

**Administrative Function:  
Choice of a Suitable Form of Business Ownership and  
Small Venturing Enterprises**

**Subject : Commerce**

**Lesson : Administrative Function:  
Choice of a Suitable Form of Business Ownership and  
Small Venturing Enterprises**

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# **Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises**

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## **Learning Outcomes**

After you have read this chapter, you should be able to

- compare various business forms
- evaluate factors to be considered while choosing a business form initially
- understand criteria to judge whether business form needs to be changed for expansion of business
- define small scale enterprises
- explain characteristics of small scale units
- appreciate their role in the economy
- discuss their problems
- describe government policies to promote small scale sector



# **Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises**

## **12.0 Introduction**

After an entrepreneur has conceptualized a commercially viable technology or product, he or she should begin to choose the most suitable business form to carry out the product development. This chapter briefly recapitulates various business forms and then discusses as to what considerations have to be kept in mind while choosing the most appropriate business form at the time of setting up of business as well as when business is to be expanded. The chapter then takes the issue of small enterprises.

## **12.1 Types of Business Forms**

<b>Value addition 12.1.1: Focus of the section</b>
<b>12.1 Types of Business Forms</b>
<p>This chapter comprises of two distinct parts:</p> <p><i>Part I: Choice of a suitable form of business ownership</i></p> <p>This portion discusses various business forms in brief and then explains about criterion while choosing a business form either at the time of setting up of business or at the time when business is to be expanded.</p> <p><i>Part II: Small Venturing Enterprise</i></p> <p>In the latter half of the chapter, we shall take up the issue of small business- what they are, what is their role in the economy, what are their problems and how are they being addressed.</p> <p>We begin with Part I.</p> <p>At the time of setting up of business, the entrepreneur is faced with very crucial question as to what form of ownership should he choose. We are assuming that you are already familiar with different forms of business ownership (Sole Proprietorship, Partnership, Hindu Undivided Family, Corporate and co-operative Societies)- their definition, features, merits and limitations. For our present purposes, we require that you should be in a position to undertake a comparative analysis of various business forms.</p>

A business enterprise can be owned and organized in various forms:

1. Sole Proprietorship
2. Partnership Firm
  - a. General Partnership (GP)
  - b. Limited Liability Partnership (LLP)
3. Joint Hindu Family Business
4. Co-operatives
5. Corporations
  - a. Private Limited Company
  - b. Public Limited Company

The first three categories (except 2b) are also called as "Unincorporated" forms while limited liability partnerships, co-operatives and corporations are also called as "Incorporated" business forms.

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This is not an exhaustive/ static list of forms of business organization as they evolve over time and gain legal and social acceptability. The details of the two new business forms (new in our country) - Limited Liability Partnership and Producer Company are presented below.

### **Limited Liability Partnership**

As the Indian economy has grown, indian entrepreneurs, technical and professional manpower have played a substantial role. A need was felt for a new corporate form that could provide, on the one hand, a better alternative to the traditional partnership with unlimited personal liability, and, on the other, the statute-based governance structure of the company with a limited liability. Limited Liability Partnership (LLP) is a new hybrid corporate form that provides the dual benefits of limited liability as well as flexibility to its members to organize their internal structure as a partnership based on a mutual agreement.

The government introduced the Limited Liability Partnership Bill in the Parliament in 2006. LLP Act 2008 was published in the official gazette on January 9, 2009 and has been notified with effect from 31 March 2009. The salient features of the **Limited Liability Partnership Act, 2008** are as follows:-

1. LLP shall be a body corporate and a legal entity separate from its partners.
2. Not only individuals but body corporates may also be partners.
3. It shall have perpetual succession.
4. Indian Partnership Act, 1932 shall not be applicable to LLPs.
5. Minimum two partners are required; however there shall not be any upper limit on the number of partners in an LLP unlike an ordinary partnership firm where the maximum number of partners can not exceed 20. LLP Act makes a mandatory statement that one of the partner to the LLP should be an Indian.
6. The LLP gives the dual benefits of limited liability and also allows its members the flexibility of organizing their internal structure as a partnership based on an agreement.
7. The LLP is liable to the full extent of its assets however the liability of the partners would be limited to their agreed contribution in the LLP. Further, no partner would be liable on account of the independent or unauthorized actions of other partners.
8. The LLP Act does not restrict the benefit of its structure to any class of professionals. It would be available for use by any enterprise which fulfills the requirements of the Act.
9. The Act also provides for conversion of existing partnership firm, private limited company and unlisted public company into a LLP by registering the same with the Registrar of Companies (ROC).
10. The Registrar of Companies (Roc) shall not only register but also control LLPs
11. For the purposes of taxation, an LLP is treated like any other partnership firm.
12. Every LLP *must* file an annual return with the Registrar. However, audit of the accounts is required only if the contribution exceeds Rs. 25 lakhs or annual turnover exceeds Rs.40 lakhs.

### **Producer Companies**

India has a large number of cooperative institutions in a vast range of sectors however there is a limited success. In fact, the only success are in the cooperative



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dairy sector in a few states. Our cooperative experience has not been a very pleasant one because cooperatives have largely been state promoted with a large focus on welfare rather than doing business on commercial lines.

Cooperative is a form of organization which enables the farmers to organize themselves as collectives and move up the value chain by ownership and operation of their own processing units and even extend the chain upto the retail level.

In **December 2002, amendment IX A of the "Indian Company's Act"** (based on the recommendations of an expert committee led by noted economist, Y. K. Alagh) put in place the "producer company (PC)" permitting existing societies, co-operatives, NGOs, Trusts, Private Limited Companies, etc to convert to Producer Companies or set up new Producer Company.

The Producer Company (PC) is aided with finance by the Government and managed by the professionals. It enables the Government, Banks and Financial Institutions to use the PC intervention for delivery of programmes, funds, etc, meant for their member farmers. The objective is that farmers should be left to their area of expertise, that is, farming and on farm activities, whereas the management of the company is done by the professionals.

A producer company is a hybrid between a private limited company and a cooperative society which combines the good aspects of a cooperative enterprise and efficiency of a company. It combines the unique elements of cooperative business with a regulatory framework similar to that of a private limited company.

