



3 Business organizations

Introduction

Man has to fulfil his needs and wants to live. In the past he produced everything he needed. But, at present he has to obtain the goods and services to fulfil his needs and wants from the market. Therefore various business organizations are created to supply goods and services to the market.



A business organization means a person or a group of people get together and work to produce and supply goods and services required to fulfil the needs and wants of man.

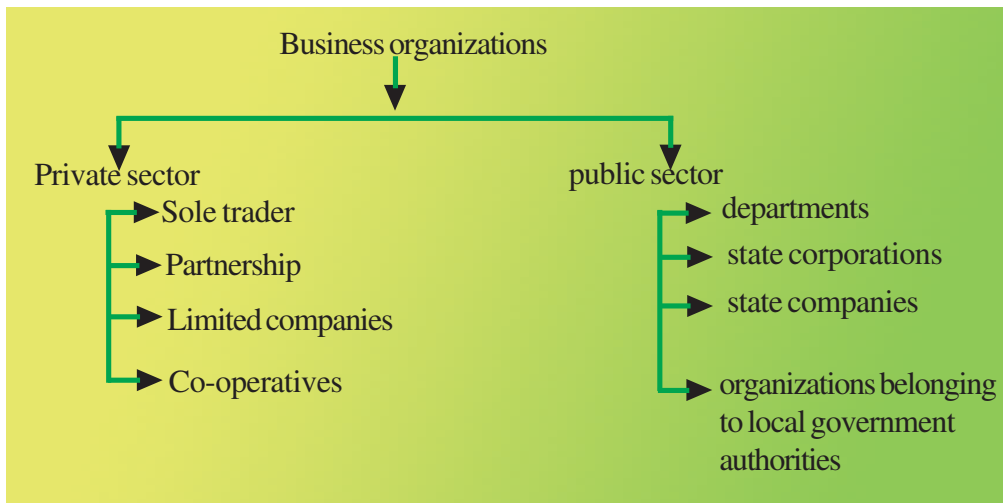
Various people would supply the capital to form a business organization. They are known as the owners. Business organizations are classified as private and public or state sector based on the ownership.

Various business organizations can be identified under each of private and public sector. Several factors should be considered when selecting a type of business organization which is suitable to a particular trade or business.

The objectives of this chapter are to understand clearly of such organizations and factors which are useful to select a suitable business organization.

Business organization on the basis of ownership

The people who contribute funds and connect to the business directly are known as the owners of business. Owners are the people who face risks of the business and get the profit or incur the loss of the business. The ownership of the business can be classified as follows.



Flow chart - 01

Let us consider each business organization given above under private sector

Private sector business organization

Private sector primarily refers to the organizations of which the ownership belongs to an individual or a group of people.

The objectives which are expected to achieve from these businesses are many. The important and main objective of such organizations is to earn profit. There are organizations without profit motive but social welfare is their prime objectives.

The private sector business organizations have spread from the ownership of one individual of small scale into many owners of large scale organizations. These organizations differ from one another when they are in operation. Let us consider each of the organizations of private sector to understand these differences.

The sole trader / the sole proprietorship

The business ownership of which is limited only to one person is known as a sole trader.

This is the most common form of private business organization in any country in the world. This is because it is easy to start. Small amount of capital is required and the help of the family members can be obtained to conduct the business activities. The best examples for sole traders are retail shops, small boutiques and barber saloons.



