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Department Of BBA

FYBBA
Sem-II

Subject- Business Organization Systems

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Chapter 2. Forms of Business Organization

MIXED ECONOMY

A mixed economy is an economy that includes a variety of private and government control; reflecting characteristics of both capitalism and socialism. This type of economic system includes a combination of private economic freedom and centralised economic planning and government regulation.

There is no single definition for a mixed economy. A mixed economy is defined as an economic system that incorporates aspects of more than one economic system. This usually means an economy that contains both privately-owned and state-owned enterprises or that combines elements of capitalism and socialism, or a mix of market economy and planned economy characteristics. This system disadvantages of both the market and planned economic systems.

Features of a Mixed Economy:

Resources are owned both by the government as well as private individuals. i.e co-existence of both public sector and private sector.

Market forces prevail but are closely monitored by the government.

Advantages of a Mixed Economy:

1. Producers and consumer have sovereignty to choose what to produce and what

to consume but production and consumption of harmful goods and services may

be stopped by the government.

2. Social cost of business activities may be reduced by carrying out cost-benefit, analysis by the government.

3. As compared to Market economy, a mixed economy may have less income. inequality due to the role played by the government.

4. Monopolies may be existing but under close supervision of the government.

Disadvantages of a Mixed Economy:

1.Government regulations and requirements may lead to prohibitively high costs for companies to do business, to the extent that they cease operation.
2. Regulations with good intentions may have unforeseen harmful effects, if not designed correctly.
3. The disadvantage of mixed economies is that they do not always achieve what they aim to, with either too many regulations hampering business, or too few leading to a failure to protect those most disadvantaged.
4. Another disadvantage of mixed economies is that they tend to lean more toward government control and less toward individual freedoms. Sometimes. government regulation requirements may cost a company so much that it puts it out of business.

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5. In addition, unsuccessful regulations may paralyse features of production. This, in return, can cause the economic balance to shift. Lack of price control management can cause shortages in goods and can result in a recession.

PRIVATE SECTOR

Introduction:

Business activity creates goods and services. A business is a combination of industrial and commercial activities i.e. production and distribution of goods and services. Such business activities in India are done by many of the following arrangements based on ownership and management:

In a capitalist or laissez faire economy, there is encouragement to privately owned and managed businesses. There is very less interference of the Government in business in Such economies.
In a socialist or communist economy. everything is owned by the state or the nation.

A pure capitalist or socialist form is merely theoretical.

Mixed economy is an economic system in which both the state and private sector direct the economy, reflecting characteristics of both market economies and planned economies. It is an economic system that includes a mixture of capitalism and socialism. This system overcomes the disadvantages of both the market and planned economic systems.

The private sector is that part of the economy, sometimes referred to as the citizen sector, which is run by private individuals or groups. In the private sector, firms have freedom to decide and act within the framework of the national policies, e.g. economic, fiscal, industrial, licensing, etc.

Introduction: Everything you need to know about the forms of business organisation. Most production and distribution activities are carried out by millions of people in different parts of the country by constituting various kinds of organizations. These organizations are based on some form of ownership. This choice affects a number of managerial and financial issues, including the amount of taxes the entrepreneur would have to pay, whether the entrepreneur may be personally sued for unpaid business bills, and whether the venture will die automatically with the demise of the entrepreneur. The forms of business organisation are:

1. Sole Proprietorship

2. Partnership Firm

3. Joint Stock Company

4. Limited Liability Partnership (LLP)

5. Private Company

6. Public Limited Company

7. One Person Company (OPC)

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8. Virtual Organisation

9. Boundaryless Organisation

1. Sole Proprietorship:

Sole proprietorship or individual entrepreneurship is a business concern owned and operated by one person. The sole proprietor is a person who carries on business exclusively by and for himself. He alone contributes the capital and skills and is solely responsible for the results of the enterprise. In fact sole proprietor is the supreme judge of all matters pertaining to his business subject only to the general laws of the land and to Such special legislation as may affect his particular business.
The salient features of the proprietorship are as follows:

(1) Single ownership

(ii) One man control

(iii) Undivided risk

(iv) Unlimited liability

(v) No separate entity of the business

(vi) No Government regulations.

Advantages:

(a) Simplicity: It is very easy to establish and dissolve a sole proprietorship. No documents are required and no legal, formalities are involved. Any person competent to enter into a contract can start it. However, in some cases, i.e., of a chemist shop, a municipal license has to be obtained. You can start business from your own home.

(b) Quick Decisions: The entrepreneur need not consult anybody in deciding his business affairs. Therefore, he can take on the spot decisions to exploit opportunities from time to time. He is his own boss.

(c) High Secrecy: The proprietor has not to publish his accounts and the business secrets are known to him alone. Maintenance of secrets guards him from competitors.

(d) Direct Motivation: There is a direct relationship between efforts and rewards. Nobody shares the profits of business. Therefore, the entrepreneur has sufficient incentive to work hard.

