

STUDY MATERIAL

EXECUTIVE PROGRAMME

**SETTING UP
OF BUSINESS,
INDUSTRIAL &
LABOUR LAWS**

**GROUP 1
PAPER 3**



**THE INSTITUTE OF
Company Secretaries of India**

भारतीय कम्पनी सचिव संस्थान

IN PURSUIT OF PROFESSIONAL EXCELLENCE

Statutory body under an Act of Parliament

(Under the jurisdiction of Ministry of Corporate Affairs)

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Laser Typesetting by :

AArushi Graphics, Prashant Vihar, New Delhi

EXECUTIVE PROGRAMME

SETTING UP OF BUSINESS, INDUSTRIAL & LABOUR LAWS

The main types of business entities in India include Sole Proprietorship, Partnership, Hindu Undivided Family (HUF) Business, Limited Liability Partnership (LLP), Co-operative Societies, various types of companies, Branch/Liaison Office of foreign companies. It involves regulatory/procedural aspects in setting up of these entities under various authorities and also involve Initial Registrations like Shops & Establishment, FSSAI, ISO, MSME, licenses from the regulatory authorities like RBI, IRDA, GST, Income Tax, IPR, etc. as applicable.

It is very important to understand registration process, funding options available for startups and MSMEs as part of skill enhancement. Accordingly this study material *inter alia* covers matters relating to startup policy different types of capitals available for startups, Udyam Registration, MSME Schemes etc.

With the objective to provide the working knowledge and understanding of the various procedural requirements involved in the setting up of business entities and to give broad understanding and application of labour laws on various entities which are aligned with the concept of Setting up of business, this study material is divided into two Parts viz. Part I covering Setting up of Business and Part II, covering Industrial and Labour Laws.

Part II of this study material covers aspects including Constitutional provision relating to Labour laws, Laws relating to welfare & working Conditions, Industrial relations, wages. Social security aspects, Prevention of Sexual Harassment and also the emerging labour code.

The legislative changes made up to November, 2025 have been incorporated in the study material. The students are advised to refer to the updations at the Regulator's website, Supplement relevant for the subject issued by ICSI and ICSI Journal Chartered Secretary and other publications. Specifically, students are advised to read "**Student Company Secretary**" e-Journal which covers regulatory and other relevant developments relating to the subject. In the event of any doubt, students may contact the Directorate of Academics at academics@icsi.edu.

The amendments to law made up to 31st May of the Calendar Year for December Examinations and up to 30th November of the previous Calendar Year for June Examinations shall be applicable.

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Important Note:

The new criminal laws i.e. Bharatiya Nyaya Sanhita 2023, Bharatiya Nagarik Suraksha Sanhita 2023 and Bharatiya Sakshya Adhinyam 2023 have repealed Indian Penal Code 1860, Criminal Procedure Code 1973 and Indian Evidence Act 1872 (old criminal laws) respectively.

Therefore, by virtue of Section 8 of General Clauses Act 1897, the references to the old criminal laws, unless a different intention appears, be construed as references to the provision of new criminal laws.

EXECUTIVE PROGRAMME

Group 1

Paper 3

SETTING UP OF BUSINESS, INDUSTRIAL & LABOUR LAWS

SYLLABUS

OBJECTIVES:

Part I: To provide the working knowledge and understanding of the various procedural requirements involved in the setting up of business entities.

Part II: To acquire working knowledge, understanding and application of Labour Laws.

Level of Knowledge: Working Knowledge

PART I: SETTING UP OF BUSINESS (60 MARKS)

1. Selection of Business Organization:

- Key features of various Business Organizations and issues in choosing business organization including policy matters, identification of location, tax implications and other relevant aspects

2. Corporate Entities – Companies:

Types of Corporate Business Entities:

- Private Company • Public Company • One Person Company • Nidhi • Section 8 Company • Producer Company • Foreign Company.

Drafting of Incorporation Documents:

- Memorandum of Association and Articles of Association • Incorporation contracts, documents and forms.

Formation and Registration:

- Procedural Aspects with regard to Incorporation of corporate entities.

3. Limited Liability Partnership:

- Concept of LLP • Formation and Registration • LLP Agreement • Alteration in LLP Agreement • Annual and Event Based Compliances.

4. Startups and its Registration:

- Start-up India Policy • Registration Process • Benefits and other Government Policies • Different types of capital - Seed Capital • Venture Capital • Private Equity • Angel Investor • Entrepreneurship • Case Studies on Unicorn

5. Micro, Small and Medium Enterprises:

• Classification of Enterprises • Memorandum • Measures for promotion and development • Udyam Registration Process • NSIC Registration • MSMEs Schemes.

6. Conversion of Business Entities:

• Conversion of private company into public company and vice versa • Conversion of Section 8 company into other kind of Company • Conversion of Company into LLP and vice versa • Conversion of OPC to other type of company and vice versa • Companies authorized to registered under Chapter XXI of the Companies Act, 2013.

7. Non-Corporate Entities:

• Partnership • Hindu Undivided Family • Sole Proprietorship • Multi State Co-operative Society • Trust and Society • Formation and registration • Partnership Agreement and Trust Deed • Mega Firms.

8. Financial Services Organisation:

• NBFCs • Housing Finance Company • Asset Reconstruction Company • Micro Finance Institutions (MFIs) • Nidhi • Payment Banks • Mudra Bank • Registration • Chit Funds.

9. Business Collaborations:

• Foreign Collaborations • Joint Venture • Special Purpose Vehicle

10. Setting up of Branch Office/ Liaison Office/ Wholly Owned Subsidiary by Foreign Company:

• Formation and Registration

11. Setting up of Business outside India and Issues Relating thereto

• Issues in choosing location • Structure and the processes of incorporation of business entities in UK • USA • Canada and Australia.

12. Identifying laws applicable to various Industries and their initial compliances:

• Compliance of industry specific laws applicable to an entity at the time of setting up of the enterprise.

13. Various Initial Registrations and Licenses:

• Mandatory Registration - PAN/TAN • GST Registration • Shops & Establishments • Additional Registration/License - ESI/PF • Pollution • Other registration as per requirement of sector • IE Code • FSSAI • Telecom • I & B • Industrial License, Industrial Entrepreneurs Memorandum (IEM) • Activities specific approvals/ permissions/licenses • Environmental & Pollution clearances • Sectoral approvals / permissions / licenses • State Level Approval from the respective State Industrial Department

PART II: INDUSTRIAL AND LABOUR LAWS (40 MARKS)

14. Constitution and Labour Laws:

• Fundamental rights vis-à-vis labour laws • Equality before law and its application in Labour Laws, Equal pay for equal work • Article-16 and reservation policies • Articles 19, 21, 23 and 24 and its implications.

