finance its expansion plans. Hence, businesses that need large amounts of capital are generally organized as Joint Stock companies. For example, an oil refining business like Reliance Industries Limited or a car manufacturing business like Tata Motors Limited, cannot be imagined as Partnership firms.

iv. Mutual Conflicts:

Partnership requires close cooperation and a lot of understanding amongst partners. If there is a serious difference of opinion amongst partners, with different partners trying to pursue different goals then it is not good for the health of the business. Friction between partners will eventually lead to closure of business.

v. Uncertain Continuity:

Partnership may be dissolved on account of death, insolvency, insanity or incapacity of any of the partners. There is always a serious threat to continuity of business in its existing form. Hence, partnership firms are not suited to businesses requiring long term capital and plans.

vi. Delay in Decision Making:

While day to day management is handled by one or more partners independently, any major decision requires the consent of all partners. A discussion and consensus on decision to be taken might be time consuming, resulting in the firm losing out on prompt action.

vii. Risk of Implied Authority:

A partner can bind all other partners of the firm by his actions. This is a great risk to the other partners, as any hastily taken action may result in wiping out the life savings of all partners. It is seen that mistrust and wrong decisions by managing partners usually lead to dissolution of partnership firms.

viii. Lack of Public Confidence:

The affairs of the firm are not subject to public scrutiny. The performance and position of the firm is not published. Hence, the firm does not enjoy any public confidence.

ix. Aversion to Risk:

The liability of all partners is unlimited. Also, the partners are jointly and severally liable. In other words, a wrong step taken by one partner can result in all or some of the partners becoming bankrupt. Keeping this in mind, partners have a very high aversion to risk.

x. Limited Scope for Expansion:

A partnership firm can have only a limited number of partners. The liability of these partners is unlimited. Therefore, their ability to take risk is limited. This limits the ability of the firm to expand and grow.

xi. Continuation of Responsibilities:

Normally, the responsibilities pertaining to a business end with closure of the business. However, in case of Partnership firms, unless the liability of the firm is limited (LLP or Limited Liability Partnership), the responsibility of partners continues even after the firm is closed down (dissolved). This continues till the claims of all outsiders are completely settled.

xii. No Independent Legal Status:

Partnership firm is not separate or distinct from its members. It does not have a separate legal entity of its own. Partners enter into contracts on behalf of each other.

Suitability of Partnership Form of Business:

Sole proprietorship is suitable for businesses which are relatively small, require small amounts of capital, risks are not high and decision making needs to be quick. However, as the size of the business grows, the business needs different types of skill-sets to carry out its different functions. It needs more capital and multiple things need to be done simultaneously. For example, customers need to be attended to and at the same time, a bank loan may have to be negotiated. Thus, as enterprises grow large, a Partnership form of business might be more suitable for small and medium sized businesses.

Partnership form of business has its own advantages and disadvantages. However, many a times, it is most suitable form to run a small business.

Some such instances are listed below:

- a. In case of businesses where the capital requirement is medium i.e. it is neither too large nor too small. Business like retail and wholesale trade or small manufacturing units can be successfully started by partners.
- b. Businesses that need different ability, managerial talent, skill and expertise are best run in Partnership mode. For example, businesses such as Construction, Legal firms etc. prefer Partnerships where each partner contributes the best as per his specialization.
- c. Family Businesses are best organized as partnerships wherein Husband and Wife, Parents and Children, Brothers and Sisters can become partners of a firm.
- d. Businesses requiring flexibility of operations, wishing to avoid elaborate compliance requirements will prefer Partnership form of business.

Kinds of Partners:

i. Active or Working Partner:

A Partner who contributes capital to the firm and also takes active part in the day to day operations of the business is called an 'Active' or 'Working' Partner. Such a partner might be

paid additional remuneration in the form of 'salary' for the work done by him. The day to day business decisions are taken by the Active Partner(s).

ii. Dormant or Sleeping Partner:

A dormant partner does not take part in the activities of the business. He merely contributes capital to the business and shares the profits earned by the firm. However, he is entitled to all the rights of a partner and is liable for all the acts of the firm and other partners.

iii. Nominal Partner:

A Nominal partner is a person who lends his name and reputation to the partnership. He neither contributes capital to the firm, nor takes active part in the activities of the business. He is not entitled to any benefits accruing to a partner of the firm. However, he is liable to outside parties for the claims against the firm.

iv. Partners in Profits Only:

A person who becomes a partner on the specific understanding that he shall get a share in the profits of the firm, but shall not share any loss sustained by the firm. However, even such a partner is liable for claims against the firm. Usually, such partners contribute their reputation and goodwill to the business. They may or may not take active participation in the day to day operations of the business.

v. Partnership by Estoppel:

'Partner by Estoppel' is not a partner of the firm. However, by his behaviour, talk, etc., he creates an impression in the minds of outsiders that he is partner in the firm. He is not entitled to any benefit that may accrue to a partner of the firm. However, he is liable to the outsiders for claims against the firm, as the outsiders might have extended credit to the firm on the belief that such a person is a partner of the firm.

For example, A, B and C are three brothers. B and C are carrying on a small business. D is a close friend of A, A gives an impression to D that he is partner in the business of B and C. D gives a loan to the firm, which is not recoverable. D can claim the money from A as he gave the loan under the impression that A is a partner. He would not have given the loan, if he knew that A is not a partner. Thus, A is liable to 'D' and is estopped (prevented) from denying liability on the ground that he is not a partner.

vi. Partner by Holding Out:

If a person is projected as a partner of the firm and the person does not deny it, then he becomes a partner by Holding Out. 'Partner by Holding Out' also is not a partner of the firm. However, he is also liable for all the claims made on the firm by third parties, as they might have given a credit to the firm on the belief that such person is a partner.

For example, X, Y and Z are three brothers. X is a highly successful businessman. Y and Z are carrying on a small business in partnership. In a party, Y introduces X to M as his partner. X

does not deny it, although he does not expressly state that he is a partner. M gives loan to the firm, which is not recoverable. M can recover the loan from X. X is a 'Partner by Holding Out'.

vii. Quasi Partner:

Quasi partner is a person who is no longer a partner of the firm, but creates an impression that he continues to be a partner of the firm. Since he has retired from the firm, he neither takes part in decision making, nor share profits of the firm. He does not have any capital in the firm. However, since he creates an impression that he is continuing as partner, his liability is unlimited.

viii. Secret Partner:

Secret partner is a partner of the firm but does not wish to be known as partner to outsiders. However, he is entitled to all the rights of a partner and is liable for all the claims on the firm. The fact that outsiders have extended credit to the firm without knowing that he is a partner cannot be used as a defense either by the partner or the firm.

ix. Limited Partner:

He is a partner whose liability is limited to his contribution to capital. Thus, in the event of any loss, such a partner will lose only the capital invested by him. In other words, his private assets are protected.

x. Sub Partner:

Sub partner is not a partner of the firm. In fact, he has nothing to do with the firm. For the firm, such a person does not exist. A sub partner is a person who has an agreement with one of the partners of the firm to share his profits/ losses from the partnership firm. It is a private agreement between the partner and sub partner.

For example, let us say, A and B are partners in a firm sharing profits and losses equally (each partner gets 50%). A and his wife, Mrs. A enter into an agreement that A shall share all his profits (and losses) from the partnership with her in the ratio of 3:1. Accordingly, Mrs. A pays 25% of the capital contributed by A in the partnership firm. Neither B nor the rest of the world is aware of the agreement between A and his wife. Mrs. A is then a sub partner.

A sub partner does not have any liability towards the firm. He or She may not even contribute capital. The rights and obligations of the sub partner are driven by the agreement with the main partner.

xi. Minor as a Partner:

A minor is a person who has not yet attained the age of majority, which is 18 years. A 'Minor' does not enjoy the capacity to enter into contracts in his own. Since Partnership is a contractual relationship, a minor cannot become a partner.

As per the Indian Contract Act, a minor cannot enter into a contract and if any such contracts have been entered into, then such contracts are void. However, he can be admitted into the benefits of Partnership, with the consent of all partners of the firm.