(e) Personal Touch: The proprietor can maintain personal contacts with his employees and clients. Such contacts help in the growth of the enterprise.

(f) Flexibility: In the absence of Government control, there is complete freedom of action. There is no scope for difference of opinion and no problem of co-ordination.

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Disadvantages:

(a) Limited Funds: A proprietor can raise limited financial resources. As a result the size of business remains small. There is limited scope for growth and expansion. Economies of scale are not available.

(b) Limited Skills: Proprietorship is a one man show and one. man cannot be an expert in all areas (production, marketing, financing, personnel etc.) of business. There is no scope for specialisation and the decisions may not be balanced.

(c) Unlimited Liability: The liability of the proprietor is unlimited. In case of loss his private assets can also be used to pay off creditors. This discourages expansion of the enterprise.

(d) Uncertain Life: The life of proprietorship depends upon the life of the owner. The enterprise may die premature death due to the incapacity or death of the proprietor. The proprietor has a low status and can be lonely.

Suitability:

The foregoing description reveals that sole proprietorship or one-man control is the best in the world if that man is big enough to manage everything. But such a person does not exist.

Therefore, sole proprietorship is suitable in the following cases:

(i)Where small amount of capital is required e.g., sweet shops, bakery, newsstand, etc.

(ii)Where quick decisions are very important, e.g., share brokers, bullion dealers, etc.

(iii) Where limited risk is involved, e.g., automobile repair shop, confectionery, small retail store, etc.

(iv) Where personal attention to individual tastes and fashions of customers is required, e.g., beauty parlour, tailoring shops, lawyers, painters, etc.

(v)Where the demand is local, seasonal or temporary, e.g., retail trade, laundry, fruit sellers, etc.

(vi) Where fashions change quickly, e.g., artistic furniture, etc.

(vii) Where the operation is simple and does not require skilled management.

2. Partnership Firm:

As business enterprise expands beyond the capacity of a single person, a group of persons have to join hands together and supply the necessary capital and skills. Partnership firm thus grew out of the limitations of one man business. Need to arrange more capital, provide better skills and avail of specialisation led to the growth to partnership form of organisation.

According to Section 4 of the Partnership Act, 1932 partnership is "the relation between persons who have agreed to share the profits of a business carried on by all or anyone of them acting for all". In other words, a partnership is an agreement among two or more persons to carry on jointly a lawful business and to share the profits arising there from. Persons who enter into such agreement are known individually as 'partners' and collectively as 'firm'.

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Characteristics of Partnership:

(i)Association of two or more persons - maximum 10 in banking business and 20 in non-banking business.

(ii)Contractual relationship - written or oral agreement among the partners

(iii) Existence of a lawful business

(iv) Sharing of profits and losses

(v) Mutual agency among partners

(vi) No separate legal entity of the firm

(vii) Unlimited liability

(viii) Restriction on transfer of interest

(ix) Utmost good faith.

Merits of Partnership:

The partnership form of business ownership enjoys the following advantages:
1.Ease of Formation: A partnership is easy to form as no cumbersome legal formalities are involved. An agreement is necessary and the procedure registration is very simple. Similarly, a partnership can be dissolved easily at a time without undergoing legal formalities. Registration of the firm is essential and the partnership agreement need not essentially be in writing.

2 Larger Financial Resources: As a number of persons or partners contribute to the capital of the firm, it is possible to collect larger financial resources than t possible in sole proprietorship. Creditworthiness of the firm is also highs. because every partner is personally and jointly liable for the debts of the business.
There is greater scope for expansion or growth of business.

3. Specialisation and Balanced Approach: The partnership form enables the pooling of abilities and judgment of several persons. Combined abilities and judgment result in more efficient management of the business. Partners with complementary skills may be chosen to avail of the benefits of specialisation Judicious choice of partners with diversified skills ensures balanced decisions Partners meet and discuss the problems of business frequently so that decisions can be taken quickly.

4. Flexibility of Operations: Though not as versatile as proprietorship, a partnership firm enjoys sufficient flexibility in its day-to-day operations. The nature and place of business can be changed whenever the partners desire. The agreement can be altered and new partners can be admitted whenever necessary. Partnership is free from statutory control by the Government except the general law of the land.

5. Protection of Minority Interest: No basic changes in the rights and obligations of partners can be made without the unanimous consent of all the partners. In case a partner feels dissatisfied, he can easily retire from or he may apply for the dissolution of partnership.

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6. Personal Incentive and Direct Supervision: There is no divorce between ownership and management. Partners share in the profits and losses of the firm and there is motivation to improve the efficiency of the business. Personal control by the partners increases the possibility of success.

7. Capacity for Survival: The survival capacity of the partnership firm is higher than that of sole proprietorship. The partnership firm can continue after the death or insolvency of a partner if the remaining partners so desire. Risk of loss is diffused among two or more persons.