15. Evaluation of Labour Legislation and need of Labour Code

16. Law of Welfare & Working Condition:

• Occupational, Safety, Health and Working Conditions Code, 2020 • The Child and Adolescent Labour (Prohibition and Regulation) Act

17. Law of Industrial Relations:

- Industrial Relations (IR) Code, 2020

18. Law of Wages:

- Code on Wages, 2019

19. Social Security Legislations:

- Code on Social Security, 2020 ● Apprentices Act, 1961 ● The Labour Laws (Simplification of Procedure for furnishing Returns and Maintaining Registers by Certain Establishments) Act.

20. Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013

ARRANGEMENT OF STUDY LESSONS

SETTING UP OF BUSINESS, INDUSTRIAL & LABOUR LAWS

GROUP 1 • PAPER 3

PART I: SETTING UP OF BUSINESS

Sl. No.	Lesson Title
1.	Selection of Business Organization
2.	Corporate Entities – Companies
3.	Limited Liability Partnership
4.	Startups and its Registration
5.	Micro, Small and Medium Enterprises
6.	Conversion of Business Entities
7.	Non-Corporate Entities
8.	Financial Services Organization
9.	Business Collaborations
10.	Setting up of Branch Office/ Liaison Office/ Wholly Owned Subsidiary by Foreign Company
11.	Setting up of Business outside India and Issue Relating thereto
12.	Identifying laws applicable to various Industries and their initial compliances
13.	Various Initial Registrations and Licenses

PART II: INDUSTRIAL AND LABOUR LAWS

14.	Constitution and Labour Laws
15.	Evaluation of Labour Legislation and need of Labour Code
16.	The Occupational Safety, Health and Working Conditions Code, 2020
17.	The Industrial Relations Code, 2020
18.	Code On Wages, 2019
19.	Code on Social Security, 2020
20.	The Child and Adolescent Labour (Prohibition and Regulation) Act
21.	Apprentices Act, 1961
22.	The Labour Laws (Simplification of Procedure for furnishing Returns and Maintaining Registers by Certain Establishments) Act.
23.	Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013

LESSON WISE SUMMARY

SETTING UP OF BUSINESS, INDUSTRIAL & LABOUR LAWS

PART I: SETTING UP OF BUSINESS (60 MARKS)

Lesson 1: Selection of Business Organization

The choice of a business organization is driven by a combination of several factors such as nature of activity, capital requirement, degree of independence required, etc. There is no readymade formula for selecting the particular type of business organization. Tax implication is also an extremely important factor. Company Secretaries while playing advisory role would help the clients in deciding about the type of organization one may opt for when considering to start a business.

This chapter will cover the factors which are taken into account in choosing a form of business organization alongwith the brief outline of the various forms of business organization.

Lesson 2: Corporate Entities – Companies

Companies may be classified on the basis of their incorporation, number of members, size, basis of control and motive. On the basis of incorporation of the companies, it may be classified into Charter Companies, Statutory Companies and Registered Companies. On the basis of liability, it may be Companies limited by shares/guarantee and unlimited liability companies. Further, on the basis of number of members, they may be classified into One Person Company, private company and public company. On the basis of size, they may be divided into small companies and other companies. On the basis of control, they may be classified into holding company, subsidiary company and associate company. Besides these, companies may be nonprofit companies licensed under Section 8, Government companies, foreign companies, holding/subsidiary companies, investment companies, producer companies etc.

This chapter covers the concepts of various types of companies, their legal basis, special provisions and privileges for some classes of companies, distinction between different types of companies etc. and procedural aspects with regard to the Incorporation of corporate entities.

The chapters also cover the concept of drafting the Incorporation documents of the company. The memorandum and articles of association of a company are the most important documents for the formation of a company and for its functioning thereafter.

The memorandum of association contains the name, situation of registered office, objects, capital and liability and subscription clauses. The articles are its bye-laws or rules and regulations that govern the management and internal affairs and the conduct of its business. Both the documents are required to be registered with the Registrar of Companies at the stage of incorporation of the company.

Before dealing with a company, it is advisable to read the memorandum and articles of the company to understand aspects, such as powers of Board, scope of company's activities etc. and its relationship with the outside world.

Since Memorandum sets out the constitution of a company and is therefore the foundation on which the structure of the company is built. It defines the scope of the company's activities and its relations with the outside world.

Company Secretary in employment should work within the four walls of the MOA and also subject to the provisions of AOA.

Lesson 3: Limited Liability Partnership

Limited Liability Partnership is governed by the Limited Liability Partnership Act, 2008 and the Rules framed thereunder. In this Lesson we shall cover Limited Liability Partnership (LLP), its formation and registration; the features of an LLP agreement and the manner of alterations therein.

LLP is required to make various compliances and file various forms with the Registrar which are on the basis of annual and event based compliances as and when applicable to the LLP.

Being compliance professional, Company Secretary should be aware of all the compliance requirements of various business entities including Limited Liability Partnership.

Lesson 4: Startups and its Registration

Startups have emerged as a fast-growing business model. This chapter deals with the evolution of Startups in India, the Startup India Policy, the exemptions available to start-ups and their registration process. The Chapter also deals with the different kinds of Debt financing and Equity Financing which can be raised by Startups. It also includes the benefits/ exemptions given to start ups, different financing options available and the procedures involved for incorporation and registration as startups.

The Lesson also explains the concept of unicorns and case studies on it. Unicorn is a term used in the venture capital industry to describe a privately held startup company with a value of over \$1 billion.

Lesson 5: Micro, Small and Medium Enterprises

The lesson deals with the classification of Micro, Small and Medium enterprises. Ministry of Micro, Small and Medium Enterprises vide Notification No. S.O. 1364(E) dated 21st March, 2025 revised the Definition of MSMEs. As per this notification, A micro enterprise is where the investment in Plant and Machinery or Equipment does not exceed two crore and fifty lakh rupees and turnover does not exceed ten crore rupees. A small enterprise is where the investment in Plant and Machinery or Equipment does not exceed twenty-five crore rupees and turnover does not exceed one hundred crore rupees. A medium enterprise is where the investment in Plant and Machinery or Equipment does not exceed one hundred and twenty-five crore rupees and turnover does not exceed five hundred crore rupees.

The lesson also covers the topics like Udyam Registration Process, NSIC Registration and various MSMEs schemes launched by the Government.

Lesson 6: Conversion of Business Entities

Companies Act, 2013 provides for conversion of public companies to private companies vice versa, conversion of One Person Company into public/private Company, conversion of Section 8 companies (companies for charitable purpose) into any other class of companies. Companies (Incorporation) Rules, 2014 provides details of the procedural aspects. In addition the students will be able to understand the overall legal and procedural aspects relating to various conversions.

Conversion of existing business entity to other form is a strategic decision which needs to be taken to get the benefits of one form of business entity over other form for a particular business at a particular point of time. Company Secretaries can help in taking such strategic decisions and implementation of the same.