The following are the rights and liabilities of a minor, who is a partner:

- (a) A minor has a right to the share of the profits and property of the partnership, as per the agreement between the partners.
- (b) He can inspect the books of accounts of the firm.
- (c) The liability of a minor is limited to his share of capital in the firm. He is personally not liable for any wrong doings by the firm and his personal property will not be attached while paying the liabilities of the firm.
- (d) A minor cannot sue the other partners for payment of his dues in respect of his share in the profits of the firm. However, if he decides to leave the partnership, then he can sue the other partners for payment and final settlement of his dues relating to his partnership share.
- (e) A minor, within six months of attaining majority, shall decide whether he wants to continue as a partner in the business or leave the partnership. He shall do this by giving a public notice regarding his decision. However, if he fails to give a public notice regarding his decision or if he fails to decide within six months of attaining majority, then he shall become a partner.
- (f) If a minor decides to become a partner then he shall be liable for all acts, debts and obligations of the firm, since the date of his admission into benefits of partnership of the firm. His personal assets shall be used to repay the liabilities of the firm, if required.
- (g) If he decides not to become a partner, he shall not be liable for any acts of the firm after the date of issue of notice.

Formation of Partnership – Partnership Deed:

A Partnership is formed by two or more persons who enter into an agreement to carry on business. This agreement may be oral or in writing. However, it is always preferable to have the agreement in writing, so that possibility of any misunderstanding in future is avoided. If all important terms and conditions regarding the partnership business are agreed upon, put in writing and signed by all partners, such agreement is called ‘Partnership Deed’.

The terms and conditions contained in the Partnership Deed are called Articles of Partnership. Partnership Deed mainly contains details regarding internal management as well as relations with external parties such as debtors and creditors. It should be properly stamped as per the provisions of Indian Stamp Act, signed by all parties and a copy of the deed should be kept by all the partners.

The rights, duties and liabilities of partners can be inferred from the ‘Partnership Deed’. Only when the ‘Partnership Deed’ is silent in respect of any issue, the provisions of Partnership Act are involved.

Contents of Partnership Deed:

The following aspects are normally covered in the partnership deed:

- i. Name of the firm
- ii. Names, addresses, qualifications and occupations of partners.
- iii. Nature and Scope of Business proposed to be carried on by the firm.
- iv. Objects of the firm. (The word “Objects” is used to mean “objectives” or purpose.)
- v. Duration of Partnership, if any.
- vi. The place where business is proposed to be carried on.
- vii. Amount of capital to be contributed by each partner.
- viii. Amount that can be withdrawn by a partner from the business.
- ix. The rate of interest that shall be payable to partners on their capital.
- x. The extent to which each of the partner would be involved in the day to day management of the business
- xi. The rate of interest that shall be charged to partners on withdrawal of capital from the business.
- xii. The ratio in which partners shall share the profits or losses.
- xiii. The amount of salary or commission payable to any partner for any services rendered to the firm.
- xiv. Allocation of responsibilities of business amongst various partners.
- xv. Maintenance of Books of Account of partnership firm
- xvi. Process for audit and Inspection of Accounting books by a partner.
- xvii. Matters pertaining to admission or retirement of a partner.

- xviii. The method of valuation of Goodwill at the time of admission / retirement of partners.
- xix. The method of revaluation of assets and liabilities on admission retirement or death of a partner.
- xx. Loans and Advances given to the firm by the partners and the rate of interest that shall be payable.
- xxi. Procedure of Dissolution of the firm and mode of settlement of accounts after dissolution.
- xxii. Arbitration clause for settlement of disputes, if any, between partners.
- xxiii. The conditions for expulsion of a partner and procedure for expulsion.
- xxiv. Arrangement in case of insolvency of a partner.
- xxv. The rights, duties and obligations of partners.
- xxvi. Operation of Bank Accounts and authority for signing Cheques and other documents.
- xxvii. Any other clause or clauses that may be desired by the partners to be included in the Deed.

Rights, Duties and Liabilities of a Partner:

The Partnership Deed contains details of rights, duties and liabilities of a Partner. If there is no partnership deed, or the deed is silent on any aspect, the provisions of Partnership Act come into force.

Generally, the rights, duties and obligations of a partner are as under:

Rights of a Partner:

- i. To take part in management of business of the firm.
- ii. To express his opinion on any matter concerning the firm.
- iii. To vote on any issue requiring consent of atleast a majority of partners
- iv. To access, inspect and maintain a copy of books of account of the firm.
- v. To share profits of the firm as per agreement.

- vi. To receive interest on loans advanced by the partner to the firm. If rate of interest is not fixed, it is calculated @ 6% p.a.
- vii. To receive any amount spent by him/her in the proper conduct of business of the firm.
- viii. To be indemnified for any loss incurred in the conduct of business of the firm.
- ix. To remain as partner of the firm, unless expelled from partnership as per the Partnership Deed. For example, a partner cannot be expelled from the partnership simply by majority vote of other partners.
- x. To retire from the partnership as per the norms agreed upon.
- xi. To have the property of the firm used exclusively for the purpose of the firm.
- xii. To accept or reject the admission of a new partner.
- xiii. To be a joint owner of all the assets of the firm.
- xiv. To issue a notice for dissolution of the firm.
- xv. To carry on a business competing with the business of the firm, on retirement.
- xvi. To share profits, or earn interest @ 6% p.a., on amount due to partner on retirement, until the payment is made in full.
- xvii. To do all or any act necessary to protect the firm from loss in case of an emergency.

Duties of a Partner:

- i. To be just and faithful to the firm and the other partners.
- ii. To provide full and correct information and true accounts of the firm to each other.
- iii. To carry on business of the firm to the maximum advantage of the firm and all the partners.
- iv. To share profits and losses of the firm as per agreed terms.
- v. To try and protect the firm from loss to the best of his ability.

- vi. To indemnify the firm against any loss caused by his gross negligence, breach of conduct or willful misconduct in the ordinary course of business.
- vii. Not to carry on any business that competes with that of the firm in any manner.
- viii. To handover any profit made from a business in competition with business of the firm, to the firm.
- ix. Not to use any of the assets of the firm for his personal use or for use in a business other than the business of the firm.
- x. To act within the scope of his authority.
- xi. Not to transfer or assign his interest in the partnership to another person without the consent of other partners.
- xii. Not to earn any secret profit by way of commission on sales or purchase etc., on any dealings done on behalf of the firm.

Liabilities of a Partner:

- i. All Partners are jointly and severally liable for all acts of the firm. If the assets of the firm are not sufficient to satisfy the claims of outsiders, such claims can be recovered from the personal assets of any one, some or all partners.
- ii. A partner is liable to make good any loss caused to the firm due to his negligence or misconduct in the ordinary course of business.
- iii. A partner is liable for any act of the other partners acting within the scope of his authority.
- iv. A partner is liable for any profit made on account of dealing on behalf of the firm, to the firm.
- v. A Partner is liable for any profit made by a business, competing with the business of the firm, to the firm.
- vi. A partner is liable for any profit made by putting the assets of the firm to personal use.
- vii. A partner is also liable to any third party for any wrongful act done by such partner, or any other partner of the firm.

viii. A partner is liable for misuse of money of third parties received by the partner.

ix. A retiring partner is also held liable for all such acts of the firm contracted before the term.

Joint Stock Company

When you think of all the largest companies in the world, these are not proprietorships or partnerships. These companies are all joint stock companies. When dealing with business on a fairly large scale, a joint stock company is the most suitable form of business organisation. Let us see why.

JOINT STOCK COMPANY

The simplest way to describe a joint stock company is that it is a business organisation that is owned jointly by all its shareholders. All the shareholders own a certain amount of stock in the company, which is represented by their shares.

Professor Haney defines it as “a voluntary association of persons for profit, having the capital divided into some transferable shares, and the ownership of such shares is the condition of membership of the company.” Studying the features of a joint stock company will clarify its structure.



A joint stock company is a voluntary association formed for the purpose of carrying on some business. Legally, it is an artificial person and having a distinctive name and a common seal. Lord Justice Lindley of England has defined joint-stock company as “an association of many persons who contribute money or moneys’ worth to a common stock and employ it for a common purpose.

The important features of a joint stock company are the following – an artificial person created by law, with a distinctive name, a common seal, a common capital with limited liability, and with a perpetual succession. An analysis of the above definition reveals many distinctive features of joint-stock company, which distinguish it from other forms of business organization.