The salient provisions of a Producer company are:

1. In a 'Producer Company', only persons engaged in an activity connected with, or related to, primary produce can participate in the ownership. The members have necessarily to be 'primary producers.' Primary produce has been defined as a produce of farmers arising from agriculture including animal husbandry, horticulture, floriculture, forestry, forest products, re-vegetation, bee raising and farming plantation products: produce of persons engaged in handloom, handicraft and other cottage industries: by - products of such products; and products arising out of ancillary industries.
2. Any ten or more individuals, each of them being a producer, that is, any person engaged in any activity connected with primary produce, any two or more producer institutions, that is, producer companies or any other institution having only producers or producer companies as its members or a combination of ten or more individuals and producer institutions, can get incorporated as a producer company.
3. The companies shall be termed as limited and the liability of the members will be limited to the amount, if any, unpaid on the shares. On registration, the producer company shall become as if it is a private limited company with the difference that a minimum of two persons cannot get them registered, and also the maximum number of members can exceed 50.
4. Members' equity cannot be publicly traded but only transferred.

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5. Management- Every producer company is to have at least five and not more than fifteen directors. A full time chief executive is to be appointed by the board. He shall be an ex-officio director and will not be liable to retire by rotation and shall be entrusted with substantial powers of management as the board may determine.

6. Dispute relating to producers companies are to be settled by conciliation or arbitration under the Arbitration and Conciliation Act, 1996 as if the parties to the dispute have consented in writing to such procedure.

7. Inter-State Cooperative Societies (cooperatives not confined to one State) can also make an application to the Registrar for recognition as producer companies. The statute also provides for re-conversion of such producer companies to their former status as inter-State cooperative societies subject to the approval of High Court.

8. Further, "all the limitations, restrictions and provision of the Act, (other than those specified in Part IXA), applicable to a private limited company, shall **apply to a producer company, as if it is a private limited company.**

9. The objects of producer companies shall include one or more of the eleven items specified in the Act, the more important of these being:

(i) Production, harvesting, procurement, grading, pooling, handling, marketing, selling, export of primary produce of members or import of goods or services for their benefit;

(ii) Processing including preserving, drying, distilling, brewing, venting, canning and packaging of produce of its members; and

(iii) Manufacture, sale or supply of machinery, equipment or consumables mainly to its members.

The other objects include rendering technical or consultancy services, insurance, generation, transmission and distribution of power and revitalization of land and water resources; promoting techniques of mutuality and mutual assistance; welfare measures and providing education on mutual assistance principles.

10. Formation- All families in a village (or cluster of several villages) will be informed/educated on the PC concept and only interested farmers will be made its members. Each member/farmer will have one vote in the company, irrespective of their share. Government (or its nominated bodies) will fund, facilitate and guide its formation, a professional HRD organization will be involved in selecting professionals who will staff and run the company. Infrastructure needed for training farmers, administration, storing farm produce and adding value to it will be assisted by the government (at present wherever this concept is operational, farmers are themselves investing in the infrastructure) as in a private company. Alternatively, a PC can be given need-based seed capital to enable it to borrow the required capital and working capital from financial institutions.

Several State governments like Kerala, Madhya Pradesh, Gujarat and Assam as well as NGOs are facilitating the setting up of Producer Companies as it can serve as a powerful instrument to reduce distress among farming community and help in improving the plight of Indian primary producer.

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### **Value addition 12.1.2: Did You Know?**

#### **Producer Companies in India**

Although no comprehensive data base on the number of Producer Companies established in the country and their performance exists, estimates are that there would be fewer than hundred such companies as on date. Following is a listing of some Indian Producer Companies:

1. Indian Organic Farmers Producer Company Ltd. - is an Aluva (Kerala) company of farmers producing organic products.
2. Vanilla India Producer Company Ltd (VANILCO)- Vanilla India Producer Company Ltd (VANILCO) has been promoted by Kerala based Indian Farmers Movement (Infarm), a charitable society with over one lakh farmer members for catering to the long-term interests of the vanilla farmers.



Source: <http://vanilco.com/php/showContent.php?linkid=3&partid=2>

3. Banana India Producer Company Ltd (BIPCL)
4. Evangelical Social Action Forum (ESAF)- The Producer Company has three areas of activity (1) Handicrafts, (2) Herbal & Agriculture, (3) Food, and Dairy & Meat.
5. The Government of Madhya Pradesh under District Poverty Initiatives Programme (DPIP) has promoted a large number of Producer Companies in various parts of the state that has stimulated introduction of horticulture crops like tomato, spinach and chili and has helped farmers to raise their incomes substantially.
5. In Assam, the Spices Board under the Ministry of Commerce, Government of India has promoted two producer companies, the Coinonya Farm Producer Company Limited for turmeric and Karbi Farms Producer Company Limited for ginger and chilly. The spices board has put in Rs. 1 crore as equity in each of the companies, while the rest of the equity is held by tribal farmers, 600 in Coinonya and 400 in Karbi.
6. Also there are a few Producer Companies of Artisans and Craftsmen. **Fab India**, a company which exclusively markets produce of rural artisans and craftsmen through a chain of retail outlets spread across the country has decided to promote 35 producer companies in different states covering about 20000 weavers almost entirely from muslim, dalit and other backward classes to enable them to aggregate their fragmented production and increase volumes and returns.

**AMUL:** The Gujarat Cooperative Milk Marketing Federation popularly known as AMUL, the largest and most successful producer owned cooperative enterprise in the country, was as reported in the press in May 2006, planning



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to convert into a producer company. That it has not converted so far indicates probably that it is doing re-think on the idea.

**Source:**

<http://www.cab.org.in/Lists/Knowledge%20Bank/Attachments/2/Producer%20Company%20Model.pdf>

### **Value addition 12.1.3: Did You Know?**

#### **Stages in the evolution of Producer Companies**

The value addition in agricultural commodities happen only post production. And since in the Indian context the farmer disposes off his produce in unprocessed form, there is no plough back of surpluses from value addition to the farmer. It is possible through initiatives like producer companies that farming becomes more remunerative and the lot of farmers improves,

Stage I: As can be seen from the experience so far, most of the companies that are emerging in the producer companies' space are start-ups rather than existing cooperatives transforming into producer companies. Further, almost all of them have been promoted by a sponsor institution like a development agency or an NGO. Most of them are performing the function of providing technical services and inputs to farmers or pooling produce for collective marketing. This is the first stage of evolution.

Stage II: In the second stage, more activity will be seen in the emergence of producer companies like that promoted by Fab India, where corporates come together with farmers to share prosperity with the farming community through commercial farmer corporate/ retailer partnerships.

Stage III: Producer Companies having their own processing infrastructure, and developing their own identity, brands and supply chain will be the third stage. Only then will the producers be able to directly connect with and have command over the markets and thus a greater share in the retail pie.

**Source:** <http://www.cab.org.in/Lists/Knowledge%20Bank/Attachments/2/Producer%20Company%20Model.pdf>

As you would be already familiar with the features, merits and demerits of the business forms, we shall now compare their characteristics.