Lesson 7: Non-Corporate Entities

This Chapter deals with the concept of Non-Corporate Entities like Partnership, Hindu Undivided Families, Sole Proprietorship, Multi-State Cooperative Society, Trust and societies, formation and registration of NGOs, namely, Section 8 Company its features, exemptions available to them and registration process. Trust, difference between public trust and private trust, exemptions available to them, more specifically, under the Income Tax Act and formation process. Society, its advantages and disadvantages, consequences of non-registration, benefits of forming a Society and formation process. The lesson also explains the concept of Companies authorized to register under Chapter XXI of the Companies Act, 2013.

Company Secretary should have clarity with regard to institutions which are not for profit, their features and formation process.

Lesson 8: Financial Services Organization

Different forms of Financial Services Organizations operating in India are Non-Banking Finance Companies (NBFC'S) and the various categories of such companies, Housing Finance Companies (HFC's), Asset Reconstruction Companies (ARC's), Micro Finance Institutions (MFI's), Nidhi Companies, Payment Banks, Mudra Banks and Chit Funds. The lesson summarizes different forms of Financial Services Organizations and their features.

This Chapter also explains the process of registering such entities.

Lesson 9: Business Collaborations

A Joint Venture (JV) is generally short lived for conducting specific business activities. It is a business agreement in which the parties agree to develop, for a finite time, a new entity and new assets by contributing equity. A Special Purpose Vehicle (SPV) is formed for a specific purpose.

In this chapter, Joint Venture and Special Purpose Vehicle, their advantages and disadvantages, their characteristics and the process for registering these entities are covered.

Lesson 10: Setting up of Branch Office/Liaison Office/ Wholly owned Subsidiary by Foreign Company

This lesson helps in understanding how to establish branch and liaison office of Foreign Companies in India. Foreign company means any company or body corporate incorporated outside India which has a place of business in India whether by itself or through an agent, physically or through electronic mode; and conducts any business activity in India in any other manner. Establishment of branch office/ liaison office / project office or any other place of business in India by foreign entities is regulated in terms of Section 6(6) of Foreign Exchange Management Act, 1999 read with Foreign Exchange Management (Establishment in India of a branch office or a liaison office or a project office or any other place of business) Regulations, 2016 and amended from time to time.

Lesson 11: Setting up of Business outside India and Issues Relating Thereto

In this lesson, the students will learn about the various forms of business organization, such as sole proprietorship, partnership, Hindu Undivided Family and Multi State Co-operative Societies, their respective merits and demerits and the manner in which they can be registered in India. The lesson also outlines the Issues in choosing location, structure and the processes of Incorporation of business entities in UK, USA, Canada and Australia. Company Secretaries, while playing advisory role, can guide and help in setting up of business outside India.

Lesson 12: Identifying Laws applicable to Various Industries and their Initial Compliances

Keeping in pace with the contemporary global market and emerging stand of Indian economy, government initiated various flagship programs to boost the entrepreneurship environment in the country. Few of the major flagships including Make in India” coupled with “Ease of Doing Business in India”, “Skill India”, “Digital India”, etc., are started to build the interest and ease among various domestic and overseas stake holders to set up and advance the entrepreneurship in India. Indeed, when the entrance and advancement to Indian business market would be of ultimate fortune, there are various laws which need to be abided for successfully setting up and taking forward an enterprise in India.

In this perspective, this chapter aims at proving a quick understanding laws applicable to various industries, their setting up along with the thorough details of their initial compliances.

Lesson 13: Various Initial Registrations and Licenses

A business entity is required to secure various registration and licenses for setting up their businesses in India. In India, there are plethora of laws which requires various registrations and licenses to be obtained for setting up the business unit in India along with ensuring state level compliances. In order to facilitate one spot understanding, this chapter deals with the list of Mandatory as well as Additional Registration and Licenses along with their detailed process.

PART II: INDUSTRIAL AND LABOUR LAWS (40 MARKS)

Lesson 14: Constitution and Labour Laws

The Constitution of a country is the fundamental law of the land. It is under this fundamental law that all other laws are made and executed. Industrial relations affect not merely the interest of labour and management, but also the social and economic goals to which the State is committed to materialise. Therefore, it develops within the province and function of the State to regulate these relations in society desirable channels. The founding fathers of democratic Constitution of India were fully aware about these implications while they laid emphasis to evolve a welfare state embodying federal arrangement. Under the Constitution of India, Labour is a subject in the Concurrent List and, therefore, both the Central and the State governments are competent to enact legislations subject to certain matters being reserved for the Centre.

The objective of the lesson is to familiarize the students with:

- Labour Welfare provisions under Constitution of India.
- Fundamental rights vis-à-vis labour laws.
- Directive Principles of the State Policy of the Constitution vis-à-vis Labour Legislations.

Lesson 15: Evaluation of Labour Legislation and need of Labour Code

The need for better working conditions, the right to organise, and employer demands to limit employee rights in numerous groups and keep labour costs down led to the development of labour law. The law relating to labour and employment in India is primarily known under the broad category of “Industrial Law”. A plethora of labour laws have been established to ensure elevated health, safety, and welfare of workers; to protect workers against oppressive terms as individual worker is economically weak and has little bargaining power; to encourage and facilitate the workers in the organization; to deal with industrial disputes; to enforce social insurance and labour welfare schemes and alike.

The objective of the lesson is to facilitate students to acquaint with:

- History and evolution of Labour Legislations, internationally.
- Need and objective behind bringing in New Labour Codes

Lesson 16: The Occupational Safety, Health and Working Conditions Code, 2020

The Occupational Safety, Health and Working Conditions Code, 2020 represents one of India's most significant labour reforms. Enacted to streamline and modernise the regulatory landscape, the Code consolidates 13 central labour laws into a single comprehensive statute, making compliance simpler, uniform, and more transparent across the country. It incorporates the essential features of the 13 enactments relating to Factories, Dock Workers, Building and other Construction Workers, Plantation Labour, Contract Labour, Inter-State Migrant Workers, Working Journalists and other News Paper Employees, Motor Transport Workers, Sales Promotion Employees, Beedi and Cigar Workers, Cine Workers and Cinema Theatre Workers.

The objective of the lesson is to:

- Understand the purpose and significance of consolidating 13 labour laws into a single OSH Code.
- Assess the enforcement mechanisms, penalties, and compliance framework under the Code.

Lesson 17: The Industrial Relations Code, 2020

The Industrial Relations Code, 2020 is a landmark consolidation of India's labour laws, merging three major statutes—the Trade Unions Act, 1926, the Industrial Employment (Standing Orders) Act, 1946, and the Industrial Disputes Act, 1947—into a single, streamlined framework. Historically, these laws were enacted in different eras and addressed specific industrial concerns, resulting over time in fragmentation, inconsistent procedures, and delays in dispute resolution. The Central Government has notified the Code for enforcement with effect from 21st November 2025, bringing its provisions formally into operation across the country.