Distinguishing Features of Joint Stock Company:

Some of the distinguishing features of a company are the following:

1. Separate Legal Entity:

A joint stock company has a separate legal existence apart from the persons composing it. It can own property and sue in a court of law. A shareholder being an entity distinct from that of a company can sue the company and be sued by it whereas a partnership organization or a sole proprietor has no such legal existence in the eye of the law, separately from the persons composing it. Hence there can’t be a contract between a partner and the firm whereas there can be a contract between a shareholder and a company.

2. Perpetuity:

A joint-stock company has the characteristic of perpetuity unlike a partnership or a sole trading concern. Once, a company is formed, it continues for an unlimited period until it is formally liquidated. The maxim “men may come and men go but I go on forever” applies in the case of the company. But a sole trading concern comes to an end with the death of a sole trader, and in the case of partnership, death, retirement, or insolvency of any member of the partnership would dissolve the firm.

3. Limited Liability:

In the case of joint-stock company the liability of members is normally limited by guarantee or by the shares he has taken. If a member has already paid the complete amount due on his shares, he is not further liable towards the debts of the company. But in the case of sole proprietorship and partnership, the liability is unlimited and in the case of the latter, it is also both joint and several.

4. Number of Members:

In the case of public limited company the maximum number of members is unlimited, the minimum being seven. In the case of a private limited company, the maximum is two. But the

number of partners in a partnership cannot exceed ten in the case of business and twenty in other lines of business.

5. Separation of Ownership from Management:

In the case of partnership, partners are not only the owners of the business but they take part its management also. Every member of a partnership firm is an agent of the firm and also of the other members. In the case of joint-stock company, the shareholders are the owners while the management is entrusted to a board of directors, who are separate from shareholders.

Further, the shareholders are not the agents of the company and a shareholder cannot bind them by his acts.

6. Transferability of Shares:

The shareholder of a company can transfer his shares to others without consulting other shareholders, whereas in a partnership a partner cannot transfer his share without the consent of all the other partners.

7. Rigidity of Objects:

In the case of partnership, the scope of its business can be changed at any time with the consent of all the partners, whereas a joint stock company cannot do any business not already included in the object clause of the Memorandum of Association of the company. A change in the object clause under condition laid down in the Companies Act is essential for making any alteration in the scope of the business.

8. Financial Resources:

On account of liability and diffusion of ownership in joint company organization, there is a great scope for mobilizing a large capital. But in the case of partnership or sole proprietorship, because of the limited number of members, the resources at their command are limited.

9. Statutory Regulation:

A company has to comply with numerous and varied statutory requirements. It has to submit a number of returns to the government, whereas partnership and sole proprietorship are free from much State control and statutory regulations. Further in the case of the company, accounts must be audited by a chartered accountant but it is not compulsory in the case of partnership and sole proprietorship.

Advantages of Joint Stock Company:

The joint stock company type of organization has become very popular throughout the world because of many advantages.

Some of the advantages are as follows:

1. Financial Strength:

The joint stock company can raise a large amount of capital by issuing shares and debentures to the public. There is no limit to the number of shareholders in a company. (However, in a private

company the membership cannot exceed 50.) The capital of the company is divided into numerous parts of small value called shares and this attracts even the person with limited resources.

Further, anyone can purchase the shares and leave the responsibility of management to the body of persons called directors. Again, as the shares are freely transferred by selling it in the stock market, this works as an added attraction to the investors. Because of this, the joint stock form of organization is well adopted for raising amounts of capital.

2. Limited Liability:

One important factor which attracts the investors to subscribe is the principle of limited liability. According to this a shareholder's liability is limited only to the extent of the face value of the shares held by him and his personal properties are not affected. This form of organization is a great attraction to persons who do not want to take much risk in other forms of organization that do not enjoy the benefit of limited liability.

3. Benefits of Large Scale Organization:

As the size of a company is large, the economies of large-scale organization and production are secured. Due to this, the cost of production will be less and the society is in a position to get its requirements at a lesser price.

4. Scope for Expansion:

As there is no limit to the number of persons in a company, there is a great scope for expansion of the business. A company, which is making good profits, can create big reserves which can be used for the expansion of the company. In addition, the availability of managerial talent in the company facilitates the expansion of the business.

5. Stability:

A company is a legal entity and enjoys perpetual succession which means the retirement or death of a shareholder cannot affect the company. Even the change in the management or the owner or disputes over the ownership of shares or stock cannot affect the continuity of a company. The companies are well suited for business, which require a long period to establish and consolidate.

6. Transferability of Shares:

One special feature of company is that shares are freely transferable from one person to another without the knowledge of the shareholders. The existence of stock exchanges where shares and debentures are sold and purchased has facilitated as good as cash as they can be sold at any time and there is an added attraction to the investors.

7. Efficient Management:

In company organizations, the agents of production are effectively combined and also there is scope for increased efficiency of direction and management. The most efficient persons may be chosen as directors and if found indifferent, they may be changed in the next meeting. Normally,

as the directors have a great stake in the business, in the interest of the company, and in their own interest, they have to be very efficient.

8. Higher Profit:

As a large capital is invested in companies, it would be possible for them to use the expensive machinery and up-to-date equipment resulting in greater production, reduced cost, and higher profit. The progress of industries and commerce of the nation.

9. Diffused Risk:

In this form of organization, the risk is reduced for each shareholder, because it is diffused and spread over several shareholders of the company. This is an advantage from the individual investor's point of view.

10. Bolder Management:

In this form of organization, as the persons who manage the company have relatively smaller financial stake, they can become adventurous. There are many industries, which would not have come into existence if people had been unduly cautious.

Starting of a new enterprise needs an adventurous spirit and in case of joint-stock company because of its limited liability and smaller financial stake of the persons, who manage it, people can become adventurous and thus start new enterprises.

11. Social Benefit:

The company form of organization has encouraged the habit of saving and investment among the public. It has also indirectly helped the growth of financial institutions such as banks and insurance companies by providing avenues to invest their funds. Further, as companies cannot be managed by all the shareholders who are large in number, it has to employ professional managerial personnel and this has helped the development of management as a profession.

Again, as the affairs of the company are published, and as the companies are well regulated and controlled by the State, the public has great confidence in the company form of organization.

Disadvantages of Joint-Stock Company:

In spite of so many advantages of company form of organization, there are many drawbacks and limitations from which it suffers.

They are as follows:

1. Formation is Difficult::

The formation of a company involves a long-drawn-out complex procedure. For formation many provisions of the Companies Act are to be complied with. Large amount of money have to be spent in order to fulfill the preliminaries. Further, in many cases government sanction is required. These difficulties discourage many persons from starting companies.

2. Fraudulent Management:

Many a time unscrupulous promoters by presenting the prospectus as a rosy picture manage to get capital from the public. This results in companies being started and managed by incapable and fraudulent hands.

3. Concentration of Control in Few Hands:

In theory, democratic principles are followed in the management of companies, but in practice it is nothing but oligarchy of managing director and directors leading to concentration of control in a few hands. The shareholders have no say in the affairs of the company.

As they are spread throughout the country, very few care to attend the meetings and those who do not attend, normally give proxies in favor of managing director or directors. All these facilitate the concentration of economic power in the hands of a few persons.

4. Encourages Speculation:

This form of organization encourages speculation on the stock exchange. Usually the value of the company's share depends on the dividends declared and reputation of the company, which can be manipulated. This may encourage the managing director and directors to manipulate the shares on the stock exchange in their own interest to the detriment of the majority of shareholders.

5. Lacks Initiative and Motivation:

As there is indirect delegated management in the company form of organization, there is no initiative and motivation. The paid officials who manage the company have no personal interest and this leads to inefficiency and waste.

6. Conflict of Interest:

There is a conflict of interest between persons who are at the helm of affairs of company and shareholders. Many times dishonest persons at the top succeed in cleverly misleading and cheating the shareholders. Again there is a clash of interest between the shareholders.

Again there is a clash of interest between the preference shareholders and equity shareholders. While the preference shareholders want the creation of large reserves out of profits, the equity shareholders are interested in distributing the entire profit by way of dividends.