diagram 3.1

Partnership

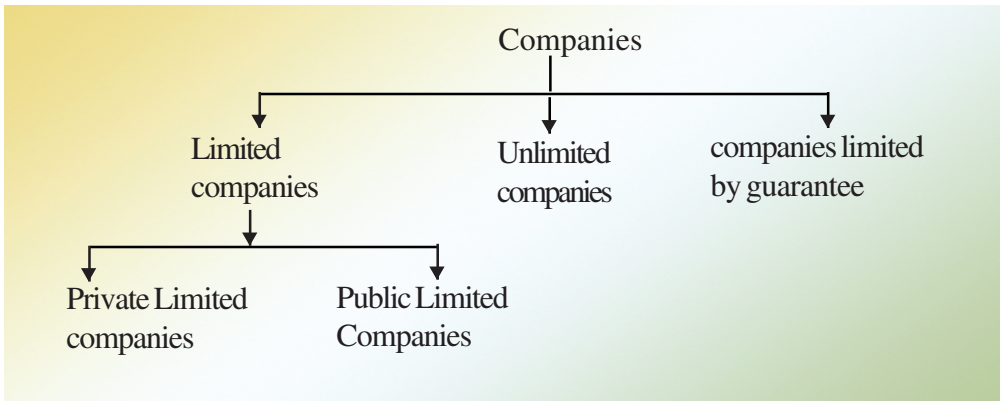
A partnership is defined as the mutual relation among the members of a group who carry out business activities for the common purpose of earning profit.

A partnership can be formed verbally, under a written agreement or by action of two or more persons. But most suitable form is that it should be formed in writing. Fraud Prevention Act of 1840 states that any partnership with more than Rs. 1,000 as capital should be formed under a written agreement.

Limited companies

Two persons or more get together and carry out a business activity with the purpose of earning profit which is known as a limited company. If the secretary of the General Treasury is a share holder, there is provision to form a limited company even with one share holder. Limited companies can be classified as per the Companies' Act No. 07 of 2007 as follows.

Classification of the companies



Flow chart 02

Co-operatives

This refers to the business formed by a group of people with voluntary and open membership for the objective of improving their economic condition and power.

A co-operative society can be formed with at least 10 members and the capital would be obtained from the membership fund. The business organizations mentioned above have some common features. Let us consider them briefly.

Registration

Registration is the recognition obtained by a business, from an authorized organization when a business has commenced its operations.

The business obtains legal status with the registration. As far as certain business organizations are concerned there is no need to register them even though it is good to register them for some practical purposes.

Legal entity/ legal status

Legal entity refers to the ability of a business to appear as an individual person in before the law.

Sole proprietorship and partnership have no such legal entity. The law agrees that the limited companies and the co-operatives to be legal persons before the law.

Liabilities

What the business owes to other parties is known as liabilities.

These are the debts of the business. As the liabilities of both sole trader and partnership are unlimited, even the private assets would be taken to settle the debts if the business become bankrupt. But, on the other hand the liabilities are limited in limited companies and co-operative societies. The liability of share holders is limited to the total of face value of the share held by them.

Management

Utilization of resources effectively and efficiently to achieve the organizational objectives is known as management.

Management of a sole trader would be done by the owner and the partnership by its partners. The management of limited companies and the co-operative shops would be done by a board of directors.

Profit and loss

Profit and loss are the outcomes of the activities of a business at the end of a period. The owner of a sole trader and the partners of a partnership enjoy or incur, profit and loss. Share holders in a company would get the dividends.

Maintaining and auditing of accounts and accounting records

Recording of information on business transactions is known as accounting. Verification of correctness of such records is known as auditing.

It is not mandatory to maintain accounting records and auditing such accounts in sole tradership and partnerships. But for the betterment of the future of the business and for other practical benefits and payment to the government it would be required to maintain accounts. Limited companies and co-operatives should maintain and audit their accounts.

Continuity

Existence of a business for a long period is called continuity.

The continuity of sole proprietorship and partnership is not sure. These businesses would cease due to personal and other reasons. Death of the owner, illness and the bankruptcy can be given as examples. The existence and the continuity of limited companies and co-operations are comparatively permanent. Change of share holders is not a threat for its continuity. Basic feature of the business organization mentioned above are shown in the following illustration.