8.Better Human and Public Relations: Due to number of representatives (partners) of the firm, it is possible to develop personal touch with employees, customers government and the general public. Healthy relations with the public help to enhance the goodwill of the firm and pave the way for steady progress of the business.

9.Business Secrecy: It is not compulsory for a partnership firm to publish and file its accounts and reports. Important secrets of business remain confined to the partners and are unknown to the outside world.

Demerits of Partnership:

1.Unlimited Liability: Every partner is jointly and severally liable for the entire debts of the firm. He has to suffer not only for his own mistakes but also for the lapses and dishonesty of other partners. This may curb entrepreneurial spirit as partners may hesitate to venture into new lines of business for fear of losses. Private property of partners is not safe against the risks of business.

2.Limited Resources: The amount of financial resources in partnership is limited to the contributions made by the partners. The number of partners cannot exceed 10 in banking business and 20 in other types of business. Therefore, partnership form of ownership is not suited to undertake business involving huge investment of capital.

3. Risk of Implied Agency: The acts of a partner are binding on the firm as well as on other partners. An incompetent or dishonest partner may bring disaster for all due to his acts of commission or omission. That is why the saying is that choosing a business partner is as important as choosing a partner in life.

4. Lack of Harmony: The success of partnership depends upon mutual understanding and cooperation among the partners. Continued disagreement and bickering among the partners may paralyse the business or may result in its untimely death. Lack of a central authority may affect the efficiency of the firm. Decisions may get delayed.

5.Lack of Continuity: A partnership comes to an end with the retirement, incapacity, insolvency and death of a partner. The firm may be carried on by the remaining partners by admitting new partners. But it is not always possible to replace a partner enjoying trust and confidence of all. Therefore, the life of a partnership firm is uncertain, though it has longer life than sole proprietorship.

6. Non-Transferability of Interest: No partner can transfer his share in the firm to an outsider without the unanimous consent of all the partners. This makes investment in a partnership firm non-liquid and fixed. An individual's capital is blocked.

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7.Public Distrust: A partnership firm lacks the confidence of public because it is not subject to detailed rules and regulations. Lack of publicity of its affairs undermines public confidence in the firm.

3. Joint Stock Company:

With the growing needs of modern business, collection of vast financial and managerial resources became necessary. Proprietorship and partnership forms ownership failed to meet these needs due to their limitations, e.g., unlimited liability, lack of continuity and limited resources.

The company form of business organisation was evolved to overcome these limitations. Joint stock company has become the dominant form of ownership for large scale enterprises because it enables collection of vast financial and managerial resources with provision for limited lability and continuity of operations.

A joint stock company is an incorporated and voluntary association of individual. with a distinctive name, perpetual succession, limited liability and com:non seal. an2 usually having a joint capital divided into transferable shares of a fixed value.

"Thus, a company is an artificial legal person having an independent legal entity.

Merits of Company Organisation:

The company form of business ownership has become very popular in modern business on account of its several advantages:

1.Limited Liability: Shareholders of a company are liable only to the extent of the face value of shares held by them. Their private property cannot be attached to pay the debts of the company. Thus, the risk is limited and known. This encourages people to invest their money in corporate securities and, therefore, contributes to the growth of the Company form of ownership.

2. Large Financial Resources: Company form of ownership enables the collection of huge financial resources. The capital of a company is divided into shares of small denominations so that people with small means can also buy them. Benefits of limited liability and transferability of shares attract investors. Different types of securities may be issued to attract various types of investors. There is no limit on the number of members in a public company.

3.Continuity: A company enjoys uninterrupted business life. As a body corporate, it Continues to exist even if all its members die or desert it. On account of its stable nature, a company is best suited for such types of business which require long periods of time to nature and develop.

4.Transterabiliry of Shares: A member of a public limited company can freely transfer his shares without the consent of other members. Shares of public Companies are generally listed on a stock exchange so that people can easily buy and sell them. Facility o transfer of shares makes investment in company liquid and encourages investment of public savings into the corporate sector.

5.Professional Management: Due to its large financial resources and continuity, a company can avail of the services of expert professional managers. Employment of professional managers having managerial skills and little financial stake results in higher efficiency and more adventurous management. Benefits of specialisation and bold management can be secured.

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6. Scope for Grown and Expansion: There is considerable scope for the expansion of business in a company. On account of its vast financial and managerial resources and limited liability, company form has immense potential for growth.

7.Public Confidence: A public company enjoys the confidence of public because its activities are regulated by the government under the Companies Act. its affairs are known to public through publication of accounts and reports. it can always keep itself in tune with the needs and aspirations of people through continuous research and development.

8.Diffused Risk: The risk of loss in a company is spread over a large number or members. Therefore, the risk of an individual investor is reduced.

9 Social Benefits: The company organisation helps to mobilise savings of the community and invest them in industry. it facilitates the growth of financial institutions and provides employment to a large number of persons. It provides huge revenues to the Government through direct and indirect taxes.