7. Excessive Government Control:

A company form of organization is very much controlled by the government and it has to observe many provisions of the different regulations of the government. Again, heavy penalty is imposed for the non-observance of the provisions of the Acts. Companies spend much of their precious time in complying with the provisions and the statutory rules.

8. Lack of Prompt Decision:

The prompt decisions which are possible in case of other organizations such as sole-trading organization and partnership are not possible in a company form of organization. Owing to the

difficulty of getting the requisite quorum and the presence of diverse interests, which may lead to disagreement, prompt decision cannot be taken.

9. Monopolistic Control:

There is a great possibility for companies to form combination or amalgamate with a view to getting monopolistic control. This is very harmful to the other producers and businessmen in the same line and also to the consumers.

In spite of the disadvantages discussed above, it may be concluded that the advantages considerably outweigh the disadvantages of company form of organization and hence it has become universally popular and well established in the business world. It is particularly suitable for those lines of business, which requires huge capital and maximum stability

TYPES OF COMPANIES



Types of companies are based on the characteristics, ownership, liability, and the company act of various countries.

There is no fixed type or classification of a company.

So; the type or classification of a company depends on many things:-

- formation,
- incorporation,
- control,
- ownership,
- the number of members,

- liability,
- declaration by the leader of the country (King, Queen, President),
- special act or bill passed by the parliament or congress,
- the purpose of the company,
- location of the company,
- investment type of the company.

Different Types of Company

As we now know that there are many different types of companies. Let take a look and try to understand each of them.

Different Types of Company	
Based On The Number Of Members	<ol style="list-style-type: none"> 1. Public Limited Company 2. Private Limited Company 3. One Person Company
Based On The Liability Of The Members	<ol style="list-style-type: none"> 1. Companies Limited By Shares 2. Companies Limited By Guarantee 3. Unlimited Company
Based On The Mode of Incorporation	<ol style="list-style-type: none"> 1. Chartered Or Royal Chartered Companies 2. Registered Or Incorporated Companies 3. Unregistered Company
Other Types	<ol style="list-style-type: none"> 1. Limited Liability Company (LLC) 2. Business Corporation 3. Foreign Company 4. Government Company 5. Holding Company 6. Subsidiary Company 7. Associate Company 8. Listed Company 9. Unlisted Company 10. Dormant Company 11. Nidhi Company

- A. Types Of Companies Based On The Number Of Members**
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- D. Other Types**
 1. Limited Liability Company (LLC)
 2. Business Corporation
 3. Foreign Company
 4. Government Company
 5. Holding Company
 6. Subsidiary Company
 7. Associate Company
 8. Listed Company
 9. Unlisted Company
 10. Dormant Company
 11. Nidhi Company

Let's try to understand each of them;

Types of Companies Based on The Number of Members

Based on the number of members/shareholders of the company; 3 types of companies are (1) public limited company, (2) private limited company, and (3) one-person company.

Public Limited Company

Public limited companies are listed on the stock exchange where its share/stocks are traded publicly.

A public limited company;

- must have a minimum number of members which is mandatory by the company law,
- It can have an unlimited number of members,
- operates as a separate legal entity from its owners,
- stocks are traded publicly,
- publishing the complete and true financial position of the company is required by law so that investors can determine the true worth of its stock (shares),
- has limited liability, which is by shareholders share.

- shareholders of a public limited company are limited to potentially lose only the amount they have paid for the shares they own.

A public limited company called “Plc” commonly in the UK and “Inc.” is used in the United States.

Private Limited Company

A private company has a separate legal entity, owned entirely by a relatively small group of individuals or groups (minimum 2), and shares cannot be publicly traded in stock markets.

A private limited company;

- has separate legal entity from its owners,
- does not require to publish the company’s financial positions,
- must have a minimum of 2 members and a maximum number of members (usually 50) that is defined in the country’s company law,
- has limited liability,
- faces fewer regulations and government oversight than a public limited company.

Companies can go from private to public, by selling shares to the public, often as a way to raise a large amount of money. In reverse, public companies can be taken private if, for example, a majority owner wants to consolidate control.

One Person Company

A member may hold virtually the entire share capital of a company. Such a company is known as a “one-person company”. This can happen both in a private company and a public company.

The other member/members of the company may be holding just one share each. Such other members may be just dummies to fulfill the requirements of the law as regards minimum.

Types of Companies Based on The Liability of The Members

Based on the liability type and limit of the members/shareholders of the company; 3 types of companies are (1) companies limited by shares, (2) companies limited by guarantee, and (3) unlimited company.

Companies Limited By Shares

A company limited by shares is a registered company having the liability of its member limited by its memorandum of association to the amount, if any, unpaid on the shares respectively held by them.

A shareholder cannot be called upon to pay more than the amount remaining unpaid on his shares.

Shareholder's assets cannot be called upon for the payment of the liabilities of the company if nothing remains to be paid on the shares purchased by him.

Such a company is also known as a "Share Company."

Companies Limited By Guarantee

A company limited by guarantee is one having the liability of its members limited by the memorandum to such amount as the members may respectively undertake by the memorandum to contribute to the assets of the company in the event of its being wound up.

Such a company is also known as a "Guarantee Company". A pure "guarantee company" does not have a share capital.

Unlimited Company

An unlimited company is where the liability of the members or shareholders is not limited.

An unlimited company;

- incorporated with or without a share capital (and similar to its limited company counterpart),
- but where the legal liability of the members or shareholders is not limited:
- that is, its members or shareholders have a joint, several and non-limited obligations to meet any insufficiency in the assets of the company to enable settlement of any outstanding financial liability in the event of the company's formal liquidation.

Types of Companies Based on The Mode of Incorporation

Based on the mode of incorporation of the company; 3 types of companies are (1) chartered Or royal chartered companies, (2) registered Or incorporated companies, and (3) unregistered company.

Chartered Or Royal Chartered Companies

Companies that are incorporated by the royal charter (or similar instrument of government) for trade, exploration, investment, and colonization.

For example;

- East India Company in 1600.
- German East Africa Company in 1884.

- Companhia de Moçambique in 1888.
- Russian-American Company in 1799.
- Barcelona Trading Company in 1755.

Registered Or Incorporated Companies

Companies that are registered under the Companies Act of the country, are Registered Or Incorporated Companies.

However, there is a difference between registered Or incorporated companies.

Forming a new business structure that becomes a recognized person or entity under the law, is incorporating a company.

The next step of incorporating is company formation. It means to set up documents, and legal requirements required to establish the company legally.

Once it is done; the company is submitted for registration under the Companies Act of the country.

Unregistered Company

In simple terms, an unregistered company is a business that is registered under the Companies Act of the country.

Therefore it is not covered by the law. an unregistered company can be many types; like **single owner/sole-proprietorship**, or **partnerships**.

Other Types

There are many other types of company which may fall into the previous types, but they have some distinct characteristics that make them different.

Let's take look.

Limited Liability Company (LLC)

Limited liability companies (LLC) is a form of business that is allowed in the United States. The law and regulations regarding LLC's ownership, membership, formulation; varies from State of State.

A limited liability company (LLC) is a corporate structure in the United States whereby the owners are not personally liable for the company's debts or liabilities. Limited liability companies are hybrid entities that combine the characteristics of a corporation with those of a partnership or sole proprietorship.

A Limited liability company (LLCs);

- don't pay taxes.
- owners are not personally liable for the company's debts or liabilities.
- profit and losses are treated as personal tax returns,
- much easier to set up than a corporation and provides more flexibility and protection,
- many states don't restrict ownership,
- If fraud is detected or if a company hasn't met legal and reporting requirements, creditors may be able to go after the owner(s).

Business Corporation

In the USA; a business corporation is defined as a legal entity established by individual(s) under the laws of a state to conduct particular types of business or transactions.

A business corporation;

- Established for earning profit.
- Depending on state law, a corporation can be owned by just one person and have just one director and officer.
- The corporation exists separately from its shareholders, directors, and employees.
- A corporation is a 'person' in the eyes of the law.
- The liability of shareholders is limited to the number of shares held by them.
- Shareholders can transfer ownership interests.

Foreign Company

A foreign company is a company which is incorporated in a foreign country outside the home country under the law of that other country, and want to or has established business in the country.