The objective of the lesson is to:

- Examine the provisions regarding Standing Orders, certification process and obligations of employers.
- Evaluate the statutory provisions on notice of change, strikes, lock-outs, lay-off, retrenchment and closure.
- Industrial dispute resolution mechanism

Lesson 18: Code on Wages, 2019

The Code on Wages, 2019 seeks to simplify, consolidate, and rationalize the provisions of four existing laws—The Payment of Wages Act, 1936; The Minimum Wages Act, 1948; The Payment of Bonus Act, 1965; and The Equal Remuneration Act, 1976. It aims to strengthen workers' rights while promoting simplicity and uniformity in wage-related compliance for employers.

The objective of the lesson is to:

- Understand the Payment of minimum rate of wages
- Payment of Dues, Claims and Audit

Lesson 19: Code on Social Security, 2020

The Code on Social Security incorporates existing nine Social Security Acts viz; The Employee's Compensation Act, 1923; The Employees' State Insurance Act, 1948; The Employees' Provident Funds and Miscellaneous Provisions Act, 1952; The Employment Exchanges (Compulsory Notification of Vacancies) Act, 1959; The Maternity Benefit Act, 1961; The Payment of Gratuity Act, 1972; The Cine-Workers Welfare Fund Act, 1981; The Building and Other Construction Workers' Welfare Cess Act, 1996 and; The Unorganised Workers' Social Security Act, 2008. The Code extends social security to all workers- including unorganized, gig, and platform workers- covering life, health, maternity, and provident fund benefits, while introducing digital systems and facilitator-

based compliance for greater efficiency. The Code on Social Security, 2020 represents a significant reform in India's labour welfare framework, aimed at ensuring comprehensive and inclusive social protection for all sections of the workforce.

The objective of the lesson is to understand:

- The scope of ESI (Employees' State Insurance):
- The scope of EPF (Employees' Provident Fund)
- The Maternity Benefits
- Payment of Gratuity

Lesson 20: The Child and Adolescent Labour (Prohibition and Regulation) Act, 1986

The Child and Adolescent Labour (Prohibition and Regulation) Act, 1986 prohibits employment of children below 14 years in hazardous occupations and processes and regulates the working conditions in other employments.

The objective of the lesson is to understand:

- The legal frame work provided for law regulating Child and Adolescent Labour practices in India.
- The law on working abolition and prohibition of Child Labour practices
- The provisions relating to employment of adolescent in non-hazardous occupations and processes

Lesson 21: Apprentices Act, 1961

The Apprentices Act, 1961 enacted to regulate and control the programme of training of apprentices and for matters connected therewith. It extends to whole of India.

The objective of the lesson is to understand:

- The legal frame work provided for law regulating regulate and control the programme of training of apprentices in India.

Lesson 22: The Labour Laws (Simplification of Procedure for furnishing Returns and Maintaining Registers by Certain Establishments) Act, 1988

The Labour Laws (Simplification of Procedure for Furnishing Returns and Maintaining Registers by Certain Establishments) Act, 1988 provides for the exemption of employers in relation to establishments employing a small number of persons from furnishing returns and maintaining registers under certain labour laws. It extends to the whole of India.

The objective of the lesson is to understand:

- The legal frame work provided for law regulating the furnishing of returns and maintenance of registers by Certain Establishments in India
- Labour Laws (Exemption from Furnishing Returns and Maintaining Registers by certain establishments) Act, 1988

Lesson 23: Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Act, 2013

Sexual harassment results in violation of the fundamental rights of a woman to equality under Articles 14 and 15 of the Constitution of India and her right to life and to live with dignity under Article 21 of the Constitution and right to practice any profession or to carry on any occupation, trade or business which includes a right to a safe environment free from sexual harassment. Sexual harassment of a woman in workplace is of serious concern to

humanity on the whole. It cannot be construed to be in a narrow sense, as it may include sexual advances and other verbal or physical harassment of a sexual nature. The victims of sexual harassment face psychological and health effects like stress, depression, anxiety, shame, guilt and so on.

The purpose of this lesson is to familiarize students with the need of recognising and understanding:

- The legal framework provided for Prevention of Sexual Harassment of Women at Workplace.
- The Sexual Harassment of Women at Workplace (Prevention, Prohibition and Redressal) Rules, 2013 (the “Rules”).
- The important definitions.
- The need of recognising the sensitivity attached to matters pertaining to sexual harassment.

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Selection of Business Organization

Lesson 1

KEY CONCEPTS

■ Sole Proprietorship ■ Partnership Firm ■ HUF ■ Co-Operative Society ■ Limited Liability Partnership ■ Private Company ■ Public Company ■ One Person Company

Learning Objectives

To understand:

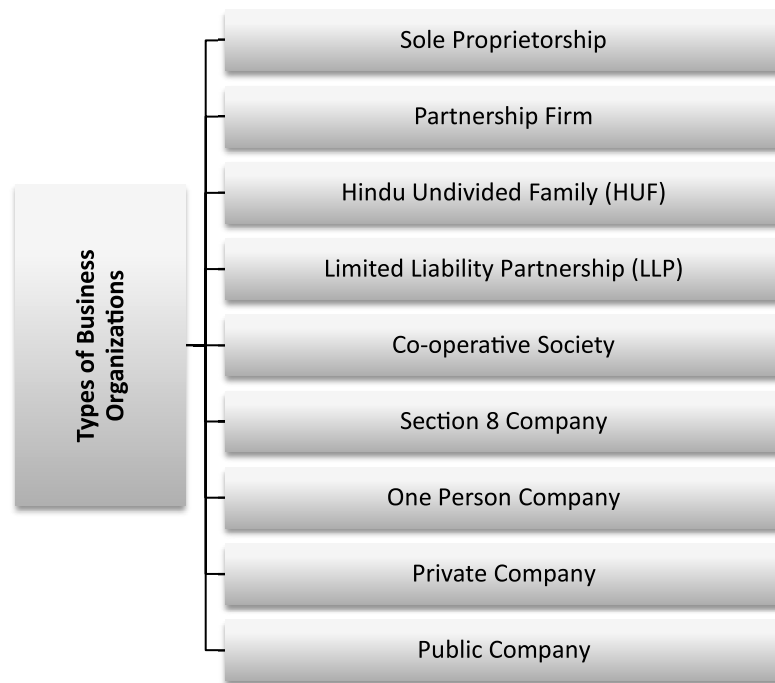
- The features of the various forms of business organization
- The factors which are taken into account in choosing a form of business organization

Lesson Outline

- Types of Business Organizations
- Key Features of various Business Organizations:
 - Sole Proprietorship
 - Partnership Firm
 - Hindu Undivided Family (HUF)
 - Limited Liability Partnership (LLP)
 - Co-operative Society
 - Section 8 Company
 - One Person Company
 - Private Company
 - Public Company
- Selection of a Business Organization
- Factors governing the decisions for suitable form of organization
- Synopsis for consideration of form of Organization
- Company as a choice of business Organization for Start-Ups
- Lesson Round-Up
- Test Yourself
- List of Further Readings
- Other References

TYPES OF BUSINESS ORGANIZATIONS

Business organization refers to all necessary arrangements required to conduct a business in an optimized manner. It refers to all those steps that need to be undertaken for establishing and maintaining relationship between men, material, and machinery to carry on the business efficiently for earning profits. This may be called the process of planning and organizing which are the integral part of the business management. The arrangement which follows this process of organizing the factors required for commencing and carrying on the business is called a business undertaking or organization.