Demerits of Company:

A company suffers from the following limitations:

1.Difiicuity of Formation: It is very difficult and expensive to form a company. A number of documents have to be prepared and filed with the Registrar of Companies. Services of experts are required to prepare these documents. It is very time-consuming and inconvenient to obtain approvals and sanctions from different authorities for the establishment of a company. The time and cost involved in fulfilling legal formalities discourage many people from adopting the company form of ownership. It is also difficult to wind up a company.

2. Excessive Government Control: A company is subject to elaborate statutory regulations in its day-to-day operations. it has to submit periodical reports. Audit and publication of accounts is obligatory. The objects and capital of the company can be changed only after fulfilling the prescribed legal formalities. These rules and regulations reduce the efficiency and flexibility of operations.

3.Lack of Motivation and Personal Touch: There is divorce between ownership and management in a large public company. The affairs of the company are managed by the professional and salaried managers who do not have personal involvement and stake in the company.

5, Delay in Decisions: Too many levels of management in a company result in red tape and bureaucracy. A lot of time is wasted in calling and holding meetings and in passing resolutions. It becomes difficult to take quick decisions and prompt action with the consequence that business opportunities may be lost.

6. Conflict of Interests: Company is the only form of business where permanent conflict of interests may exist. In proprietorship there is no scope for Conflict and in a partnership continuous conflict results in dissolution of firm. But in a company conflict may continue between shareholders and board of directors or between shareholders and creditors or between management and workers.

7.Frauds in Promotion and Management: There is a possibility that unscrupulous promoters may float a company to dupe innocent and ignorant investors. They may collect huge sums of money and, later on, misappropriate the money for their personal benefit. The case of South Sea Bubble Company is the leading example of such malpractices by promoters.

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8. Lack of Secrecy: Under the Companies Act, a company is required to disclose and publish a variety of information on its working. Widespread publicity of affairs makes it almost impossible for the company to retain its business secrets. The accounts of a public company are open for inspection to public.

9. Social Evils: Giant companies may give rise to monopolies, concentration of economic power in a few hands, interference in the political system, lack of industrial peace, etc.

Suitability:

Despite its drawbacks, the company form of organisation has become very popular particularly for large business concerns. This is because its merits far outweigh the demerits. Many of the drawbacks of a company are mainly due to the weaknesses of the people who promote and manage companies and not because of the company system as such. The company organisation has made it possible to accumulate large amounts of capital required for large scale operations.

4. Limited Liability Partnership (LLP):

Keeping in view the incapacity of sole proprietor and partnership firms to raise money while facing unlimited liability, a new form of business was introduced through the Limited liabillty Partnership Act 2008. This form was primarily created to give flip to small and medium entrepreneurs and professionals who can enjoy the benefits of body corporate while also retaining control over their businesses.

Meaning of LLP:

A Limited Liability Partnership (LLP) means a body corporate registered under the LLP Act 2008, in which some or all partners (depending on the respective jurisdiction of state) have limited liability. It therefore exhibits elements of partnerships and corporations. In an LLP, one partner 1s not responsible or liable for another partner's misconduct or negligence, as it was the case in case of original form of partnership firms.

Definition of LLP:

According to. Limited liability partnership Act 2008, limited liability partnership "a partnership formed and registered under this act".
LLP agreement means any written agreement between the partners of the LLP or between LLP and its partners which determines the mutual rights and duties of the partners and their rights and duties in relation to that LLP.
Any two or more persons can form an LLP.

Advantages of a LLP:

(i)An LLP is a body corporate and legal entity separate from its partners.
(ii)It has perpetual succession.
(iii)Being the separate legislation (i.e. LLP Act, 2008), the provisions of Indian Partnership Act, 1932 are not applicable to an LLP and it is regulated by the contractual agreement between the partners.
(iv)Liability of partners is limited to their agreed contribution in the LLP and no partner is liable on account of the independent or un-authorized actions of other

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partners, thus individual partners are protected from joint liability created by another partner's wrongful business decisions or misconduct.
(v)LLP has more flexibility and lesser compliance requirements as compared to a Company.
(vi) Simple registration procedure, no requirement of minimum capital, no restrictions on maximum limit of partners.
(vii) It is easy to become a partner or leave the LLP.
(viii) It is easier to transfer the ownership in accordance with the terms of the LLP Agreement.

Disadvantages of an LLP:
(i)Any of the partner without the consent of other partners, can bind the LLP
(ii)Under some cases, liability may extend to personal assets of the partners also.
(iii)A LLP is not allowed to raise money from Public,
(iv)Due to the hybrid form of the business, it is required to comply with various rules and regulations and legal formalities.
(v)It is very difficult to wind up the business in case of exigency as there are lots of legal compliances under Limited Liability Partnership (Winding up and Dissolution) Rules and it is very lengthy and expensive procedure also.

Suitability of LLPs:

Limited Liability Partnership has proved to be a boon for small manufacturing sector as well as for service sector firms.