Government Company

Government company in which not less than fifty-one percent (51%) of the paid-up share capital is held by the Central Government, or by any State Government or Governments or partly by the Central Government and partly by one or more State Governments.

A subsidiary of a Government company is also treated as 'a Government company.

Holding Company

Where a company has control over another company, it is known as the Holding Company and the company over which control is exercised is called the Subsidiary Company.

A Company is deemed to be under the control of another if;

1. That other controls the composition of its Board of Directors; or
2. The other company holds more than half in nominal value of its equity share capital
3. It is a subsidiary of a third company which itself is a subsidiary of the controlling company.

Subsidiary Company

A subsidiary company is a company owned and controlled by another company; known as a holding company or a parent company. If a parent company has control over the operations of the subsidiary company is called holding company.

A subsidiary company;

- owned and controlled by another company.
- If a Holding company or parent company owns 50% of the voting stock of the subsidiary company, it's operations are controlled by the holding company.
- If the parent company holds 100% of the voting stock, the subsidiary company structure is referred to as a wholly-owned subsidiary.

Associate Company

An associate company also known as joint ventures; is a firm that is owned in part by a parent company entity who will own a minority or non-controlling stake in the associate company.

Listed Company

Companies, whose share is listed on any stock exchange(s) for public trading is called the listed company or quoted company.

Unlisted Company

And the companies, whose share is listed not on any stock exchange(s) for public trading is called the listed company or quoted company.

Investment Companies

An investment company is a company the principal business of which consists of acquiring, holding and dealing in shares and securities.

It involves only the acquisition and holding of shares and securities and thereby earning income by way of interest, dividend, etc.

These are usually set up by federal or state government, any ministry for the sole purpose of investment in their own country/state businesses or projects or foreign countries and businesses.

Dormant Company

A dormant company;

- has been registered with Companies House
- but do not have any kind of business activity or receiving any form of income

After a business is registered it does not start trading and earning profit right away. In that case; the company must inform the authority (like Companies House, HM Revenue and Customs in the UK) with the reasons that your company is “Dormant”.

Offshore Company

An Offshore Company is a corporation or company or LLC or similar class of entity formed in a foreign country (a different country from the country of residence of the stakeholders); to operate outside of the country of residence.

An Offshore Company;

- established in a foreign country,
- law of the owner’s country of residence does not affect the company,
- only operates outside of the owner’s country of residence,
- usually has no economic activities in the foreign country where it is established and/or owner’s country.

Nidhi Company

A Nidhi company’s sole business is borrowing and lending money between its members; these are known as Permanent Fund, Benefit Funds, Mutual Benefit Funds, and Mutual Benefit Company.

It only allows individual members. A firm or group or company cannot become a member of a Nidhi company. These are non-banking finance organization in India, recognized under section 406 of the Indian Companies Act, 2013.

COOPERATIVE SOCIETY



The philosophy of cooperative society is to serve the common man and to liberate him from the oppression of the economically strong people and organizations.

Mutual assistance and service are the objectives as distinguished from the aim of the other forms of organization, which is primarily making of profit.

It aims at encouraging self-help on the part of economically weaker sections of the society by looking after a truly cooperative society is the elimination of profit and provision of goods and services to members at cost.

As a form of organization, it is an enterprise ordinarily set up by “economically weak” individuals to further their common economic and social interests to eradicate capitalist exploitation, to eliminate middlemen, and to bring the consumer and producer together.

The cooperative movement is commenced among the poor deprived labors and low-middle class people of the society in the post-industrial revolution.

It first begins in 1844 in Britain by 28 weavers. Later this organization revealed at different nations at different times.

Definition of Cooperative Society



A cooperative society is a voluntary association that started with the aim of the service of its members. It is a **form of business** where individuals belonging to the same class join their hands for the promotion of their common goals.

These are generally formed by poor people or weaker sections of people in society. It reflects the desire of the poor people to stand on their legs or own merit.

His philosophy of the formation of a cooperative society is “all for each and each for all”. Cooperation work with the feeling of helping others.

A cooperative society is a special type of society, which is established by an economically weak person for the betterment and upliftment of their economic condition through mutual help.

Many business organizations have the main motive to earn profit and also exploit customers.

But this organization is based on help each other through available resources and also provide goods to society members without profit or at a lower price.

Simply speaking, we know that cooperative means to work together to improve their economic condition. This organization is based on “all for each and each for all”.

So this organization will function under the mutual cooperative of all the members. In this organization, all members will be equal and free for their rights. Therefore “one man one vote” system will prevail in this society.

Many business enterprises established to earn a profit, but cooperative society has a motive of service to the members of the society for common welfare not to earn a profit.

The first cooperative society was initiated by Robert Owen in 1844 A.D. named “Rochdale Society of Equitable Pioneers”.

The main objective of this society was to save poor people providing goods at a lower price from the market price and eliminate the middle man and supply better services to its members.

So, we can say that a cooperative society is an association of a person who joins the organization willingly to protect economic & social interest.

In a cooperative society, people can enter it as their wish, and also, they are free to leave a cooperative society, but they cannot transfer their share.

Cooperative is a society which has its objective the promotion of the economic interest of its members following cooperative principles.

According to Calvert, a cooperative denotes a form of organization wherein persons voluntarily associate together as human beings based on equality for the promotion of economic interests of themselves.

Cooperative is only one aspect of a vast movement that promotes the voluntary association of individuals having common needs who combine towards the achievement of common economic ends.

Characteristics of Cooperative Society

- ☐ Voluntary association
- ☐ Separate legal entity
- ☐ Democratic management
- ☐ Service motive
- ☐ Utilization of surplus
- ☐ Cash trading
- ☐ Fixed-rate of return
- ☐ Government control
- ☐ Capital



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Based on the above definitions, we can derive the following characteristics of cooperative organizations.

1. Voluntary association

Everybody having a common interest is free to join a cooperative society. There is no restriction based on caste, creed, religion, color, etc. Anybody can also leave it at any time after giving due notice to the society.

That is the specialty of any cooperative society. There should be a minimum of 10 members for a cooperative society, but there is no maximum limit for the membership.

2. Separate legal entity

A cooperative society after registration is recognized as a separate legal entity by law. It acquires an identity quite distinct and independent of its members can purchase, dispose of its assets, can sue, and also can be sued.

3. Democratic management

Equalities are the essence of cooperative enterprises, governed by democratic principles. Every member has got equal rights over the function management of that society.

As such, each member has only single voting right irrespective of the number of shares held or capital contributed by them.

In the case of a cooperative society, no member detects the terms and conditions of the functioning because “one man one vote” is the thumb rule.

4. Service motive

The main objective being the formation of any cooperative society is for mutual benefit through self-help and collective effort. Profit is not at all on the agenda of the cooperative society.

But if members so like, they can take up any activities of their choice to generate a surplus to meet the day-to-day expenses.

5. Utilization of surplus

The surplus arising from the operation of a business is partly kept in a separate reserve and partly distributed as dividend among the members.

6. Cash trading

One exception in the cooperative society is that like other businesses, it never goes for credit sales. It sells goods based on cash only.

Hence, the cooperative society hardly comes across financial hardship because of the non-collection of sales dues. Members can only purchase based on credit, which is an exception to the present rule.

7. Fixed-rate of return

All members are supposed to contribute capital for the formation of a cooperative society or at the time of joining as a member of the cooperative society.

8. Government control

The government regulates all the cooperative societies of the country through its different rules and regulations framed from time to time.

Cooperative societies of the country are required to register, and sometimes different State Governments also frame laws regarding the registration and functioning of cooperative societies for their states.

9. Capital

The capital of the society is raised from its members by way of share capital.

However, the major part of finance is raised by the society by taking a loan from the government or by accepting grants and assistance from the Central or State Government or from the apex cooperative institutions like state and cooperative central banks operating in that state.

Principles of Cooperative Society

- ☐ Voluntary association
- ☐ Autonomy
- ☐ Capital
- ☐ Service motive
- ☐ Democratic management
- ☐ Government control
- ☐ Status of the members
- ☐ Distribution of surplus
- ☐ Cash Trading
- ☐ Mutual help



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The followings are some of the principles on which a cooperative society stands:

1. Voluntary association

The membership of a cooperative society is voluntary and open to all adult persons having common interests. Any person can become a member of the organization irrespective of caste, creed, color, sex, and religion.