Choosing a form of business entity is crucial to a successful organization. The choice of a business entity will depend on an object, nature and size of the business of such entity which will be varied from case-to-case basis and will also depend upon the will of the owners of the business entity which they want to accomplish. The main types of business entities in India are Sole Proprietorship, Partnership, Hindu Undivided Family (HUF) Business, Limited Liability Partnership (LLP), Co-operative Societies and Company which may be any kind of company including One Person Company (OPC), private company, public company, Guarantee Company, Subsidiary company, statutory company, insurance company or unlimited company. There can also be Association of Persons (AOP) and Body of Individuals (BOI), Corporation, Co-operative Society, Trust etc.

Sole Proprietorship

Sole proprietorship is a form of business, wherein one person owns all the assets of the business, no legal formalities are required to create a sole proprietorship other than an appropriate licensing to conduct a business and registration of business name if it differs from that sole proprietorship. The owner reports income/loss from this business along with his personal income tax return.

Features of Sole Proprietorship

Unlimited Liability: Just as a partnership, a sole proprietorship has no separate existence. Therefore, all debts can only be recovered from the sole proprietor. Therefore, the owner has unlimited liability with regard to all the debts. This should heavily discourage any risk-taking, which means that it is suited to only small businesses. If

one plans on running a business that requires a loan or may end up paying penalties, fines or compensation, it is best to look into registering an OPC.

Easy to Start: There is no separate registration procedure for proprietorships. All a person needs is a government registration relevant to the business. If one is selling goods online, a proprietor would only need a sales tax registration. Therefore, starting up as a sole proprietor is relatively easy.

Partnership Firm

When two or more people come together and pool funds to start a business, it is known as a partnership firm. The primary aim of partnership firms is to earn profit. Partnership firms are created by drafting a partnership deed among the partners. Partnership firms in India are, governed by the Indian Partnership Act, 1932.

Section 464 of the Companies Act, 2013 empowers the Central Government to prescribe maximum number of partners in a firm but the number of partners so prescribed cannot be more than 100.

The Central Government has prescribed maximum number of partners in a firm to be 50 vide Rule 10 of the Companies (Miscellaneous) Rules, 2014.

Features of Partnership

Unlimited Liability: On account of unlimited liability, the partners in the business are liable for all of its debts. This means that if, for whatever reason, a partner is unable to repay a bank loan or is liable to pay a fine, this can be recovered from his or her personal possessions. So, the bank, institution or supplier would have right to their jewellery, house or car. Furthermore, aside from ease of set-up and minimal compliance, the partnership offers no benefits over the LLP. If one opts to register it, which is optional, it may not even be cheaper. Therefore, unless one is running a very tiny business, one should not opt for a partnership.

Easy to Start: If one chooses not to register the partnership firm, all that is needed to get started is a partnership deed. As compared with a private limited company or LLP, the procedure for starting-up a partnership firm is much simpler.

Relatively Inexpensive: A General Partnership is cheaper to start than an LLP and even over the long-term, due to the minimal compliance requirements, is inexpensive. One need not to hire an auditor. This is why, despite its short comings, home businesses may opt for it.

Hindu Undivided Family (HUF)

A Hindu family can come together and form a HUF. HUF is taxed separately from its members. One can save taxes by creating a family unit and pooling in assets to form a HUF. HUF has its own PAN and files tax returns independent of its members.

Features of Hindu Undivided Family (HUF)

There should be atleast two male members in the family to form a HUF. They should inherit the ancestral property. 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.

Limited Liability Partnership (LLP)

Limited Liability Partnership is an alternate corporate business entity that provides the benefits of limited liability of a company but allows its members the flexibility of organizing their internal management on the basis of a mutually arrived agreement, as is the case in a partnership firm, introduced in India by way of Limited Liability

Partnership Act, 2008. LLP is relatively a cheaper approach to incorporate as compared to a Private Limited Company and requires fewer compliances; its main improvement over General Partnership is that it limits the liabilities of its partners to their contributions to the business and offers each partner protection from negligence, misdeeds or incompetence of the other partners.

Features of Limited Liability Partnership

Suitable for Non-Scalable Businesses: If one is running a business that is unlikely to require equity funding, may register an LLP as it combines several benefits of the private limited company and general partnership. It has limited liability, like a private limited company, and has a simpler structure, like a general partnership.

Fewer Compliances: The Ministry of Corporate Affairs ('MCA') has given some concessions to the LLP. For example, an audit needs to be performed only if in any financial year the turnover is greater than Rs. 40 lakhs or whose contribution is more than Rs. 25 lakhs. Furthermore, whereas all structural changes need to be communicated to the RoC in the case of private limited companies, the requirement is minimal for LLPs.

Number of Partners: There is no limit to the number of partners there may be in an LLP. If one is building a large advertising agency, for example, one need not worry about any cap on the number of partners.

Co-operative Society

A cooperative organization is an association of persons, usually of limited means, who have voluntarily joined together to achieve a common economic end through the formation of a democratically controlled organization, making equitable distributions to the capital required, and accepting a fair share of risk and benefits of the undertaking.

Features of Co-operative Society

A society is an association of persons united together by mutual consent to deliberate, determine and act jointly for some common purpose. Societies are usually registered for promotion of charitable activities like education, art, religion, culture, music, sports, etc.

Section 8 Company

Section 8 company is a company established for promoting commerce, art, science, sports, education, research, social welfare, religion, charity, protection of environment or any such other object', provided the profits, if any, or other income is applied for promoting only the objects of the company and no dividend is paid to its members. Section 8 Companies are registered under the Companies Act, 2013.

Features of Section 8 Company

Certain features of a Section 8 company can be summarized as under:

- 1) It is formed for promoting commerce, art, science, sports, education, research, social welfare, religion, charity, protection of environment or any such other object.
- 2) The profits, if any, are applied in promoting its objects.
- 3) It prohibits the payment of dividends to its members.
- 4) The name of the Company can be incorporated without using the word "Limited" or "Private Limited" as the case may be.
- 5) There is no requirement of any minimum paid up capital.
- 6) Flexibility of Administration.

One Person Company

An OPC means a company with only 1 (one) person as a member. Share holder can make only 1 nominee, he shall become a shareholder in case of death / incapacity of original stakeholder. The constitution of a One Person Company (OPC) is a strong improvement over sole proprietorship. It gives a single promoter full control over the company while limiting his/her liability to contributions to the business. This person will be the only director and shareholder (there is a nominee, but with no power until the original member is incapable of entering into contract). Hence, there is no scope of raising equity funding or offering employee stock options.

Features of One Person Company

For Solo Entrepreneurs: A big improvement over the sole proprietorship firm, given that the liability is limited, the OPC is meant for solo entrepreneurs. Furthermore, given that there must be a nominee, it enabled perpetual existence of the OPC.