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**Table 12.1: Comparison Chart of the Different Forms of Business Entities**

Basis of Comparison	Sole proprietorship	Partnership	Hindu Undivided Family	Public Limited Company	Private Limited Company	Cooperatives
<b>Regulating Act</b>	None	General Partnership- Indian Partnership Act, 1932  LLP- Limited Liability Partnership Act, 2008	Hindu Law and Hindu Succession Act, 1956	Companies Act, 1956	Companies Act, 1956	Cooperative Societies Act, 1912 or State Cooperative Act.  PC- Companies Act
<b>Number of members/ Owners</b>	Single individual	General- Minimum: 2 Maximum: 10 (banking business) and 20 (other business)  LLP- Minimum: 2 Maximum: No limit	No maximum limit (only male members)	Minimum: 7 Maximum: No limit	Minimum: 2 Maximum: 50	Minimum: 10 No maximum limit  PC- Only primary producers can become members. Minimum 10 (individuals) and 2 (for institutions), no maximum limit
<b>Legal entity status</b>	Business has no separate legal entity	General- Business has no separate legal entity  LLP- is a body corporate that has legal entity separate from its owners.	Business has no separate legal entity.	Company is an artificial person- has a separate legal entity	Company is an artificial person- has a separate legal entity	Separate legal entity
<b>Legal formalities</b>	No legal formalities/ registration	General- Optional but desirable to prepare and	No legal formalities	Registration compulsory with ROC. Long and	Registration compulsory with ROC. Involves	Compulsory registration

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		register Partnership Deed  LLP: Registration compulsory with ROC		rigorous legal procedure	legal procedure	
<b>Ability to obtain capital and credit</b>	Limited	Resources can be pooled	Limited	Maximum capital available	More capital available	Resources can be pooled
<b>Liability of the owners/ members</b>	Unlimited	General- Unlimited-  LLP- Limited	Unlimited	Limited	Limited	Limited
<b>Annual Return</b>	No returns to be filed	General- No returns to be filed with the Registrar of Firms  LLP- Annual statement of accounts and solvency & Annual Return has to be filed with ROC	No returns to be filed	Annual Accounts and Annual Return to be filed with ROC	Annual Accounts and Annual Return to be filed with ROC	Annual returns to be filed
<b>Control</b>	Complete control exercised	Control shared among partners- as per agreement	Control in the hands of Karta	Control with Board of Directors	Control with Board of Directors	Control shared with partners  PC- Control with Board of directors
<b>Participation in Profits</b>	Sole proprietor takes away all the profits	Shared between partners as per agreement	Shared between coparceners	Shared between members	Shared between shareholders	Shared between members  PC- Shared between members as determined by Directors.
<b>Payment of</b>	Personal tax	Personal tax	Personal	Business	Business	Personal taxes

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<b>taxes</b>	rates apply as profits taxed in the hands of the owner	rates apply	tax rates apply	pays income tax at corporate tax rate	pays income tax at corporate tax rate	rates apply PC: Corporate tax rates apply
<b>Transferability of Ownership / Interest</b>	Freely transferable	With the consent of partners	Not Freely transferable	Not Freely transferable	Freely transferable	Not freely transferable PC-Transferable
<b>Basis of Comparison</b>	<b>Sole proprietorship</b>	<b>Partnership</b>	<b>Hindu Undivided Family</b>	<b>Public Limited Company</b>	<b>Private Limited Company</b>	<b>Co-operative</b>
<b>Continuity of Existence</b>	Business comes to an end with illness, death etc. of the owner.	General-Business continues but the arrangement/ Deed needs to be reframed with death, insolvency or retirement of a partner  LLP-Perpetual succession, change in partners has no effect on LLP's existence	Business continues even after the death or insolvency of a co-parcener or the Karta	Not affected by death, insolvency, retirement of members	Not affected by death, insolvency, retirement of shareholders	Not affected by death, insolvency, retirement of members

It is interesting to note that there are so many **business forms that combine characteristics of other business forms**. A private limited company is often called as a compromise between partnership (general) and a public limited company. It has almost all the merits of both the partnership firm and public company. As in case of partnership, it can be started with two members and enjoys several benefits such as quick decision-making, maintenance of business secrets and suitability for medium scale business. It also enjoys additional benefits over a partnership such as limited liability, greater financial resources and longer life of business.

A private company also possesses nice features of a public company. It has a separate legal entity, limited liability, perpetual existence and ability to raise larger amount of resources. It also enjoys certain exemptions/ privileges that are not available to a public company- exemption from obtaining Certificate to Commence



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Business, issue of prospectus, holding a statutory meeting and publication of annual accounts. A private company is indeed a good choice for running a medium-scale business and having close control over it.

The other business forms that are a hybrid of two business forms are LLP (that combines the features of general partnership and companies) and Producer Companies (that combine the features of Cooperative society and a private limited company).

<b>Value addition 12.1.4: Did You Know?</b>
<b>Some more business forms</b>
<p>Besides these typical business forms that are most discussed, there are few other business forms as well.</p> <ul style="list-style-type: none"><li>• <b>'One-person company'</b> (OPC) form of enterprise (also sometimes referred to as Solomon's case) is an extended and highly improved version of sole proprietorship that enables a single individual to run and expand business without any fear of personal liability. The OPC also has the benefit of none of the cumbersome compliance requirements that are otherwise faced by a "company". Such as, the OPC would have little paper work because the Articles of Association would be simple and short. Various countries permit this kind of a corporate entity like China introduced it in October 2005. In India, the move to permit OPCs was recommended by the J J Irani expert committee after revising India's company laws in May 2005. The proposal was mentioned in the draft Companies Bill, 2007. It was sent for comments from other ministries. It later became a part of Companies Bill 2009. However, the law has not been passed so far.<p>One of the major difficulties with this form of business is the problem faced by the regulator in ensuring that the OPCs are not set up with the sole intent of liability evasion.</p></li><li>• <b>Limited partnership:</b> This requires at least one unlimited (general) partner and allow the others to assume the role of a passive and limited liability investor. The general partners are in the same legal position as partners in a conventional firm. They have management control, share the right to use partnership property, share the profits of the firm in predefined proportions, and have joint and several liability for the debts of the partnership. The general partners pay the Limited partners a return on their investment (similar to a dividend), the nature and extent of which is usually defined in the partnership agreement. Limited partners are similar to shareholders in a corporation.</li></ul>
<p><b>Source:</b> <a href="http://www.business-standard.com/india/news/now-get-ready-for%5Cone-person-company%5C/305484/">http://www.business-standard.com/india/news/now-get-ready-for%5Cone-person-company%5C/305484/</a></p> <p><a href="http://taxguru.in/company-law/form-one-person-company-opc-after-implementation-of-the-companies-bill-2009.html">http://taxguru.in/company-law/form-one-person-company-opc-after-implementation-of-the-companies-bill-2009.html</a></p>