2. Autonomy

A cooperative society is a self-governing institution. It enjoys the status of autonomy because it is self-sufficient, self-renewing, and self-controlling organization. It has a continuous existence because it is not affected by the death of any member of society.

3. Capital

The capital of a cooperative society is raised from its members in the form of share capital. As the share capital is not sufficient to meet its operational cost, it borrows loan from the government or apex cooperative organization.

4. Service motive

It is organized to render service to its members and not to make a profit.

5. Democratic management

The management of a cooperative society is done on the democratic line. The management is vested in the hands of a managing committee elected by the members.

The general body of the members determines rules and regulations for the management, the managing committee functions within the framework of the principles framed by the general body.

6. Government control

The cooperative organizations are subject to the rules and regulations of the government because it is registered.

7. Status of the members

In a cooperative society, each member is given one vote irrespective of the number of shares held by him. In this organization, nobody can control society based on his share capital.

8. Distribution of surplus

The income of the cooperative societies is distributed among the members based on their capital contribution.

9. Cash Trading

The trading operation of the cooperative society is done based on cash. It never allows the principles of credit in its trade practice.

10. Mutual help

It always aims at developing the spirit of cooperation among the members. Every member of the society is required to act for the maximum benefit to other members. It is based on the principle “all for each and each for all”.

Objectives of Cooperative Society

Objectives of Cooperative Society

- ☐ Enhancing cooperation
- ☐ High level of service
- ☐ Higher profits



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Cooperative societies and organizations have several main objectives.

Such organizations are considered to be jointly controlled by those working at the organization and those receiving services from the organization. So, in essence, there are high levels of cooperation between these two parties of people.

Cooperative societies originally came about to unite business owners with their staff members. They led to the practice of private companies being 'split' into shares, which were given to employees at various levels of the company.

Essentially giving each individual within a firm a small piece of it raised productivity, as people gained the sense that they were very much part of the organization, rather than just somebody working for it.

The following points describe some of the main objectives a cooperative society has.

1. Enhancing cooperation

Cooperative societies aim to encourage complete cooperation between everybody involved with an organization. They are generally against the idea of any sort of hierarchy, and consider everyone to be equal.

This can improve relationships between staff members and senior management, as well as between service providers and customers.

2. High level of service

Better working relationships naturally lead to higher productivity levels, so a better service is given to customers. This raises customer satisfaction levels, which is the primary aim of many cooperative societies.

For instance, student accommodation units may be cooperative societies. Students will be happier with their accommodation and the staff members will find their working life much easier.

3. Higher profits

Many cooperative societies are essentially out to make a profit and believe that enhancing relationships will lead to high-profit levels. Of course, this plan may not always work, but in many cases, it has proved effective.

Some charities have also benefited from operating as a cooperative society, as charity members become more focused on their work, raising more money for the cause in question.

Role of Cooperative society

- ☐ **Creation of unity**
- ☐ **Awaking working zeal**
- ☐ **Bringing welfare for the members**
- ☐ **Reducing inequality of wealth**
- ☐ **Establishing equal rights**
- ☐ **The teaching of moral principles**
- ☐ **Improving skill**
- ☐ **Removal of middle man**
- ☐ **Loan facilities**
- ☐ **Economic development**



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1. Creation of unity

“Unity is strength” is the guiding principle of a cooperative society. In this purpose cooperative united the weaker and guide them to go ahead with mutual cooperation which helps to endure social relationship.,

2. Awakening working zeal

Co-operate society helps to awake a new working spirit in the mind of those people who are defeated and spiritless in the struggle of life.

Cooperative society encourages people to dream a new dream and work with new inspiration.

3. Bringing welfare for the members

A cooperative society is established just for bringing the economic and social welfare for its members. In this purpose, cooperative society develops thinking working attitude as well as the mental condition of the constituents.

Besides by self retirement opportunity and giving dividends. It ensures economic development.

4. Reducing inequality of wealth

Capitalism creates inequality of wealth, and cooperative society helps to reduce this as well as helps the equal distribution of wealth.

It creates self-employment opportunities and encourages the members to compete with others.

5. Establishing equal rights

To establish equal rights, cooperative society fixed the limitation of purchasing shares. Besides this, democracy and equal voting rights are also followed. Equal right contributes to establishing social order and justice.

6. The teaching of moral principles

Cooperative society plays an important role in mental improvement by teaching moral principles like unity, trust, honesty, order, cooperation, which ensure social order.

7. Improving skill

Cooperative society leads a great role by providing a training program for improving the skill of uneducated poor and unskilled members.

8. Removal of middle man

The cooperative society helps to protect the lower and middle-class people of the society who have fixed income, from the greedy clutch of profiteering, capitalist, and the middle man.

This society produces or collects goods from the manufacturer and supplies these goods to the members at a cheap rate. In this way, it achieves its objectives.

9. Loan facilities

Poor producers suffer from capital problems. Cooperative credit society, multipurpose cooperative society lend money to these people at a very low-interest rate.

10. Economic development

By developing agricultural and irrigation systems and to give loans and counseling for small industries and cottage. It also helps to remove poverty and ensure economic development of the country.

Merits or Advantages of Cooperative Society

Advantages of Cooperative Society

- ☐ Easy Formation
- ☐ Open Membership
- ☐ Democratic Management
- ☐ Limited Liability
- ☐ Stability & Continuity
- ☐ Low Prices
- ☐ Mutual Help
- ☐ Social Advantage
- ☐ Mobilization of Savings
- ☐ Remove Defects of Capitalism
- ☐ Cash Trading
- ☐ Government Support



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Following are the important advantages or merits of cooperative societies;

1. Easy Formation

It is very easy to form a cooperative society as compared to a joint-stock company. The simple requirement is ten or more members have to make written application to the Registrar with four copies of Bye-laws.

2. Open Membership

Cooperative societies work on the principle of open membership; therefore, many persons can become members. The membership is not restricted to a few persons only.

3. Democratic Management

All the members of the society are jointly known as the general body, whereas the members who manage the cooperative society are jointly known as the managing committee.

They democratically manage a cooperative society. “One member one vote” is the rule, and thus members can have a voice in management.

4. Limited Liability

The liability of members remains limited to the extent of capital contributed by them. He is not personally liable to pay the liability of a cooperative society. Generally, his liability is limited up to the face value of shares.

5. Stability & Continuity

The cooperative society has perpetual succession because it is not affected due to death, insolvency, or lunacy of any member. As it is a voluntary association the old members may go, new members may come, but the life of society is not affected.

6. Low Prices

A cooperative society can make goods and services available at reasonable cost as the profit margin of the society is very less other reason for a low price at a cooperative society is that it eliminates the middleman from a chain of distribution i.e., goods are directly purchased from the manufacturers or producers and sold to the customers.

7. Mutual Help

The basic aim of the cooperative society is mutual help. Some of the members realizing this principle may offer their services on an honorary basis; this brings a reduction in management expenses.

8. Social Advantage

A cooperative society discourages monopoly, brings a better distribution of wealth, works on the principle of service, and controls exploitation.

It also uses its surplus profit for social advantages by way of establishing charitable hospitals, schools, etc. So it increases social welfare.

9. Mobilization of Savings

A cooperative society is a thrift institution. It provides an effective means of pooling together the resources of the weaker sections of the society.

By checking extravagance, it inculcates the habit of savings among the people. Such mobilized financial resources are used for constructive purposes.

10. Remove Defects of Capitalism

This form of organization removes certain basic defects of capitalism.

For example, monopoly, the undue concentration of wealth in a few hands, profiteering, black-marketing, exploitation of workers and consumers, etc.

These glaring defects of capitalism have no place under a cooperative organization. Through the process of integration, it removes middlemen.

11. Cash Trading

The cooperative society follows the principles of “cash and carry”.

As a result of this, there are no bad debts, and they can enjoy the benefit of various discounts and concessions. This also inculcates the habit of saving among the members.

12. Government Support

A cooperative society is the people's movement. Moreover, it promotes moral, social, and educational values. It also helps the economic enlistment of the people.

That is why the government gives many concessions and privileges to this organization.