5. Private Company:

"Private company" means a company having a minimum paid-up share capital of one lakh rupees or such higher paid-up share capital as may be prescribed, and which by is articles:

(i) Restricts the right to transfer its shares;

(ií) Except in case of One Person Company, limits the number of its members to t hundred

Provided further that:

(a) Persons who are in the employment of the company; and

(b) Persons who, having been formerly in the employment of the company.

(iii) Prohibits any invitation to the public to subscribe for any securities of the Company.

Benefits of a Private Company:

A private company offers the following benefits:

(i)Stability: Being a separate legal entity, the existence of a private company independent of the existence of its members.

(ii) Limited liability: The liability of members is limited only to the extent of the unpaid capital on the shares held by them.

(iii) Comparative flexibility of operations: A private company enjoys lesser compliance and more privileges as compared with a public company, making Suitable choice for entrepreneurs.

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(iv) Improved credibility: Due to incorporation, a private Company enjoys an improved credibility in doing transactions with various stakeholders.

(v) Team building: Private company offers stock ownership and ESOP schemes to attract talented pool of Workforce for the company.

(vi) Expansion: In private companies, scope of expansion is large as fund raising can easily be done by receiving funds from its members, directors. Bank also give high value to private companies and sanction loans accordingly.

Limitation of Private Company:

(i) Process and Formalities: As the registration of the company requires man7 formalities, one needs assistance from professionals like C.A or C.S, registration and other compliances with the relevant laws.

(ii) Limited Availability of Funds: Due to restrictions on seeking public funding. the prospects of growth and expansion are limited to the personal financing capacities of members of a private company.

(iii) Exit Strategy: Though it is easy for a shareholder to exit from a company, the procedures to wind up a private limited company is complicated and involves cumbersome procedures and substantial liquidation cost.

6 Public Limited Company:

Public company is a separate legal entity incorporated under companies act, allowing the members to transfer their shares, while having a larger number of shareholder base. Definition of Public Company:

u/s2 (71) of Companies Act Amendment 2013, public company means a company; which:

(i) Is not a private company;

(ii) Has a minimum paid-up share capital of five lakh rupees or such higher paid-up capital, as may be prescribed:

Advantages of a Public Limited Company (PLC):

Following are the prominent advantages of having a public limited company:

(i) Limited Liability of shareholders: The business is viewed as a separate legal entity. This means that even if a shareholder leaves the PLC or dies, the business Can continue.

(ii)Ability to raise large amount of capital: Public limited companies are able to raise large sums of money because there is no limit on the maximum number of members.

(iii) Transferability of shares: The shares of a PLC can be freely transferable. This provides liquidity for shareholders.

(iv) Exit strategy: Due to transferability of shares and being widely recognizable the public domain, a public company magnifies its chances of easily seeking future suitors for the company.

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(v) Limited liability of shareholders: The liability of shareholders is limited to the extent of unpaid capital on the shares held by them.

(vi) Separate legal entity: The public company due to incorporation is distinct legal person different from its shareholders.

Disadvantages of a Public Limited Company:

Despite having several benefits, a public limited company suffers from the following disadvantages:

(i)There are many legal formalities and regulatory compliances to be adhered to by a company during the stage of formation as well as carrying of day to day operations.

(ii) Ownership and control woes: Due to larger shareholder base, at times it's difficult to take speedy and timely business decisions especially if the shareholders are geographically scattered.

(iii) Vulnerable to takeovers: With shares being freely transferable, a potential bidder can secretly stock up the shareholding of the company even from open market, to stage a hostile takeover bid.

(iv) Larger possibility of conflicts between management and owners

(v)Lack of secrecy: Due to open access of books of accounts to public, as well as inspection by the relevant authorities, it is difficult to maintain secrets of business within the confined walls of business.

(vi) In order to protect the interest of investors, a public company is required to follow many controls and regulations.

(vii) There is a possibility that the original owners can lose control of the public limited company in the issue of a dispute or violation.

(viii) Some public limited companies can grow very large. As a result, many can suffer from mismanagement and slow decision making.

(ix) Owing to higher degree of transparency and accountability, public companies suffer from slow decision making woes.

7. One Person Company:

The Companies Act, 2013 completely revolutionized corporate laws in India by introducing several new concepts that did not exist previously. On such game-changer was the introduction of One Person Company concept. This led to the recognition of a completely new way of starting businesses that accorded flexibility which a company form of entity can offer, while also providing the protection of limited liability that sole proprietorship or partnerships lacked.

Section 2(62) of Companies Act defines a one-person company as a company that has only one person as to its member. Furthermore, members of a company are nothing but subscribers to its memorandum of association, or its shareholders. So, an OPC is effectively company that has only one shareholder as its member.

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Such companies are generally created when there is only one founder/promoter for the business. Entrepreneurs whose businesses lie in early stages prefer to create OPCs instead of sole proprietorship business because of the several advantages that OPCs offer.

Features of a One Person Company:

Here are some general features of a one-person company:

(a) Private company: Section 3(1)(c) of the Companies Act says that a single person can form a company for any lawful purpose. It further describes OPCs as private companies.