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<b>Value addition 12.1.5: Surf and Learn</b>
<b>Types of Business Forms</b>
To know more about limited liability partnership, visit the following site <a href="http://en.wikipedia.org/wiki/Limited_liability_partnership">http://en.wikipedia.org/wiki/Limited_liability_partnership</a> and <a href="http://www.llp.gov.in/">http://www.llp.gov.in/</a> There is another form of business called as <b>Limited Liability Company</b> . To know more about it, visit the following site <a href="http://en.wikipedia.org/wiki/Limited_liability_company">http://en.wikipedia.org/wiki/Limited_liability_company</a>

<b>Value addition 12.1.6: Check Your Comprehension</b>									
<b>12.1 Types of Business Forms</b>									
There were different business forms compared on various bases and two more special forms of ownership- Solomon case and Limited partnership that are not permissible in India so far. Besides this, the emergence of various new hybrid forms of business may also be noticed. They may be new in India but they might be existing in other countries for years. Now you should be able to answer the following question.  Give the name of the business form that has following features: <ol style="list-style-type: none"> <li>1. Maximum number of members/ owners.</li> <li>2. Separation of business entity from owner</li> <li>3. No legal formality at the time of setting up</li> <li>4. Ability to attain maximum capital</li> <li>5. Limited liability and flexible organizational structure</li> </ol> Hint: There could be more than one business form that satisfies a particular feature.  <b>Pick the option that best suits.</b> <b>This section...</b>									
<table border="1" style="width: 100%; text-align: center;"> <tr> <td><b>Completely understood</b></td> <td><b>Partially Understood</b></td> <td><b>Not understood</b></td> </tr> <tr> <td>↓</td> <td>↓</td> <td>↓</td> </tr> <tr> <td><b>Move on to next section</b></td> <td><b>Move on to next section but note that there is a need to revise this.</b></td> <td><b>You need to re read this and discuss it with your friends.</b></td> </tr> </table>	<b>Completely understood</b>	<b>Partially Understood</b>	<b>Not understood</b>	↓	↓	↓	<b>Move on to next section</b>	<b>Move on to next section but note that there is a need to revise this.</b>	<b>You need to re read this and discuss it with your friends.</b>
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↓	↓	↓							
<b>Move on to next section</b>	<b>Move on to next section but note that there is a need to revise this.</b>	<b>You need to re read this and discuss it with your friends.</b>							

## 12.2 Choosing The Suitable Business Form While Setting Up A Business

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<b>Value addition 12.2.1: Focus of the section</b>
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<b>12.2 Choosing the Suitable Business form while setting up a business</b>
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Now that we have reviewed and compared different forms of business ownership, we take up the issue of how to select the suitable business form when the business is being set up. There is no one criterion on the basis of which it is decided and as we shall appreciate- there is no "most suitable" kind of business form. This is because each of them has their own strengths and limitations and is suited for specific businesses/ size.
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As far as Hindu Undivided Family is concerned, it has a very limited scope and specific characteristics such as it is applicable only to joint Hindu families and must comprise of at least two male members. Similarly the co-operative societies are not a common form of business in our country. In case of Producer companies, their scope is limited to "primary producers". Our further discussion, therefore, shall concentrate on four most important and common business forms- sole proprietorship, partnership, private limited company and public limited company.
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As we have seen in the previous section, a business enterprise can be owned and organized in various forms. It is very crucial to make the right choice of the form of business. This is because it governs several aspects such as the authority, control, risk and responsibility of the entrepreneur; as also, how the profits and losses would be shared; how the business would be organized, etc. It is also necessary to make the right choice about how the inflow and outflow of the cash will be handled, and how the business will be taxed. Since these are long term commitments, the choice of the form of business should be made after serious and detailed thinking, planning and discussion.

An ideal organization form would be one which is easy to form with minimum legal procedures, is capable of raising desired amount of funds, puts limited liability on the owners, gives sufficient freedom of transferability of interest, allows business secrecy to be maintained, ensures prompt / effective decision-making, is not under purview of excessive government regulations and attracts lower tax liability.

However, there is no 'ideal' business form that possesses all the desirable characteristics. Each form of organization has its own strengths and weaknesses. The final choice of the form of business therefore depends upon the balancing of the advantages and disadvantages of the various forms of business. The choice of the form of business is governed by several interrelated and interdependent factors:-



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Figure 12.1 Choices available while setting up a business



Source: <http://www.myownbusiness.org/images/BussOrganization.jpg>

## *Scale of operations*

The key factors are i. Volume of business: small, medium, large); ii. the size of the market (international, national, local). Large scale enterprises catering to national and international markets can be organized more successfully as private or public companies. Small and medium scale firms are usually set up as partnerships and proprietorship. Similarly, where the area of operations is wide spread (national or international), company ownership is appropriate. But if the area of operations is confined to a particular locality, partnership or proprietorship will be a more suitable choice.

## *Capital requirement*

Amount of capital required for the establishment and operation of a business largely depends on the scale of operations. If funds required are not large and can be personally arranged by the person, then sole proprietorship can be chosen. On the other hand, if pooling of resources is required, partnership can serve the purpose. As compared to general partnership, LLP can raise more funds since there is no limit on the maximum number of partners. If it is beyond the capacity and resources of a few persons to arrange required funds, then business should be organized as a company as it is able to collect a large amount of capital through contributions from a large number of people. Also companies have better chances of obtaining long term finance from financial institutions as compared to sole proprietorship or partnership.

## *Volume of risks and liabilities*

The sole proprietor is personally liable for all debts of business and his liability cannot be restricted in any way. Similarly, in a general partnership firm, all the partners "share" all the business risks however they still carry unlimited liability, while companies and LLP have a distinct advantage over other forms of business by way of having limited liability for its members. The members' liability is limited to the extent of capital invested by them and if the owner wishes to avoid personal liability, then Company/ LLP would be the preferred business option.

## *Ease of formation*

A sole proprietorship business can be started with a very small amount of capital with little legal formalities required (except where a license is required from



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concerned authorities). General partnership business can also be started easily without any compulsory legal formalities as it is not necessary to get the firm registered (except in the state of Maharashtra). A simple agreement or partnership deed, either oral or in writing, is sufficient to create a general partnership. The incorporation of LLP is mandatory and involves legal formalities, however its' incorporation procedure is relatively simple than that of a company. A company requires several legal formalities at the time of formation. Between private and public company, it is easier to form a private company because of certain exemptions available to it, such as it can commence business immediately on incorporation without waiting to obtain the certificate of commencement of business and can proceed to allot shares after incorporation without requiring to issue a prospectus as in case of a public company.