Limitations of Cooperative Society

- ☐ Limitation of Capital
- ☐ State Control
- ☐ Inefficient Management
- ☐ Absence of Business Secrecy
- ☐ Lack of Motivation
- ☐ Political Interference
- ☐ Limited Scope
- ☐ Internal Quarrel and Rivalries
- ☐ Lack of Public Confidence
- ☐ Absence of Economics of Scale
- ☐ Restriction of Number



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Following are the demerits of cooperative societies:

1. Limitation of Capital

In a cooperative society, there is a limitation on capital because the membership of the society is indirectly limited only up to local people. The members also generally belong to the poor class.

2. State Control

A cooperative society is governed by the provisions of the Cooperative Society Act or Law.

The compulsion of maintaining records, submission of audited returns, and inspections by the government are the ways through which the state exercises control over societies.

3. Inefficient Management

The management of a cooperative society is inefficient because the working members of the managing committee may not show a keen interest in the working of society.

The members also lack the managerial skill and intelligence because they generally belong to the lower class.

4. Absence of Business Secrecy

The officers of cooperative societies are generally so much exposed to the members that it becomes difficult for them to maintain proper secrecy, and it is compulsory to advertise the annual account and annual reports in newspapers.

5. Lack of Motivation

There is a lack of motivation for the managing committee and other staff members because there is no relation between efforts and rewards. The rate of dividends is also restricted to 15%; this discourages the public from joining a cooperative society.

6. Political Interference

The cooperative society acts as a platform for political activities at the time of the election of the managing committee, some of the political parties get involved in it due to which the basic principle of the cooperation comes to an end.

This also leads to the corruption of power and money in society and may result in quarrels and disputes amongst the members.

7. Limited Scope

Like capitalism, the cooperative system cannot be extended to embrace the whole economic system.

It has limited scope in the sense that it cannot cover the entire economic system. The principles of cooperation cannot be successfully applied to organize all types of economic activities.

For example, a cooperative society is not suitable for organizing big industrial enterprises. It is also not suitable where the element of speculation plays a predominant role and where finer varieties with maximum skill are to be produced.

8. Internal Quarrel and Rivalries

Internal quarrels and rivalries among members is another limitation of cooperative organization.

As a result of these internal quarrels, rivalries, and tensions, general body members cease to take any interest in the working of the organization. All this ultimately brings the cooperative society to ruin.

9. Lack of Public Confidence

Generally, people do not have faith and confidence in the cooperative society. Since many cooperatives have failed, the people are reluctant to become members of cooperative organizations.

The general apathy and indifference of people come in the way of development of a cooperative organization.

10. Absence of Economics of Scale

This organization is very small in size. It does not have financial, managerial, and technical resources. As a result of this, the advantages of large-scale operations like **Joint Stock Company** are not available to this organization.

11. Restriction of Number

As per the prevailing legislation, cooperative society cannot be formed unless and until a minimum of 10 adult members is available. As a result of this, its growth is checked because less than 10 members cannot form a society.

Types of Cooperative Societies

Cooperative societies may be classified into different categories based on the objectives, purposes, and nature of activities performed by them.

When some cooperative units are formed for the achievement of specific economic objectives, others are formed either with the purpose of social upliftment of the members or to help consumers, small farmers, or small producers.

Based on that the main types of a cooperative society are;

1. Consumers' Cooperatives.
2. Credit Cooperatives.
3. Cooperative Farming Societies.
4. Cooperative Better Farming Societies.
5. Cooperative Joint Farming Societies.
6. Tenant & Joint Farming Societies.
7. Collective Farming Societies.

Types of Cooperative Societies

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Consumers'
Cooperatives

Credit
Cooperatives

Cooperative
Farming
Societies

Cooperative
Better
Farming
Societies

Cooperative
Joint
Farming
Societies

Tenant &
Joint
Farming
Societies

Collective
Farming
Societies

Consumers' Cooperatives

These societies are formed by the members to provide goods and services at a cheaper rate by eliminating middlemen's commission by establishing a direct relationship with the manufacturers or wholesalers.

They purchase bulk goods and services directly from the manufacturers or wholesalers and sell those among the members in the small stalls.

The profit which usually wholesalers or their dream of having an own house fulfilled.

These societies engaged in acquiring the land from genera public, develop them, construct houses as per the choice of the members and then transfer the said houses in favor of the members.

In consideration that members pay the due price for the house may be on an easy installment basis spread over as long years.

Cooperative societies, at times, arrange finance/loans for the members from different financial institutions to bear the cost of the house.

Some societies also sell plots to their members for the construction of houses at their level.

Credit Cooperatives

Credit cooperative societies are formed for providing finance to the poor farmer and needy members of the society at a lower rate of interest.

The society collects funds from its members in the form of share capital as well as accepts deposits from the general public. It also avails loans from state cooperative banks.

The fund so collected are used in providing loans to the needy people, generally to the members as loans and advances on easy terms and conditions.

This process of financing people saves them from exploitation by the money lenders who usually charge a high rate of interest and stiff terms and conditions.

Credit cooperative societies are two types: agriculture credit cooperatives and non-agriculture credit cooperatives. An agricultural credit cooperative society extends credit to the rural people both for productive and non-productive purposes.

A non-agricultural society is meant for urban masses and meets its short-term financial requirement.

Cooperative Farming Societies

To achieve a higher rate of return from economies of scale, small farmers and marginal farmers of a particular area may join their hands, form a cooperative society, and go for mass farming instead of individual farming.

They contribute capital, land, and labor and jointly go for any farm activity. This becomes beneficial to the members in many ways like;

- i. mass production,
- ii. maximum output,
- iii. application of advanced technologies, fertilizers, and manuals,
- iv. pooled resources, land, labor, and others,
- v. proper irrigation,
- vi. no shortage of capital to meet day-to-day expenses, etc.

Cooperative Better Farming Societies

These societies are started to improve the methods of farming among the members. They arrange the machinery, seeds, fertilizers for the farmers. Farmers get higher output by utilizing the same.

The members, in turn, pay some charges for this service rendered by society. Thus, both the members, as well as the societies, are benefited by that.

Cooperative Joint Farming Societies

In this type of society, the land of the individual members is taken by society, but the ownership remains at the members. The members are allowed to spare their labor in consideration of wages for doing work on the land.

The outputs are sold by the society, and any profits realized are distributed among the members in the ratio of their land values.

Tenant & Joint Farming Societies

This type of farming society takes the land on a leasehold or freehold basis. The land is distributed among the members, and they cultivate those lands and grow agricultural products.

The members pay the rent for the utilization of the land. Landless laborers having manpower strength are more benefited by this type of society.

In joint farming, ownership lies with society. Whatever products are produced belongs to society.

But in tenant farming, society members enjoy the output produced in the land owned by others and only pay a certain amount of charges for cultivating the land of others.

Collective Farming Societies

The land is owned by the society. Members work collectively on the land.

The members are paid with the wages. Surplus of the society, if any, are distributed among the members in the ratio of their wages.

It is different from joint farming society in terms of ownership of land.

Differences between Cooperatives and Company

Topics	Company	Cooperatives
Formation	The formation of a company is more formal and complex.	But it is easy to form the Co-operatives Society, although it is a law created organization.
Purpose	The main purpose of the company to ensure the profit of shareholders.	Its main purpose in improving the financial condition of members, not to earn a profit.
Number of members	The number of members in private company minimum two and maximum fifty, in public company minimum seven and maximum limited with many shares.	In a cooperative society, the minimum is twenty, and the maximum is unlimited.
Transfer of share	The <u>share of a public limited company</u> is openly negotiable, but not in case of a private company	The share of a cooperative society can be negotiable to take permission from the authority.
Allotment of dividend	A dividend is given from reserve funds or earned profit. This decision is taken in a directors' meeting.	In the case of society, a small portion of the earned profit is to be given as dividends.
Management	The directors who are elected by shareholders and appointed managers operate the company.	Elected directors operate the society, but they do not get any salary.
The relation between owner and directors.	In a joint-stock company, there is a great divorce between owner and control and often a clash of interest.	But the co-operate enterprise makes for the oneness of interest.