(b) Single-member: OPCs can have only one member or shareholder, unlike other private companies.

(c) Nominee: A unique feature of OPCs that separates it from other kinds of companies is that the sole member of the company has to mention a nominee while registering the company.

(d) No perpetual succession: Since there is only one member in an OPC, his death will result in the nominee choosing or rejecting to become its sole member. This does not happen in other companies as they follow the concept of perpetual succession.

(e) Minimum one director: OPCs need to have minimum one person (the member) as director. They can have a maximum of 15 directors.

(f) No minimum paid-up share capital: Companies Act, 2013 has not prescribed any amount as minimum paid-up capital for OPCs.

(g) Special privileges: OPCs enjoy several privileges and exemptions under the Companies Act that other kinds of companies do not possess.

Advantages:

A One Person Company (OPC) Private Limited has many advantages as compared to Companies and Proprietorship firm.

Here we go with benefits of registering an OPC:

(i) Compliance Burden: The One person Company includes in the definition of Private Limited Company" given under section 2(68) of the Companies Act, 2013. Thus, an OPC will be required to comply with provisions applicable to private companies. However, OPCs have been provided with a number of exemptions and therefore have lesser compliance related burden.

(ii) Organized Sector of Proprietorship Company: OPC will bring the unorganized Sector of proprietorship into the organized version of a private limited company. Various small and medium enterprises, doing business as sole proprietors, might enter into the corporate domain. The. organized version of OPC will open the avenues for more favorable banking facilities. Proprietors always have unlimited liability. If such a proprietor business through an OPC, then liability of the member is limited.

(iii) Limited Liability Protection to Directors and Shareholder: The most significant reason for shareholders to incorporate the 'single-person company' is certainly the desire for the limited liability.

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All unfortunate events in business are not always under an entrepreneur's control. hence it is important to secure the personal assets of the owner, if the business lands up in crises.

An OPC gives the advantage of limited liability to entrepreneurs whereby the liability of the member will be limited to the unpaid subscription money. This benefit is not available in case of a sole proprietorship.

"Thus OPC allows an individual to take risks without risking his/her personal assets".

(iv) Minimum Requirements:
Minimum 1 Shareholder
Minimum 1 Director
The director and shareholder can be same person
Minimum 1 Nominee
Minimum Share Capital shall be Rs. 1 Lac (INR One Lac)
Letters 'OPC' to be suffixed with the name of OPCs to distinguish it from other companies

(v) Legal Status and Social Recognition For Your Business: One Person Company a Private Limited Structure; this is the most popular business structure in the world. Gives suppliers and customers a sense of confidence in business. Large organization prefer to deal with private limited companies instead of proprietorship firms. Pvt. Ltd business structure enjoys corporate status in society which helps the entrepreneur to attract quality workforce and helps to remain them by giving corporate designations like directorship.
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(vi) Adequate safeguards: In case of death/disability of the sole person should be provided through appointment of another individual as nominee director. On the demise of the original director. The nominee director will manage the affairs of the company till the date of transmission of shares to legal heirs of the demised member.

(vii) Easy to Get Loan from Banks: Banking and financial institutions pre fer to lend money to the company rather than proprietary firms. In most of the situations Banks insist the entrepreneurs to convert their firm into a Private Limited company before sanctioning funds. so it is better to register your startup as a One Person private limited rather than proprietary firm.

viii) Complete Control of The Company with The Single Owner: This leads to fast decision making and execution. Yet he/she can appoint as many as 15 directors in the OPC for administrative functions, without giving any share to them.

(ix) Perpetual Succession: An OPC being an incorporated entity will also have the feature of perpetual succession and will make it easier for entrepreneurs to raise capital Tor business. The OPC is an artificial entity distinct from its owner. Creditors should therefore be warned that their claims against the business cannot be pressed against the owner.

(x) Tax Flexibility and Savings: In an OPC, it is possible for a company to make a valid contract with its shareholder or directors. This means as a director you can receive remuneration, as a lessor you can receive rent, as a creditor you can lend money to your company and earn interest.

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Disadvantages of One Person Company:

(i)Members:

- One person Company can have Minimum or Maximum no. of 1 Member
- A minor shall not be eligible to become a member or nominee of the Person Company or can hold share with beneficial interest.
- Only a natural person who is an Indian citizen and resident in India shall be eligible to incorporate a One Person Company and shall be a nominee for sole member of a One Person Company.

(ii) Suitable only for small business: 0PC is suitable only for small business. OPC ah have maximum Paid up share capital of Rs.50Lakhs or Turnover of Rs.2 Crores. Otherwise OPC need to be converted into Private Ltd Company.

(iii) Business Activities:

- One Person Company cannot carry out Non - Banking Financial Investment activities including investment in securities of anybody corporates.
- One Person Company cannot be incorporated or converted into a company under Section 8 of the Act.