### *Management*

A sole proprietorship business lacks benefits of professional management as the owner may not be a specialist in every aspect of business. In case of partnership firm (general and LLP), all the partners are entitled to participate in every aspect of business as per their specialization, knowledge and experience. It is the company that is most professionally managed because it is managed by directors, who are elected by the members or shareholders and are persons with expertise in financial, legal and other business aspects.

### *Tax liability*

To minimize tax burden, sole proprietorship or partnership (both general and LLP) can be chosen since profits made by the business are taxed in the hands of owner/partners because personal tax is slightly lower than corporation tax. A limited company is subjected to higher (corporate) tax rates.

### *Excessive government control*

sole proprietorship or general partnership invite the minimum level of government controls and regulations while LLP is required to make financial disclosures, file annual returns, statement of solvency etc. Joint stock companies are most regulated by government through the Companies Act and other legislations especially public limited companies.

From the above discussion, it can be concluded that businesses providing direct services like tailors, restaurants and professional services like doctors, lawyers are generally organized as proprietary concerns. While, businesses requiring pooling of skills and funds like accounting firms are better organized as partnerships. Manufacturing organizations of large size are more commonly set up as private and public companies.

As far as **choice between general and limited liability partnership** is concerned, LLP gives the immense benefit of limited liability to its partners and flexible internal structure at a little additional cost of limited statutory compliance.

As far as **choice between LLP and private limited company** is concerned, the major determining factors will be

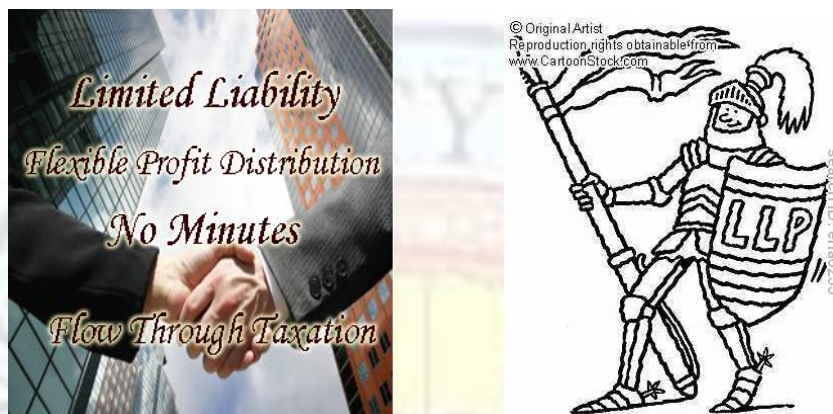
- tax rate- lower for LLP as compared to private limited company.
- management structure- flexible for LLP (as per their internal agreement) as against Board of Directors in private limited company. Although LLP does not

## Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises

have Directors or a Company Secretary, but it must have at least two designated members who are designated as the company's primary representatives in much the same way as directors.

- Statutory compliance- much more for private limited companies compared to LLP.

**Figure 12.2 LLP providing several advantages**



Source: <http://startinllc.com/llc2.jpg>  
<http://www.cartoonstock.com/lowres/ena0255l.jpg>

LLP, therefore, combines the advantages of ease of running a Partnership; and separate legal entity status and limited liability aspect of a Company. A LLP is indeed advantageous and has the potential of becoming a dominant business form in India in the years to come because of comparatively lower cost of formation, lesser compliance requirements, easy to manage and run and also easy to wind-up and dissolve, no requirement of minimum capital contributions and partners are not liable for the acts of the other partners. However, LLP cannot raise money from the public.

As far as **the agriculturist** is concerned, it is in the interest of the farmers to form Producer Company and move up the value addition chain and not just stop at selling their produce in unprocessed form and often in haste to get cash.

<b>Value addition 12.2.2: Activity</b>
<b>Deciding on the business form</b>
a. Which form of enterprise is best based on following criteria- degree of control desired by the owner(s), continuity of the concern and maintenance of business secrets?
b. Name the business form(s) that is best according to each factor. Basis: 1. Possibility of larger scale of operations 2. Ease of capital arrangement 3. Least volume of risks and liabilities 4. Ease of formation 5. Professional Management

## Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises

6. Lower tax liability
7. Minimum government control
8. Continuity of business
9. Easy maintenance of business secrets

Now, for each form of business, write down how many factors does it suit the best?

Sole proprietorship  
Partnership  
Private company  
Public Company

### **Value addition 12.2.3: Check Your Comprehension**

#### **12.2 Choosing the Suitable Business form while setting up a business**

So, we hope the criteria are clear. You must have also noticed the suitability of various kinds of business forms. Hope you remember why we are discussing only four business forms- we started with a larger number.



**Pick the option that best suits.**

**This section...**

Completely understood	Partially Understood	Not understood
↓	↓	↓
<b>Move on to next section</b>	<b>Move on to next section but note that there is a need to revise this.</b>	<b>You need to re read this and discuss it with your friends.</b>

### **Value addition 12.2.4: Test Yourself**

#### **12.2 Choosing the Suitable Business form while setting up a business**

1. Discuss the various considerations while selecting a suitable form of business ownership.
2. Which form of business organization is "ideal"?
3. Why is private limited company called as a compromise between partnership and public limited company?
4. Why is LLP said to have a hybrid structure?



# **Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises**

## **12.3 Choice Of Suitable Form Of Business While Expansion Of Business**

<b>Value addition 12.3.1: Focus of the section</b>
--

<b>12.3 Choice of Suitable form of business while expansion</b>
---

In the previous section, we saw how the entrepreneur chooses the business form at the time of setting up. Now, we shall take up the issue of revising the business form for a running business. In other words, what considerations are faced by the business person when business is to be expanded? So if a sole proprietor wants to expand his business, what options does he have? Similarly how can a partnership firm and private limited company business expand? Do you think we should have the fourth case as well- how does a public limited company expand? Well! Public limited company is the highest form of business ownership.
---

The question of choice of business form arises not just at the time of formation of business but also while expanding the business. Once the business is doing well and the owners wish to expand the scope and scale of operations, there may be a need to alter the business form. There are various alternatives available in order to arrange for expansion of business:

- a. Expansion of Sole proprietorship
- b. Expansion of a Partnership firm
- c. Expansion of a Private Limited Company

### **12.3.1 Expansion of Sole proprietorship**

When a sole proprietorship wishes to expand his business, it becomes necessary to arrange for more capital and additional help in management. He has two alternatives- employing a paid manager or converting his firm to a partnership firm (general or limited liability). The relative merits and limitations of the two choices can be discussed as follows:



## Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises

Figure 12.3 Sole Proprietor unable to handle things and looking for options



Source: <http://eapcpa.com/Bio.ht1.gif>

[http://www.google.co.in/images?q=public+limited+company&hl=en&gbv=2&tbs=isch:1&ei=QRi\\_TNKFI4W0vgOsutV4&sa=N&start=54&ndsp=18](http://www.google.co.in/images?q=public+limited+company&hl=en&gbv=2&tbs=isch:1&ei=QRi_TNKFI4W0vgOsutV4&sa=N&start=54&ndsp=18)

### *Re-organization*

If the proprietorship chooses to employ a manager, there is no re-organization of business involved. Only a contract has to be signed with the manager. On the other hand, if partners are taken, then there will be a change in the business form. If he chooses general partnership, this requires signing of Partnership Deed and getting it registered (may not be compulsory but desirable). For LLP, mandatory incorporation procedure has to be followed. However, it may be easier to find a paid manager than partners who can work in harmony.