Low Compliance Requirements: Various exemptions has been given by the Central Government to OPC such as: exemption from holding the Annual General Meeting of the company, financial statement and Board's report can be signed only by one director, it does not need to include Cash Flow Statement as part of its financial statement etc.

Minimal Tax Advantages: The OPC, like the private limited company, has some industry-specific advantages. But taxes are to be paid at a flat rate on profits.

Private Company

Private company is a company which has the following characteristics:

- Shareholders right to transfer shares is restricted
- Minimum number of 2 members in company
- Number of shareholders is limited to 200
- An invitation to the public to subscribe to any shares or debentures or any type of security is prohibited.

Public Company

A public company is a company which has the following characteristics:

- Shareholders right to transfer share is not restricted
- Minimum 7 members
- An invitation to the public to subscribe to any shares or debentures or any type of security is permitted.

SELECTION OF A BUSINESS ORGANIZATION

Essentially, companies could be either private or public company. Public company could be unlisted or listed. A person must sit down and carefully consider all the advantages and disadvantages of each type of entity before choosing one of the forms of business entity which suited best to the nature and size of the business which the entrepreneur / business owner desires to undertake.

A business enterprise can be owned and organized in several forms. Each form of organization has its own merits and demerits. The ultimate choice of the form of business depends upon the balancing of the advantages and disadvantages of the various forms of business. The right choice of the form of the business is very crucial because it determines the power, control, risk and responsibility of the entrepreneur as well as the division of profits and losses. Being a long-term commitment, the choice of the form of business should be made after

considerable thought and deliberation. The selection of a suitable form of business organization is an important entrepreneurial decision because it influences the success and growth of a business – e.g., it determines the division or distribution of profits, the risk associated with business, and so on.

Once a form of business organization is chosen, it is very difficult to switch over to another form because it needs the winding up, dissolution of the existing organization which may be treated as a case which is raised by one-self to face with the complex issues and procedures which ultimately results into the waste of time, effort and money. Further, closure of business will entail loss of business opportunity, capital and employment. The volume of risks and liabilities as well as the willingness of the owners to bear it, is also an important consideration in choosing the right business entity.

Therefore, the form of business organization must be chosen after giving the due thought and consideration in respect of all the sides of the glorious coin of each form of business entity and its suitability to the business ideas of an entrepreneur. There are several factors to be considered while selecting an appropriate form of business organization.

As discussed earlier, the different forms of business organization differ from each other in respect of division of profit, control, risk, legal formalities, flexibility, etc. Therefore, a thoughtful consideration should be given to this aspect of planning and only that form of organization which most suited to the style of business should be chosen. Since the need for the selection of business organization arises both initially i.e., while starting a business, and at a later stage for meeting the needs of its growth and expansion, it is desirable to address this issue at both these levels.

FACTORS GOVERNING THE DECISIONS FOR SUITABLE FORM OF ORGANIZATION

For a new or proposed business, the selection of a suitable form of a business organization is generally governed by the following factors:

1. Nature of Business Activity
2. Scale of Operations
3. Capital Requirements
4. Managerial Ability
5. Degree of Control and Management
6. Degree of Risk and Liability
7. Stability of Business
8. Flexibility of Administration
9. Division of Profit
10. Costs, Procedure and Government Regulation
11. Tax Implication
12. Geographical Mobility
13. Transferability of Ownership
14. Managerial Needs
15. Secrecy
16. Independence

1. Nature of Business Activity

This is an important factor having a direct bearing on the choice of a form of ownership.

In small trading businesses, professions, and rendering of personal services, sole-proprietorship is predominant. Examples are Laundromats, beauty parlors, repair shops, consulting agencies, small retail stores, medicine stores, dentist, accounting concerns, boarding-house, restaurants, specialty shops, jobbing builders, painters, decorators, bakers, confectioners, tailoring shops, small scale shoe repairers and manufacturers, etc.

The partnership is suitable in all those cases where sole proprietorship is suitable, provided the business is to be carried on a slightly bigger scale with help of one or more partner (owner). Besides, partnership is also advantageous in case of manufacturing activities on a modest scale. The finance, trading and real estate industries (on a smaller scale) seem to be suited to partnership form of organization.

Some of the financial businesses that find this form advantageous are tax, accounting, stockbrokerage firms, and consulting agencies etc.

Service enterprises like hotels and lodging places; trading enterprises, such as wholesale trade, retail houses; small scale manufacturing enterprises, small drug manufacturers, etc. can be undertaken in the form of partnership.

Similarly, the business lines such as carrying on large chain stores, multiple shops, super-bazaars, engineering, industrial activities with high capital and working capital requirements and software industrial activities are generally in the form of companies.

Where the persons intending to start a business wish to launch a business organization clothed with a legal entity and in corporate form with a feature of having their sole ownership and control thereon, they may decide to form a One-Person Company (OPC). OPC is a new concept in India and hybrid of Sole-Proprietor and Company form of business. The concept opens spectacular possibilities for sole proprietors and entrepreneurs as, such companies retain the character of a Sole Proprietorship, provides limited liability feature to the sole proprietor and is clothed with a legal entity distinct from its owner.

An alternative form of organization where two or more persons are involved in starting the business organization is the Limited Liability Partnership ('LLP') under the Limited Liability Partnership Act, 2008. Such entities have also gained popularity nowadays. A major advantage of such an entity is that the liabilities (if any), of the LLP lies with the entity and does not fall on the individual partners unlike the partnership form of business organization under the Indian Partnership Act, 1932, where the joint and several liabilities of the partner(s) is one of the features.

In an LLP form, the liability of the Partner is limited to the extent of his contribution towards the LLP, except in case of intentional fraud or wrongful act of omission or commission by the partner himself. What is at stake for the partner is what he has put into the business along with any personal guarantees he would have furnished. However, such forms of business organization are suitable generally in the service industry and where there is no dependence on large amounts of financing from outside sources.

A One-Person Company (OPC), LLP and limited company exist as a separate business entity in the eyes of law and this creates a wall between the personal assets of the investor and that of the business. Thus, in these form of business organizations the personal property of the owner(s) is protected and this gives the owner(s) the ability to build the business credit, get loans and raise capital.

2. Scale of Operations

The second factor that affects the form of business organization is the scale of operations. If the scale of operations of business activities is small, sole proprietorship or a One Person Company (OPC) is suitable; if the

scale of operations is modest - neither too small nor too large - partnership or limited liability partnership (LLP) is preferable; whereas, in case of large scale of operations, the company form is advantageous.