Essential features of the organizations

Type of business organization	Ownership	Capital	Registration	Legal status	Liabilities	Management	Profit / loss	Maintenance and auditing of accounts	Continuity
Sole proprietorship	Rests with the person who committed the capital	owner's savings, help from family members, loans	Not mandatory	No legal status	Un limited	By the owner	Retained by the owner	Not necessary	No
Partnership	Partners 2-20	partners' funds	Not mandatory	No legal status	Un limited	By the participation of all the partners	According to the partnership agreement if any. If not as per the provisions of Partnership Act of 1890	Not necessary	No
Limited company	Share holders	issuing shares and other options	Essential	Has legal entity	Limited	By board of directors	Dividend decided by the board of directors would be issued	Essential	Yes
Co-operative society	Members minimum members-10	from the members and other options	Essential	Has legal entity	Limited	By board of directors	Distributed as per the contribution by each	Essential	Yes

Public sector/ state sector organizations

The organizations that are started and maintained providing capital by the government are known as public sector organizations or state sector organizations.

The governments' involvement in these organizations is purely for social welfare. State sector organizations are classified as follows.

- ☀ State departments
- ☀ State corporations
- ☀ Limited companies of the state

Informal organizations

Business organizations which carry out their business activities in an unsystematic way is known as in formal organizations.

Persons who lend money on interest, and conduct business activities on a temporary basis are the examples of such business activities.

So, the business organizations can also be conducted as formal and in-formal business organizations.

Evaluations of business organizations

Sole proprietorship is the most commonly used business organization by small and medium scale businesses. Therefore it is necessary to look at the advantages and disadvantages of such business organizations. Following table would show the advantages and disadvantages.

Advantages and disadvantages of sole trader and partnership

Nature of the business	Advantages	disadvantages
Sole trader	<ul style="list-style-type: none"> • Easy to start with less expenses • Less legal requirements • Direct control by the owner • Can start with less amount of capital • All profit would be retained by the owner. 	<ul style="list-style-type: none"> • Capital has to be supplied by the owner alone • Less sources of capital • Unlimited liability • Inefficient decision making • Owners' personality would affect the business
Partnership	<ul style="list-style-type: none"> • Easy to start • More capital can be collected • Collective management • Risk of loss would be shared 	<ul style="list-style-type: none"> • Unlimited liability • Difficult to take quick decisions • No legal status • No continuity



Activity 01

“People have organized in many ways in different places to fulfil human needs and wants.”

Describe how people in your area have organized in such ways. Compile a brief report identifying them as formal or informal with examples.



Activity 02

Name ten items of goods and ten kinds of services you need to fulfil your day-to-day requirements. Then name the business organizations which provide each of those goods or services.



Activity 03

State the similarities and differences between sole proprietorship, partnership and the limited companies

Title	Sole trader	Partnership	Limited companies
1. Ownership			
2. Capital			
3. Liability			
4. Management			
5. Legal status			
6. Continuity			

Selection of a business organization to suit the business idea

There are factors to be considered when a business idea is to be put into practice. The important one of them is to select a suitable type of business organization. This selection should be done on several criteria. They are,

- ✳ Size of the business (scale)
- ✳ Nature of the business
- ✳ Legal requirements
- ✳ Liability
- ✳ Management / administration
- ✳ Continuity
- ✳ Legal status
- ✳ Capital (financial) requirements
- ✳ Personal likes and dislikes

Let us see each of the above briefly.

Size of the business

Size of a business is known as scale.

The businesses would be classified as small scale medium scale and large scale on the basis of its size. Size or scale of the businesses would be determined by various factors. The volume or quantity of goods or services supplied, size of the market relevant to the product, and the capital strength required is such important factors. If it is a small business according to the business idea, then sole proprietorship or partnership form of business is suitable.

Nature of the business

Nature of the business refers to the type of business activity the business involves.

This varies as production of goods rendering services, and trading activities. Suitable organizational methods can be selected according to the nature of the business.



diagram 3.2

Legal requirements

Legal obligations which are to be fulfilled when starting and carrying out business activities are known as legal requirements. A particular type of business organization should be selected considering the civil law and other mercantile laws of the country.