Interested in welfare	The joint-stock company is not directly interested in the promotion of the welfare or efficiency of its shareholders.	But in the case of co-operative, it is a part of their creed to take such interesting to their members.
investment capacity	In a company, the amount of investment determines the number of votes.	In the case of cooperatives, each member has only one vote regardless of his investment in the enterprise.
Area of operation	This is not possible in a company as shareholders are scattered all over the country; only the inner group can control the affairs of the company.	A cooperative society operates within a limited area, and so all the members can attend its meetings and exercise their control.

Factors responsible for the survival of cooperative organizations

Factors Responsible for the Survival of Cooperative Organizations

- ☐ Moral, Social and Educational Benefits
- ☐ Social Advantage
- ☐ Open Membership
- ☐ Limited Liability
- ☐ Low Prices
- ☐ Mobilization of Savings
- ☐ Cash Trading
- ☐ Democratic Management
- ☐ Stability and Continuity
- ☐ Mutual Help



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1. Moral, Social and Educational Benefits

Truly speaking, cooperation is a great moral movement. Its motto is “each for all and all for each,” which emphasizes the moral basis of the movement.

The movement is essentially moral and keeps in view the moral rather than the material sanction. It also promotes a sense of cooperation and brotherhood among the people of the locality.

In addition to these economic, social, and moral benefits, it is also capable of educating the masses in citizenship and political life.

2. Social Advantage

Cooperative organizations discourage monopoly, bring a better distribution of wealth, works on the principle of service, and controls exploitation.

It also uses its surplus profit for social advantages by way of establishing charitable hospitals, schools, etc. So it increases social welfare.

3. Open Membership

Cooperative organizations work on the principle of open membership; therefore, many persons can become members. The membership is not restricted to a few persons only.

4. Limited Liability

The liability of members remains limited to the extent of capital contributed by them. He is not personally liable to pay the liability of a cooperative society. Generally, his liability is limited up to the face value of shares.

5. Low Prices

Cooperative organizations can make goods and services available at a reasonable cost as the profit margin of the society is very less.

Another reason for a low price at a cooperative society is that it eliminates the middleman from a chain of distribution i.e., goods are directly purchased from the manufacturers or producers and sold to the customers.

6. Mobilization of Savings

As pointed out earlier, basically, a cooperative society is a thrift institution. It provides an effective means of pooling together the resources of the weaker sections of the society.

By checking extravagance, it inculcates the habit of savings among the people. Such mobilized financial resources reused for constructive purposes.

7. Cash Trading

The cooperative organizations follow the principles of “cash and carry”.

As a result of this, there are no bad debts, and they can enjoy the benefit of various discounts and concessions. This also inculcates the habit of saving among these members.

8. Democratic Management

All the members of the society are jointly known as the general body, whereas, the members who manage the cooperative organizations are jointly known as the managing committee. They democratically manage a cooperative society.

9. Stability and Continuity

The cooperative organizations have perpetual succession because it is not affected due to the death or insolvency of members. As it is a voluntary association the old members may go, new members may come, but the life of society is not affected.

10. Mutual Help

The basic aim of the cooperative society is mutual help. Some of the members realizing this principle may offer their services on an honorary basis. This brings a reduction in management expenses.

Problems of Cooperative Society

- ☐ Management Inefficiency
- ☐ Illiteracy
- ☐ Lack of unity and co-operation
- ☐ Lack of planning
- ☐ Lack of sacrifice and sincerity
- ☐ Discouragement and lack of zeal
- ☐ Deficiency of capital
- ☐ Ignorance of principles
- ☐ Legal formalities
- ☐ Training facility
- ☐ Corruption and nepotism
- ☐ Want of govt, facility



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The cooperative societies in Bangladesh are operating under several hurdles. Those hurdles create some problems as follows:-

1. Management Inefficiency

Cooperative Society, a mutual organization. So an efficient manager is badly needed to manage such an organization. But in some 3rd world countries, appointed managers are almost inefficient. So the success is impeded.

2. Illiteracy

Most people in Bangladesh are illiterate. So they aren't conscious of right or wrong. The constituents can't show their required responsibility as they are inexperienced.

3. Lack of unity and cooperation

Unity is strength, and each for all, all for each, is the guiding principle of cooperative society. But there is a lack of unity and cooperation in poor people in Bangladesh.

4. Lack of planning

Planning is the base of success. But proper planning isn't followed in bang in case of cooperative society.

5. Lack of sacrifice and sincerity

The success of a cooperative society depends on the sincerity and sacrificing mentality of its people. Managing a cooperative society without serving modality is impossible.

But we have a lack of sincere and sacrificing mentality of people.

6. Discouragement and lack of zeal

For achieving the desired goal, the eagerness of the entrepreneur is very much important. It is equally true to a cooperative society.

7. Deficiency of capital

Our cooperative is usually seen in low or middle classes. For that reason, sufficient capital can't be supplied. As a result, the org can't take many benefits.

8. Ignorance of principles

Our cooperative hasn't possessed the mentality to obey the principles of this organization. But success depends on these principles. I so in this country, the development of a cooperative society is slow.

9. Legal formalities

Cooperative society Act may sometimes obstacles the development of this organization in this country.

10. Training facility

Most of the managers and constituents of cooperative society are inefficient.

The training facility is indiscernible for better results. But this facility is rare in this country.

11. Corruption and nepotism

Corruption and nepotism are common in every part of our life. The authority tends to cheat the uneducated members. Besides, nepotism in giving loans and employment hinders development.

12. Want of govt, facility

The government facility is essential for the development of any organization. India lacks this facility govt; the law sometimes hinders the development.

Solutions for Problems of Cooperative Society

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- ☐ Adoption of a realistic plan
- ☐ Spreading of education
- ☐ Reduction of in equal competition
- ☐ Lending to a cooperative
- ☐ Accuracy in accounting
- ☐ Widespread publicity
- ☐ Increasing publication of cooperative society
- ☐ Giving incentives to executives
- ☐ Restrain corruptions and nepotism
- ☐ Effective co-ordinations
- ☐ Development of cooperative department
- ☐ Increasing govt, co-operation
- ☐ Amendments of law



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The problems of cooperative may be solved in the following ways:

1. Adoption of a realistic plan

A realistic plan should be adopted immediately for a cooperative society. This plan should be adopted based on the socio-cultural environment of this country.

2. Spreading of education

For the development of a cooperative society, a great number of people must be acquainted with the curse of illiteracy. Besides, they have to be studied in cooperative education.

So, they can realize the importance of a cooperative society. Only then can they contribute spontaneously to the betterment of the organization.

3. Reduction of in equal competition

A cooperative society is a small organization. But in the market, it has to compete with big organizations. So for the betterment of a cooperative society, equal competition should be eliminated.

4. Lending to a cooperative

Due to poverty, our cooperative societies can't be expanded. The govt should lend easy term credit so that cooperative society can contribute to the economic development of the country.

5. Accuracy in accounting

The old policy must be changed into modern and accurate accounting policy. So forgery will be removed.

6. Widespread publicity

People should be informed about cooperative society through national media. They have to be informed about the problems and solutions to the problem of cooperative society.

7. Increasing publication of the cooperative society

It is very much important to increase the publication on cooperative society to give more information to the corporate and the general public.

8. Giving incentives to executives

The success of a cooperative society largely depends on the satisfaction of the executives. But they don't work without any interest.

If we motivate them positively by giving incentives, they must devote themselves to the org.

9. Restrain corruptions and nepotism

It is very much important to remove corruption and nepotism from that org. For this standard, management should be implied. Besides, high-level executives and govt should be more expert.

In appointing employees and sanctioning a loan, a decision is to be made regarding their experience.

10. Effective coordinations

A cooperative society is influenced by government law. So the govt, the law should be in favor of a cooperative society.

Besides this, primary, central, and national cooperative societies must develop good coordination. It is also important to co-ordinate the cooperative related ministry, other departments, and the working people.

11. Development of cooperative department

Cooperative departments are the leader of cooperative movements. But bureaucracy is common in cooperative departments. So it should be removed immediately.

12. Increasing govt, cooperation

In comparison with other organizations, cooperative society is allotted a small amount of money. So it is important to increase govt, cooperation in monetary and nonmonetary units.

If the govt, patronizes the promoters with granting more capital and information, people will encourage in forming this org.

13. Amendments of law

To overcome the hindrance of cooperative society, there must be needed amendments of law and remarks on the law with easy description