For instance, in accordance with the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified as below:

For instance, in accordance with the Micro, Small & Medium Enterprises Development (MSMED) Act, 2006 the Micro, Small and Medium Enterprises (MSME) are classified as below:

As per Ministry of Micro, Small and Medium Enterprises- w.e.f. 21st March, 2025 an enterprise shall be classified as a micro, small or medium enterprise on the basis of the following criteria, namely: --

- (i) A micro enterprise is where the investment in Plant and Machinery or Equipment does not exceed two crore and fifty lakh rupees and turnover does not exceed ten crore rupees.
- (ii) A small enterprise is where the investment in Plant and Machinery or Equipment does not exceed twenty-five crore rupees and turnover does not exceed one hundred crore rupees.; and
- (iii) A medium enterprise is where the investment in Plant and Machinery or Equipment does not exceed one hundred and twenty-five crore rupees and turnover does not exceed five hundred crore rupees.

The scale of business operations depends upon the size of the market area served, which, in turn, depends upon the size of demand for goods and services. If the market area is small, local - sole-proprietorship, OPC or partnership is opted. If the demand originates from a large area- partnership including LLP or Company may be adopted.

3. Capital Requirements

Capital is one of the most crucial factors affecting the choice of a particular form of ownership organization. Requirement of capital is closely related to the type of business and scale of operations. Enterprises requiring heavy investment (like iron and steel plants, large scale infrastructure projects etc.) should be organized as companies. Depending on the capital required, they can be set up as public companies and, in some cases, may be in the form of listed companies by raising money from the public and being listed on the stock exchanges.

Enterprises requiring small investment (like retail business stores, personal service enterprises, etc.) can be best organized as sole proprietorships or even as Partnerships. Apart from the initial capital required to start a business, the future capital requirements - to meet modernization, expansion, and diversification plans - also affect the choice of form of organization.

In sole proprietorship, the owner may raise additional capital by borrowing, by purchasing on credit, and by investing additional amounts himself. Banks and suppliers, however, will look closely at the proprietor's individual financial resources before sanctioning any loans or advances.

Partnerships can often raise funds with greater ease, since the resources and credit of all partners are combined in a single enterprise. Companies are usually best able to attract capital because investors are assured that their liability will be limited, their operations are in public domain in the transparent manner, easily accessible and the ownership can be transferred to other investors.

4. Managerial Ability

It is difficult for a sole proprietor to have expertise in all functional areas of business. Further, the size of the business may not permit engagement of professional management.

In other forms of organizations like partnership and company, there is division of work among the partners which allows the partners to specialize in specific areas, leading to better outputs and decision making. However, this may sometimes lead to conflicts due to differences of opinion. Company form of organization is a better alternative if the operations are far flung, complex in nature and require professional management at various levels.

5. Degree of Control and Management

The degree of control and management that an entrepreneur desires to have over business affects the choice of form of organization.

In sole proprietorship and OPC: ownership, management, and control are completely fused, and therefore, an entrepreneur has complete control over his business.

In partnership: management and control of business is jointly shared by the partners and their specific rights, duties and responsibilities would be documented through incorporating various clauses in this regard in the partnership deed. They have equal voice in the management of partnership business except where they agree to divide among themselves the business responsibilities in a different manner. Even then, they are legally accountable to each other.

In a company: however, there is divergence between ownership and management, the management and control of the company business is entrusted to the Board, who are generally the elected representatives of shareholders.

Thus, a person wishing to have complete and direct control of business prefers proprietary organization rather than partnership or company. If he is prepared to share it with others, he will choose partnership. But, if the activities are large, professional managers are required to handle the day-to-day affairs and there is need for corporate structure and management, he will prefer the company form of organization.

6. Degree of Risk and Liability

The size of risk and the willingness of owners to bear it, is an important consideration in the selection of a form of business organization. The amount of risk involved in a business depends, among other factors like, on the nature and size of business. Smaller the size of business, smaller the amount of risk.

Thus, a sole proprietary business carries small amount of risk with it as compared to partnership or company. However, the sole proprietor is personally liable for all the debts of the business to the extent of his entire property. Likewise, in partnership, partners are individually and jointly responsible for the liabilities of the partnership firm.

Companies and LLPs have a real advantage, as far as the risk is concerned, over the other forms of business organization. Creditors can force payment of their claims only to the limit of the company's and LLPs assets. Thus, while a shareholder/member/partner may lose the entire money he puts into or agreed to put into the company and LLP, he cannot be forced to contribute additional funds out of his own pocket to satisfy the business debts of the company and LLP.

7. Stability of Business

Stability of business is another factor that governs the choice of an ownership organization. A stable business is preferred by the owners in so far as it helps him in attracting suppliers of capital who look for safety of investment and regular return, and also helps in getting competent workers and managers who look for security of service and opportunities of advancement. From this point of view, sole proprietorships are not stable, although no time limit is placed on them by law.

The illness of owner may derange the business and his death can lead to permanent closing off the business operations. Partnerships are also unstable, since they are terminated by the death, insolvency, insanity, retirement, admission, expulsion or withdrawal of/ by one of the partners. Companies and LLPs have the most business stability due to its feature or perpetuity being an artificial or legal person. The life of the company and LLP is not dependent upon the life of its members/partners. Members/partners may come, members/partners may go, but the company/LLP goes on forever unless and until it being wound up.

8. Flexibility of Administration

As far as possible, the form of organization chosen should allow flexibility of administration. The flexibility of administration is closely related to the internal organization of a business, i.e., the manner in which organizational activities are structured into departments, sections, and units with a clear definition of authority and responsibility.

The internal functioning of a sole proprietary business, for instance, is very simple, and therefore, any change in its administration can be affected with least inconvenience and loss. To the large extent, the case is the same in a partnership business also.

While, in case of company, administration is not that flexible because its activities are conducted on a large scale and they are quite rigidly structured. Thus, in this form of structures any substantial change in the existing line of business activity- say from cotton textiles to sugar manufacturing may not be permitted by law if such a provision is not made in the 'objects clause' of the Memorandum of Association of the company.

Thus, from flexibility point of view, sole proprietorship has a distinct edge over other form.

9. Division of Profit

Profit is the guiding force of private business and it has a tremendous influence on the selection of a particular form of business organization. An entrepreneur desiring to pocket all the profits of business will naturally prefer sole proprietorship of course, in sole proprietorship, the personal liability is also unlimited.

But, if he is willing to share the profits, partnership form of organization would be preferred. In company form of organization, however, the profits (whenever the Board of Directors decides) are distributed among shareholders in proportion to their shareholding, but the liability of the shareholders is limited. The rate at which dividend is to be distributed is decided by the Board, though approved by the shareholders. Companies may also reward shareholders by issue of bonus shares. In case of listed companies, the equity shares are tradable on the stock exchanges, enabling the shareholders to exit the company at any time as per their own discretion.

10. Costs, Procedure and Government Regulation

This is also an important factor that should be taken into account while choosing a particular form of organization. Different forms of organization involve different procedure for establishment and are governed by different laws which affect the immediate and long-term functioning of a business enterprise. From this point of view, sole proprietorships are the easiest and cheapest to get started. There is no one specific government regulation but is guided by various state and central laws to give a valid proof of existence e.g. – Shops and Establishment Act. What is necessary is the technical competence and the business acumen of the owner and the requirement of meeting tax liabilities.