Liability

Liability refers to the debt outstanding to the outsiders who supplied the resources to the business.

Some businesses do not have legal entity which separates the owner and the business apart. Therefore the owners will have unlimited liability to the outsiders who supplied items if the liability is rested on a single person. Sole proprietorship is relevant to that and if it is to be shared by many, partnership form of business is suitable.

Management / administration

Work to achieve organizational aims and objectives by utilizing the resources effectively and efficiently is called management.

If a person can manage the business on his own, sole proprietorship is most suitable for the business. If it is to join others and take decisions, the suitable form is partnership.

Continuity

The ability of the business to carry out for a longer period is known as continuity. Change of owners would affect the continuity of sole proprietorship and the partnership. It also depends on the situations owners have to face.

Legal status

The ability of a business organization to appear as a single person is known as legal status.

A limited company gets the legal status soon after it is registered. Any business which needs legal status should form as a limited company.

Capital requirements

This means the amount of capital that is required to start the business. If the business needs a small amount of capital, most suitable forms of business are sole trader or partnership.

Personal interests or likes /dislikes

Even though decision making is possible by the owner in sole proprietorship it is not possible in partnership. The suitable type of business organization is to be selected according to this.

Following type of check list should be prepared to select a suitable form of business organization using the criteria given above.

Criteria	Sole proprietorship	Partnership	Limited company
<ul style="list-style-type: none"> • If the market is small • If the capital requirements is less • If legal influence is less • If the owner wants to act on his own • If liabilities are unlimited • If continuity is required 			

Mark (✓) the suitable business organization and mark (✗) the unsuitable organizations.

Selection of the most suitable organization can be done using the above check list.



Activity 04

- a) Propose a business idea which can be started on the basis of the resources available in your area.
- b) Prepare a check list to select a suitable business organization for your business idea.



Activity 05

Fill in the blanks with the suitable answers according to the table given below.

Criteria of selection	Reasons for the factors	Suitable business organization
Size of the business	Small market Small scale business	Sole proprietorship
Nature of the business		
Legal requirements		
Liability		
Management		
Continuity		
Capital requirements		
Personal likes / dislikes		

Steps to be followed when a business organization is formed


Legal status of different types of businesses will vary from business to business. For some businesses the legal requirements are less while for some other businesses such requirements are high. Following list gives the steps to be followed for registration of each type of business organization.

Type of business organization	Registration	Documentation
<p>1. Sole proprietorship</p> <p>2. Partnership</p>	<ul style="list-style-type: none"> • No need to register if the business is run by the owners' name. if it is run by another name it is to be registered according to the Businesses Names Ordinance no. 06 of 1918. It would be done at the provincial councils according to the regulations (provisions) of provincial councils act. • Application for the registration should be submitted with the fees to the divisional secretary. • Registration of this also would be done according to the above procedures. • More than that the Partnership Act of 1890 would affect the registration of partnerships 	<ul style="list-style-type: none"> • A certificate would be issued after the registration. • This certificate should be demonstrated in the business • Partnership deed • This is the document which states the regulations with regard to the internal parties and other activities of the business. <p><u>Contents of the deed</u></p> <ul style="list-style-type: none"> • Method of capital contribution • How the management would be done. • How the profit /loss would be shared • The steps to be followed when admission or retirement of a partner • How the issues would be settled in future.

Type of business organization	Registration	Documentation
3. Limited company	<ul style="list-style-type: none"> • It is essential to register according to the Companies Act. • Registration would be done at the office of the registrar of companies in Colombo. • Relevant documents according to the Companies Act no. 07 of 2007 would be submitted to the registrar for the registration. • Prescribed application forms with the signature of each promoter including the following documents. • A statements stating that the company name would not be the same as others or does not represent any other name. • Articles of association which states the legal provision and regulations with regard to the internal administration of the company • Letters of consent of the members of board of directors, stating their willingness to function as directors • Letter of consent obtained from the company secretary stating his /her willingness to function as the secretary of the company. • Upon receipt of the documents above the registrar of company would issue a certificate known as certificate of incorporation 	<ul style="list-style-type: none"> • Statement on the name of the company • Articles of association • Statements of consents of the directors • Written statement of consent of the company secretary