(iv)Tax Liability: The concept of One Person Company is not a recognized concept under IT Act and hence such companies will be put in the same tax slab as other private Companies for taxation purposes. As per the Income Tax Act, 1961, private companies have been placed under the tax bracket of 30% on total income. On the other hand, sole proprietors are taxed at the rates applicable to individuals, which mean that different tax rates are applicable for different income slabs. Thus, from taxation point of view this concept seems to be a less lucrative concept as it imposes heavy financial burden as compared to a sole proprietorship.
The basic income tax rate for a one person company is 30% which may result higher tax as compared to the income tax slab rates of an individual (i.e. 10% to 30%).

(v) Perpetual Succession: This is Very concept of a separate legal entity being created for a perpetual succession that is continuation of the Company even after the death or retirement of a member is also challenged. Because the nominee whose name has been mentioned in the memorandum of association will become the member of the company in the event of death of the existing member. However it is doubtful that it would do a good for the company because the person is not being a member of the company and also not involved in the day to day operation of the Company, would not be able to succeed the business after the death of the member.

(vi)Higher incorporation costs: As compared to proprietorships: One person companies need to be registered with the registrar of companies under the Companies Act. 2013. This Would entail upfront expenditure on government charges ana professional fees which you will have to pay your CA or CS. Proprietorships don't need to register with the government and hence don't incur these incorporation charges.
Though the Act extends slew of exemptions to a One Person company in terms or conducting AGM, EGM, Quorum of meetings, restriction on voting rights or filing its financial statements, yet the incorporation of such a company requires lots of paper work as compared to a sole proprietorship. These procedural complexities with respect to incorporation of One Person Company might make this concept less attractive for sole entrepreneurs.

(vii)Higher compliance costs: Compared to proprietorships: A one person company would have recurring compliance costs yearly, as it will need to get its

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accounts audited and will need to file returns every year with the registrar of companies like any other company.

(viii)Separation of Owner and Control: This is one of the characteristics of the company which is seriously challenged by the new Companies Act ,2013, where the line between the ownership and control is blurred.

8. Virtual Organisation:

This new form of organisation, i.e., 'virtual organisation' emerged in 1990 and is also known as digital organisation, network organisation or modular organisation. Simply. speaking, a virtual organisation is a network of cooperation made possible by, what is called ICT, i.e. Information and Communication Technology, which is flexible and comes to meet the dynamics of the market.

Alternatively speaking, the virtual organisation is a social network in which all the horizontal and vertical boundaries are removed. In this sense, it is a boundary less organisation. It consists of individual's working out of physically dispersed work places, or even individuals working from mobile devices and not tied to any particular workspace. The ICT is the backbone of virtual organisation.

It is the ICT that coordinates the activities, combines the workers' skills and resources with an objective to achieve the common goal set by a virtual organisation. Managers in these organisations coordinate and control external relations with the help of computer network links. The virtual form of organisation is increasing in India also. Nike, Reebok, Puma, Dell Computers, HLL, etc., are the prominent companies working virtually.

A virtual organisation has the following characteristics:

1.Flat organization
2. Dynamic
3.Informal communication
4. Power flexibility
5. Multi - disciplinary (virtual) teams
6. Vague organisational boundaries
7. Goal orientation
8. Customer orientation

Advantages of a Virtual Organization Design:

There is a good reason why a recent forecast by the World Economic Forum called virtual teams "one of the biggest drivers of transformation in the workplace." There are considerable advantages to virtual organization design. These advantages include:

(i)Lower Overhead Costs. Virtual organizations enjoy significant decreases in operating costs. Aetna was able to shed 2.7 million square feet of office space and save $78 million due to a shift toward virtual teams and remote work. American Express also enjoyed lower overhead costs to the tune of nearly $15 million thanks to a focus on hiring remote workers.

(ii)Improved Employee Satisfaction. Employees are simply happier when they are able to work from home. 82% of remote workers have reported that they have lower stress levels. The study also showed that a shift toward remote work led to fewer absences and a higher morale.

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(iii)Improved Employee Efficiency. Remote employees get more work done without the transactions of the office. 30% of workers in a recent survey stated that working remotely allowed then to accomplish more in less time.

(iv)Improved Scalability and Growth Potential. Without the overhead typically associated with maintaining an office space and fewer investments in supplies companies can free up capital to improve their scalability and growth potential Remote teams are simply more agile.

(v)Larger Talent Pool. Startups who hire workers remotely are able to access a large pool of talent. You can hire talent from anywhere in the world without limit; yourself to one specific geographic location.

(vi)Improved Employee Retention. Employees that are happier in their work are more likely to stick around. With competitive salaries, remote workers are likely to leave their jobs.

(vii)Access to New Markets. Hiring remotely allows your startup to tap into e markets. This is particularly useful when it comes to remote sales teams, who w be able to reach out to new customers that otherwise would have been out reach for your organization.