### *Capital*

The paid manager does not bring in any additional capital. Arranging for the funds is still solely the responsibility of the proprietor. Hence the problem of additional capital still remains. On the other hand, if a partner/ partners are taken, then additional capital will be contributed by them that would facilitate expansion of business. In comparison to general partnership, LLP has the advantage of any number of partners who can bring greater amount of additional resources.

### *Control*

If manager is employed, full control of business continues with sole proprietor. On the other hand, if a partner is taken, control will be shared unless the partner is a 'sleeping' partner who contributes capital but does not participate in the management.

### *Business risks*

With employment of a manager, it is sole proprietorship who continues to bear all the risks. He is personally liable for all the debts. In case of general partnership, risks are shared by all the partners, although the feature of unlimited liability will continue. In case of limited liability partnership, his liability would become limited to his contribution in the business.

### *Tax advantage*

When a manager is employed, the salary payable is a charge against profits of the business. Also, interest on loans taken by business is allowed as deduction for tax

## **Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises**

purposes. Tax incidence increases in case partnership (general or LLP) is chosen. The share of profit payable to him is liable to tax in the hands of the firm if it is not registered.

From the above discussion, it can be said that employment of manager will be a better choice if sole proprietorship can arrange for additional funds. However, as business expands further, partnership will become inevitable since partners will not only get capital but also share risks. If the sole proprietor wants to have limited liability, then he would prefer LLP. In fact, LLP gives an option to the sole proprietor to minimize his risks (through limited liability clause) and at the same time arrange for additional resources through partners.

### **12.3.2 Expansion of Partnership**

An expanding **general partnership firm** is confronted with three alternatives-taking in more partners but retaining the nature of general partnership, shift to LLP or change the business form to Private limited company. An expanding **LLP** firm, on the hand, has to choose between taking in more partners or becoming Private limited company. While choosing between these options, following factors need to be kept in mind.

**Figure 12.4 Expansion of number of partners**



Source: <http://www.vanionlineservice.com/userimages/partnership.jpg>

#### *Re-organization*

Including new partners is an easier process as there are no legal formalities involved except re-writing of partnership deed. On the other hand, setting up of Private Limited Company involves complying with various legal formalities. Its incorporation procedure is more complex than that of LLP. Thus, partnership (general as well as LLP) has an advantage over private company in this respect.

#### *Capital*

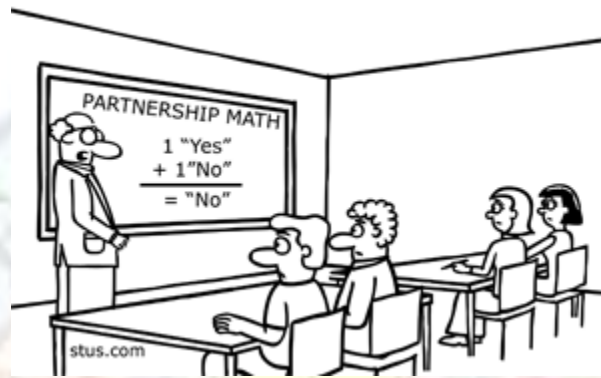
As compared to general partnership, LLP and private company can raise more funds. While there is no upper limit on the number of partners in LLP, the limit on the maximum number of members is 50 in private company as against 20 (10 for banking business) in case of general partnership.

#### *Control*

## Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises

If more partners are taken- either in general or LLP, control will have to be shared with them. Every partner is entitled to participate in managing business and the actual arrangement will be determined by the agreement among the partners. However, the original owner can retain control by choosing private company and becoming its managing director.

**Figure 12.5 Control shared among partners**



Source: <http://www.stus.com/images/products/cc0005.gif>

### *Liability*

The liability of all the members of general partnership is unlimited whereas members of LLP and those of a private company carry a limited liability- limited to the capital invested held by them. This gives a distinct advantage to LLP and private company as it motivates members to take greater risks.

### *Tax advantage*

On this count, partnership firm (both general as well as LLP) carries greater advantage as tax burden is lighter as compared to private company.

### *State regulation*

A private company is under an obligation to comply with many legal formalities not just at the time of formation but during its operation as well. A LLP also has limited statutory compliance whereas a general partnership firm is subject to least state regulation and can save on such legal costs. If minimum state regulation is desired, then the structure of partnership should be retained as "general" and more partners can be included.

As the business expands, LLP and private company will be preferred over general partnership because of their limited-liability clause. In fact, **a general partnership in its present form** can also convert itself to LLP to take advantage of limited liability for its partners.

### **12.3.3 Expansion of private company**

In order to meet the needs of an expanding private company business, it has to choose from among either increasing the number of members or changing the business form to public company. Apart from these two options, there is another option that a private company can make use of. As per LLP Act, 2008, a private



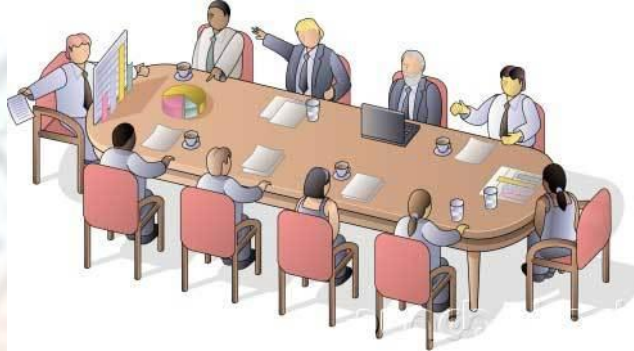
## **Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises**

limited company can convert itself into a limited liability partnership form **with its existing members**. While retaining the limited-liability advantage, such conversion will have the effect of

- removing upper limit on the number of members, thereby increasing the resources that can be pooled
- lowering the tax rates applicable
- reducing the extent of statutory compliance

After the conversion, the LLP so formed can add more partners to expand business.