Partnerships are also quite simple to be initiated. Even a written document is not always necessarily a prerequisite since an oral agreement can be equally effective. However, in actual practice, written partnership deed is usually entered into, as it is needed for registration of the firm and for tax authorities. The procedure for dissolution of partnership is also, relatively simple.

Company form of business organization is more complicated to form. It can be created by law, dissolved by law, and operate under the express provisions of the law. In the formation of a company, a number of legal formalities have to be gone through which entails, at times, quite a substantial amount of expenditure. Further, various formalities have to be complied with for closure of companies. Non - payment of dues may land the company into insolvency or liquidation.

For example, the cost incurred on the drafting of the Memorandum of Association, the Articles of Association, the Prospectus, issuing of share capital, etc. can be quite high. This cost is however, small in case of private

companies. Besides, companies are subjected to a large number of anti-monopoly and other economic laws so that they do not hamper the public interest.

11. Tax Implication

In the choice of the form of business organization, tax implication plays an important factor. In smaller entities, such as sole proprietorship or partnership, tax liability is dependent on the extent of profits. However, the liability of the owner(s) is unlimited. In case of companies or LLPs the liability of shareholders is limited to the value of shares they have purchased. In case of companies or LLPs, tax liability could be higher and charged at a flat rate.

12. Geographical Mobility

The extent to which the product or service is proposed to be manufactured or made available also plays a vital role in choosing the type of business organization. If a concern deals with local market, a seasonal product or perishable goods, or is meant to cater to a specific city or locality, then sole proprietorship or partnership form of business may be suitable. If it is proposed to market the product or service all over India (which may also entail providing customer support services), a company form of organization may be preferred.

13. Transferability of Ownership

Sole proprietorship, being a one-person entity does not lend itself to transferability of ownership as the owner himself enjoys the profits and suffers the losses in his business. Partnership form of organization is one where two or more partners share the profits and/or losses in the agreed proportion. If a partner exits, the partnership, may decide to induct a new partner with benefits of ownership and share of profits or losses. In the company form of organization, transfer of ownership is possible by transfer of shareholding by any person or group of persons in favor of another person or group of persons.

14. Managerial Needs

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

15. Secrecy

Secrecy is of supreme importance, particularly in small business concerns. Accordingly, the entrepreneur would select the sole proprietorship for that reason. In case, he has partners, he will have to carefully weigh whether other partners will be able to maintain the secrecy. He will have to exercise great care in taking partners. In case of a company, secrecy may be restricted to the manufacturing process or the manner in which business is conducted. However, certain aspects of their business such as their board of directors, shareholding, financial statements and other information which are statutorily required to be placed in public domain are accessible to any person.

16. Independence

The company is subject to strict government regulations. So, if the entrepreneur wants to have a freedom in business with little governmental interference, he has to go for either sole proprietorship or partnership.

SYNOPSIS FOR CONSIDERATION OF FORM OF ORGANIZATION

The consideration of the various factors listed above clearly shows that:

- (a) These factors do not exist in isolation, but are interdependent, and all these factors are important in their own right. Nevertheless, the factors of nature of business and scale of operations are the most basic ones in the selection of a form of ownership for setting up of a business organization.

All other factors are dependent on these basic considerations. For instance, the financial requirements of a business will depend on the nature of business and the scale of operations planned. To take an example, if a business wants to set up a trading enterprise (say, a retail store) on a small scale, his financial requirements will be small.

- (b) The various factors listed above are only major factors, and in no case, they constitute an exhaustive list. Depending upon the requirements of the business, the demands of the situation and sometimes even the personal preference of the owner, the choice of a form of ownership is made.
- (c) The problem in choosing the best form of business organization is one of the analyzing and weighing relative advantages and disadvantages to find the one that will yield the highest net advantage and for that, weights may be assigned to different factors depending upon their importance in each form of organization, and the type of organization that obtains the maximum weights may be ultimately selected.

COMPANY AS A CHOICE OF BUSINESS ORGANIZATION FOR START-UPS

Start-ups prefer company as a business structure because it allows outside funding to be raised easily, limits the liabilities of its shareholders and enables them to offer employee stock options to attract top talent. As these entities must hold board meetings and file annual returns with the Ministry of Corporate Affairs (MCA), they tend to be viewed with more credibility than an LLP or General Partnership.

LESSON ROUND-UP

- The main types of business entities in India are Sole Proprietorship, Partnership, Hindu Undivided Family (HUF) Business, Limited Liability Partnership (LLP), Co-operative Societies, Branch Office and Company which may be any kind of company including one person company (OPC), private limited company, public limited company, Guarantee Company, subsidiary company, statutory company, insurance company or unlimited company.
- There can also be Association of Persons (AOP) and Body of Individuals (BOI), Corporation, Co-operative Society, Trust etc.
- Choosing a form of business entity is crucial to a successful organization.
- Various factors involved are Nature of business activity, Scale of operations, Capital requirements, Managerial Ability, Degree of control and management, Degree of risk and liability, Stability of business, Flexibility of administration, Division of profit, Costs, procedure, and government regulation, Tax implication, Geographical mobility, Transferability of ownership, Managerial Needs, Secrecy, Independence.
- These factors do not exist in isolation, but are interdependent, and all these factors are important in their own right. Nevertheless, the factors of nature of business and scale of operations are the most basic ones in the selection of a form of ownership for setting up of a business organization. All other factors are dependent on these basic considerations.

- The various factors listed above are only major factors, and in no case, they constitute an exhaustive list. Depending upon the requirements of the business, the demands of the situation and sometimes even the personal preference of the owner, the choice of a form of ownership is made.
- There is a need to analyse and weigh the relative advantages and disadvantages to find the one that will yield the highest net advantage and for that, weights may be assigned to different factors depending upon their importance in each form of organization, and the type of organization that obtains the maximum weights may be ultimately selected.

TEST YOURSELF

(These are meant for re-capitulation only. Answers to these questions are not to be submitted for evaluation)

1. What are the factors which govern the choice of a business organization?
2. Why would you prefer a Limited Liability Partnership compared to a Private Limited Company? Explain.
3. Distinguish between a sole proprietorship and partnership.
4. In which form of business organization, the owner is personally liable for all the debts of the business?
5. What are the advantages of partnership compared to a private limited company?
6. Why would you prefer One Person Company (OPC) compared to a Sole Proprietorship? Explain.
7. Requirement of Capital affects the choice of suitable form of a business organization. Explain.

LIST OF FURTHER READINGS

- ICSI Premier on Company Law
- Bare Act- The Companies Act, 2013
- Bare Act- The Partnership Act, 1932
- Bare Act- The LLP Act, 2008

OTHER REFERENCES (Including Websites/ Video Links)

- <https://www.mca.gov.in/content/mca/global/en/acts-rules/ebooks/acts.html?act=NTk2MQ==>
 - <https://www.indiacode.nic.in/>
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