Business organization	Registration	Documents required
Co-operative society	<ul style="list-style-type: none"> • In case of a private company after the receipt of this certificate its business activities can be started. But a public limited company cannot start the business until they obtain another certificate known as certificate of commencement of the business. • Essential to register under the Co-operations Act No. 05 of 1972 Department of Co-operative development would register Co-operative societies. <p>Documents required for registration :-</p> <ul style="list-style-type: none"> • Application form for registration • Two copies of the internal constitution of the society • Economic viability for the formation of the society • Copy of the minutes of the general meeting where the proposal to form the society is seconded • Report of financial handling of the society • Map of the location of the society 	<p>Constitution of the Co-operative</p> <ul style="list-style-type: none"> • It is a report which contains the rules and regulations set and agreed by the persons who expect to form the society, in view of conducting the day-to-day business activities of the society • Consents of the members are assential for this.

Model of certificate of registration of a sole proprietorship

<p>தென் மாகாண சபை Southern Provincial Council</p>		<p>“பொது நல” (C) 2013 மாகாணக் கம்பனிகள் (மே. ம) ஆர் Provincial Companies (SP) R 3</p>
<p>1991 ச.உ. 1 டர்சன வகையர் கை பிளிட் டுரேட்டர்சீயை சீமைட்டி கட்டுக (149 விகிதம்) (1991 விகிதம்) வகையர் கை வகையர் 1991 ஆம் ஆண்டில் 1 ஆம் இலக்க விபரம் பெயர் தொடர்பான கிரிதிச் சட்டத்தினால் ஒன்று சேர்க்கப்பட்ட (149 ஆம் அத்தியாயம்) விபரம் பெயர்க் கட்டளைச்சட்டம். Business Names Ordinance (Cap. 149) incorporated by Business Names Statute No. 1 of 1991</p>		
<h3>கை பிளிட் டுரேட்டர்சீயை வகையர் கை பிளிட் டுரேட்டர்சீயை தனிநபரின் விபரம் பெயர் பதிவுச் சான்றுப் பத்திரம் CERTIFICATE OF REGISTRATION OF AN INDIVIDUAL BUSINESS</h3>		
<p>வகையர் கை பிளிட் டுரேட்டர்சீயை / சான்றுப் பத்திர இலக்கம் / Certificate No. S.....</p>		
<p>1991 ச.உ. 1 டர்சன வகையர் கை பிளிட் டுரேட்டர்சீயை சீமைட்டி கட்டுக (149 விகிதம்) (1991 விகிதம்) வகையர் கை வகையர் ஒன்று சேர்க்கப்பட்ட (149 ஆம் அத்தியாயம்) விபரம் பெயர்க் கட்டளைச்சட்டத்தினால் ஒன்று சேர்க்கப்பட்ட கட்டுரை 200..... ஆம் ஆண்டு..... மாதம்..... ஆம் திகதியன்று தென் மாகாணத்தின் மாகாண விபரம் பெயர் பதிவுச் சான்றுப் பத்திரம் இலக்கத்தில் 3..... ஆம் இலக்கத்தில் கிழ பதிவு செய்யப்பட்டதென இத்தால் நான் உறுதிப்படுத்துகிறேன். do hereby certify that the following statement, made in pursuance of the Business Names Ordinance (Cap. 149) incorporated by Business Name Statute No. 1 of 1991, was registered in the Provincial Register of Business Names for Southern Province Under 3..... on the day of 200.....</p>		
<p>1 வகையர் கை பிளிட் டுரேட்டர்சீயை விபரம் பெயர் The Business Name</p>		
<p>2 வகையர் கை பிளிட் டுரேட்டர்சீயை விபரம் பெயர் பொதுத்தன்மை The General Nature of the Business</p> <p>முதன்மை வகையர் கை பிளிட் டுரேட்டர்சீயை விபரம் இடம் பெயர் பிரதான இடம் The Principal Place of the Business</p>		