**Figure 12.6 Board of Directors meeting**



Source: <http://mscginc.org/wp-content/uploads/2010/02/boardmeeting.jpg>

The following considerations need to be kept in mind while taking the decision of how to expand.

### *Re-organization*

A private company can be converted into a public company by altering Articles of Association with respect to number of members, transferability of shares and subscription of shares to the public. However, there are certain privileges that are available to private company only such as ability to commence operations after incorporation.

### *Capital*

A private company can have relatively limited financial resources because of limit on maximum number of members. On the other hand, a public company has no such limit and can raise huge amounts of capital from public. It is also in a better position to raise funds from financial institutions.

### *Control*

A private company is a closely-held company which makes it possible for original entrepreneur to retain control by becoming its managing director. In a public company, control has to be shared with others.

### *Secrecy*

A private company can maintain greater secrecy in the conduct of business. Even though it is under an obligation to file annual accounts with the Registrar, they are not open to public inspection. It is difficult for a public company to maintain secrecy as its financial results have to be reported to the shareholders.

### *State regulation*



## **Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises**

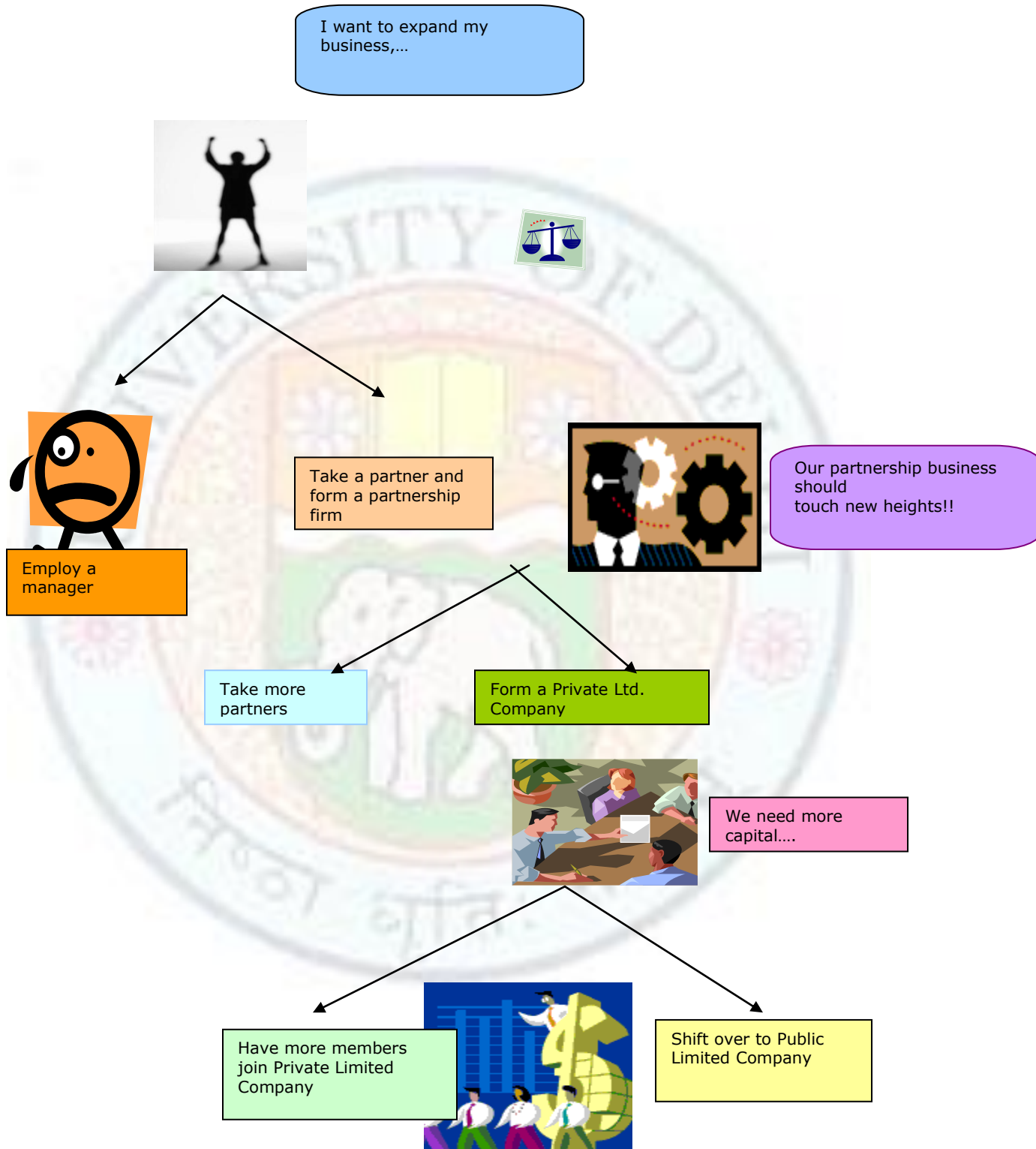
A private company is subject to lesser state interference and enjoys greater freedom in conduct of its business. A public company represents wider public interests and hence has to comply with several legal formalities. Such regulations restrict the freedom of management and flexibility in operations.

As far as possible, entrepreneur will try to continue with private company in order to retain control over business and avoid too much government interference. However, as the capital requirements grow large and beyond the capacity of its members, the business needs to be re-organized as a public company.




# Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises

Figure 12.7: Choices available for expansion of business



# Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises

<b>Value addition 12.3.2: Check Your Comprehension</b>		
<b>12.3 Choice of Suitable form of business while expansion</b>		
<p>Once you have seen the options available for expansion of any one business type, you can always apply them to other business forms. You must have noticed- the considerations are almost the same.</p> <p>What would be your answer to the following question- Choosing a suitable business form is a one-time decision? If you said yes, you need to read the Text again.</p> <p>Now you should be able to answer the following question.</p> <p>1. Pick up any four keywords that describe the considerations for expansion of business. (That's simple! Just making sure you are reading carefully and retaining as well)</p>		
		
<b>Pick the option that best suits.</b>		
<b>This section...</b>		
<b>Completely understood</b>	<b>Partially Understood</b>	<b>Not understood</b>
↓	↓	↓
<b>Move on to next section</b>	<b>Move on to next section but note that there is a need to revise this.</b>	<b>You need to re read this and discuss it with your friends.</b>

<b>Value addition 12.3.3: Test Yourself</b>		
<b>12.3 Choice of Suitable form of business while expansion</b>		
<p>1. What choices are available to a sole proprietor when he wishes to expand his business? How would he decide which option to go for?</p> <p>2. What choices are available and what considerations should a partnership firm keep in mind in order to expand its business?</p> <p>3. What choices are available to private limited concern at the time of planning for expansion of its business? What considerations should it keep in mind in order to choose from the options available?</p>		

# Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises

## 12.4 Small Venturing Business

<b>Value addition 12.4.1: Focus of the section</b>
<b>12.4 Small Venturing Business</b>
We now turn to Part II of this chapter. For our present purposes, we shall use the term Small Venturing business to imply small scale business, although the two are analytically different. We have already seen a number of small business all around us- in the form of grocery shops/ juice shops/ restaurants/ mobile shops... Let's start with the definition of small business and how they are different from large enterprises.