Disadvantages of a Virtual Organization Design

- To offset the benefits of hiring remotely, there are some serious disadvantages. Often, startups that opt for a virtual organizational design without being fully informed find out about these disadvantages the hard way.
- Difficulties Installing a Company Culture. Remote teams often have problems fostering cohesiveness among the team. Remote teams often choose their own work hours, which can lead to a fragmented company culture. Once that culture is in place, it can be difficult to make the changes required to get things back on track.

Lack of Camaraderie: Remote workers rarely speak face-to-face. Even companies that make full use of video chat solutions often find that it isn't enough to fully simulate the camaraderie that you build when you work together in an office environment. There is less opportunity for impromptu conversations. You learn less about the people that you work with. Companies with remote teams need to take steps to bring their teams together and facilitate that togetherness.

- **A Need for Increased Focus on Communication:** Because your teams will not be able to pass information between themselves like they would in an office environment, you need to give them the tools and policies that ensure that they actively communicate. Whether that means setting up a slack channel, getting on daily calls, or simply encouraging them to email each other new information often - communication plays a key role in the success of virtual organizations.
- **Reputational Risks:** A poorly run virtual team can lead to knocks to your reputation. Some potential customers may be wary of working with a company that has a virtual office with remote employees and may not take your startup as seriously.
- **Security and Compliance Issues**: Working remotely means passing a lot of data back and forth. In some industries (health, financial, etc.) it may be too risky for startups to opt fora virtual organizational design.

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3. Boundaryless Organization:

A boundaryless organization is quite different from this. It is an organization where there aren't any major structures and the main approach to business is to allow information to flow freely and ideas to be the driving force of efficiency, innovation, 810Wth in the company. Such a company is built to do one thing very well: to survive in a world that is constantly changing.

The concept of a boundaryless organization was first formulated by the former Chairman of General Electric Jack Welch, who also happens to be an authority on the PIC or management. He wanted to break down barriers, or boundaries, that existed at me between different parts of the company. According to his philosophy, the most important criteria of a boundaryless organization are flexibility and adaptability.

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The Characteristics of a Boundaryless Organization

One of the most interesting things about boundaryless companies is that there is very little face to face communication between employees. Such an organization relies heavily on technology Employees mainly communicate using technology. such as via text, email social media and various other virtual methods of communication. This makes it possible for them to communicate with each other from wherever they without hang to physically be in the same vicinity.

Employees also frequently telecommute in a boundaryless organization, which is to say that they don't actually have to turn up at work. They could use video conferencing and virtual collaboration software to communicate with each other and collaborate on projects. They, therefore, do not have to deal with geographically imposed barriers to working together.

In such companies, since employees do not have to come to the office all the time there are usually flexible working schedules which allow employees to work at the time that is most convenient for them, especially when they're working from a different country in an entirely different time zone. This makes it easier for the employees to achieve work-life balance.

Another characteristic of such companies is that the authority to make decisions is put squarely in the hands of employees. They can make decisions and have complete responsibility for the tasks and projects that are handed to them. This makes the company much more efficient than a traditional one since it can change more quickly and adapt to changing external factors.

Advantageous of Boundary less organization:

(i) In the boundary less organization, vertical boundaries are removed through flattening of organizational hierarchy. Status and rank are minimised.

(ii) Cross-hierarchical teams which include top executives, middle manage supervisors, and operative employees adopt participative decision making. The teams collectively share the responsibility of decision outcomes as aga individual responsibility in traditional organizations.

(iii) In performance appraisal, 360-degree appraisal system is used. In this system, ai individual's performance is appraised by his superior, peers, subordinates, and outsiders interacting with him. Besides, the individual himself appraises his performance, known as self-appraisal, which is used along with 360-degree appraisal to arrive at the conclusion about the individual's performance.

(iv) In traditional organizations, functional departments create horizontal boundaries which stifle interaction between functions, product lines, and units. In boundary less organizations, functional departments are replaced by cross-functional teams and organising activities around processes. For example, for new product development, no functional department is created but a multidisciplinary team is created that works on a single process.

(v) In order to develop multi skills among employees, emphasis is put on horizontal transfer, just as is the case with job rotation. Through this way, the horizontal boundaries are also minimised.

(vi) When fully operational, the boundary less organization also breaks down barriers to external constituents such as customers, suppliers, regulators, and others with whom the organization deals, by linking them to the organization.

Disadvantageous of Boundary Less organization:

However, the boundary less organizations should not be treated as panacea for all structural ills because they have their own drawbacks which are follows:

(i) The concept and practice of boundary less organizations is quite new. Therefore, organizational members do not find these very comfortable in comparison to traditional hierarchical systems. Even the earliest adopter of this concept, GE, has not yet achieved this boundary less status. However, this can be treated as an operational problem which can be overcome through experience over the period of time.

(ii) Boundary less organizations use computer networks extensively. These networks may include Internet, extranet, and intranet. Through these networks, people of boundary less organizations communicate across intra-organizational and extra- organizational boundaries. These networks are not fully reliable at all times.

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