<p>4 வகையர் கை பிளிட் டுரேட்டர்சீயை விபரம் ஆரம்பிக்கப்பட்ட திகதி The Date of Commencement of the Business</p>		
<p>5 வேறு வகையர் கை பிளிட் டுரேட்டர்சீயை கை பிளிட் டுரேட்டர்சீயை கை பிளிட் டுரேட்டர்சீயை இவ்விபரம் வேறு விபரம் பெயர் பெயர் களின் கீழ் நடாத்தப்படுகின்ற அப்பெயர்/பெயர்கள் Any other Business Name or names under which the Business is carried on</p>		
<p>6 வகையர் கை பிளிட் டுரேட்டர்சீயை உரிமையாளர் முழுப் பெயர் Full Name of Owner</p>	<p>சான்றுப் பத்திரம்</p>	
<p>7 வகையர் கை பிளிட் டுரேட்டர்சீயை உரிமையாளர் வேறொரு பெயரால் அழைக்கப்படுகின்ற அப்பெயர் If the Owner if known by the any other Name such Name</p>		
<p>8 வகையர் கை பிளிட் டுரேட்டர்சீயை உரிமையாளர் பிரஜைத் தன்மை The Nationality of the Owner</p>		
<p>9 வகையர் கை பிளிட் டுரேட்டர்சீயை உரிமையாளர் வழக்கமான வசிப்பிடம் The Usual Residence of the Owner</p>		
<p>10 பிரதேச செயலாளர் காரியாலயப் பெயர் Name of the Divisional Secretary's Division</p>		
<p>11 வகையர் கை பிளிட் டுரேட்டர்சீயை உரிமையாளர் வேறு தொழிலில் ஈடுபட்டிருப்பின் அத்தொழிலின் பெயர் The other Business Occupation if any of the Owner</p>		
<p>வகையர் கை பிளிட் டுரேட்டர்சீயை கை பிளிட் டுரேட்டர்சீயை 200..... ஆம் ஆண்டு..... மாதம்..... ஆம் திகதி தென் மாகாணத்தின் விபரம் பெயர் பதிவுச் சான்றுப் பத்திரம் இலக்கம் 200..... ஆண்டில் மாதம் ஆம் திகதியன்று தென் மாகாணத்தின் மாகாண விபரம் பெயர் பதிவுச் சான்றுப் பத்திரம் இலக்கத்தில் 3..... ஆம் இலக்கத்தில் கிழ பதிவு செய்யப்பட்டதென இத்தால் நான் உறுதிப்படுத்துகிறேன். Office of the Provincial Registrar of Business Names SP Province Dated at this Day of 200..... Provincial Register of Business Name - S/Province</p>		

Benefits of registration of a business

- * A business gets recognition
- * Helpful to obtain various grants and assistance given by the government
- * To obtain the loyalty or trust of the customers by supplying goods and services with registration number



Summary

Focus should be paid much by a person in selecting a suitable business organization to make his business idea a reality. There are private as well as public sector business organizations in countries like Sri Lanka. There are formal and non formal organizations in the private sector. Therefore by selecting a suitable form of organization, a person can conduct his business activities without any difficulties. According to this, if a businessman selects a business organization according to his ability, market requirement and rules and regulations it will be helpful not only for the personal achievement but also for economic and social development of the country.



Activity 07

Collect the model registration forms for the registration of following organizations,

- * Sole proprietorship
- * Partnership
- * Limited companies

Prepare a file completing the model forms you collected



Activity 08

Divide the class into four small groups. Study well the details given in the text book on the following business organization.

- * Partnership
- * Limited companies

Compile a report on the steps to be taken to register the business given to your group.