Small scale enterprises play a vital role in the industrial and economic development of India. They require *relatively* smaller investment. They are found in every sector of business- manufacturing, wholesaling, retailing and services. Small scale enterprises can be organized as Proprietorship, Hindu Undivided Family, Co-operative Society, Partnership, Undertaking or any other legal entity. While India faces severe problems of unemployment, limited entrepreneurship skills and mass poverty, small scale enterprises- being labour-intensive and capital-saving- have a great potential to deal with these problems.

**Figure 12.8 Small business generates employment**



Source: <http://images.google.co.in/imgres?imgurl=http://www.small-business-family-resources.co.uk/image-files/small-business-opportunities-ideas.gif&imgrefurl=http://www.small-business-family-resources.co.uk/smallbusinessopportunitiesideas.html&h=320&w=450&sz=21&h>



## **Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises**

### **Value addition 12.4.2: Did You Know?**

#### **A clarification regarding small business and small venturing business**

There is a tendency to use the term small scale enterprises interchangeably with small ventures. It is, however, necessary to distinguish between the two. Essentially, ventures are undertakings for a specific period of time that could be from short to medium term. In this sense, small venture would be different from a small business. The essential difference lies in the risky and venturesome nature of a small venture as against a stable and a going-concern concept of a business whose entity is held in perpetuity.

In this light, a new form of enterprise that is upcoming and growing is known as Venture Capitalist enterprise wherein a new idea is put forward by an entrepreneur and is backed by venture capitalist. This necessarily involves risk because of ideas being new and therefore such an enterprise is seen as a short/ medium term enterprise. Such entrepreneurs more often than not skip from one venture to the other. Thus there is no sense of continuity about the business.

The size limit for determining a small firm may be laid down using one or more of following criteria such as number of workers employed amount of capital invested and value of annual turnover. Different countries use different criteria to determine small scale units. In India, small scale enterprises are presently defined in terms of investment in plant and machinery. (However for giving fiscal concessions, it is the criteria of turnover that is used).

As per the provisions of **Micro, Small & Medium Enterprises Development (MSMED) Act, 2006** the Micro, Small and Medium Enterprises (MSME) are classified into two categories- manufacturing enterprises and service enterprises. The limit for investment in plant and machinery / equipment for manufacturing / service enterprises are as under:

## Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises

**Table 12.2 :Investment Limits for Micro, Small and Medium Enterprises**

Enterprise	Manufacturing Sector (Investment in plant & machinery)	Services Sector (Investment in equipments)
Micro Enterprises	Does not exceed twenty five lakhs rupees	Does not exceed ten lakhs rupees:
Small Enterprises	More than twenty five lakh rupees but does not exceed five crore rupees	More than ten lakh rupees but does not exceed two crore rupees
Medium Enterprises	More than five crore rupees but does not exceed ten crore rupees	More than two crore rupees but does not exceed five crore rupees

The terminology of '**small-scale enterprises**' include micro enterprises and small enterprises.

In 2007, Ministry of Agro and Rural Industries and Ministry of Small Scale Industries have been merged into a single Ministry, namely, "Ministry Of Micro, Small and Medium Enterprises (MSME)". The micro, small and medium enterprises are regarded as the engine of economic growth and promotion of equitable development. The major advantage of the sector is its employment potential at low capital cost.

## **Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises**


### **Value addition 12.4.4: Did You Know?**

#### **Earlier definitions of Small Scale Industries**

Since 1950, there have been changes in criteria from time to time to define small scale industries which can be traced as follows.

- In 1951, units employing less than 50 workers with power and less than 100 workers with power were categorized as small-scale industries. All small enterprises had capital investment of less than 5 lakhs.
- In 1966, small-scale enterprises were defined as units with investment in fixed assets in plant and machinery not exceeding Rs. 7.5 lakhs and incase of ancillary units Rs. 10 lakhs.
- This limit has been continuously raised. In 1975, it was raised to Rs.10 lakhs for Small Scale Units and Rs.15 lakhs for ancillary units. In 1980, these limits were increased to Rs.20 lakhs and Rs.25 lakhs respectively which further went up to Rs.35 lakhs and Rs.45 lakhs respectively in 1985.
- In 1991, the investment limit was further raised to Rs. 60 lakhs for small scale units and Rs. 75 lakhs for ancillary units. In addition a tiny sector was also defined to include units having investment limit of less than 5 lakhs (prior to 1991, the limit was Rs. 2 lakhs).
- In 1997, the investment limit for small scale and ancillary units was raised to Rs. 3 crores and that for tiny sector was also increased to Rs. 25 lakhs. In 1999, the ceiling on investment was lowered to Rs. 1 crore.
- In 2003, 674 items were reserved exclusively for production in small scale enterprises. For 610 of these items, total investment in plant and machinery was capped at Rs. 1 crore. For remaining 64 items, cap has been raised to Rs. 5 crores.

## Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises

<b>Value addition 12.4.5: Check Your Comprehension</b>		
<b>12.4 Small Venturing Business</b>		
<p>We hope you must have noticed the basis of distinction between micro, small and medium enterprises- investment. Also keep in mind that the term "small" is used in relative sense- that is a business is categorized as 'small' because it is small as compared to medium or large scale enterprise.</p> <p>Now you should be able to answer the following question. State the investment limit for each of the following enterprises:              Micro enterprise (Services sector)              Micro enterprise (Manufacturing Sector)              Small enterprise (Services sector)              Small enterprise (Manufacturing Sector)</p> <p>Hope you could answer these.</p>		
		
<p><b>Pick the option that best suits.</b> <b>This section...</b></p>		
<b>Completely understood</b>	<b>Partially Understood</b>	<b>Not understood</b>
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<b>Move on to next section</b>	<b>Move on to next section but note that ther is a need to revise this.</b>	<b>You need to re read this and discuss it with your friends.</b>

<b>Value addition 2.1.5: Test Yourself</b>
<b>12.4 Small venturing business</b>
<ol style="list-style-type: none"> <li>1. Define small scale enterprises.</li> <li>2. How are small enterprises distinguished from Micro enterprises?</li> <li>3. How are small enterprises distinguished from Medium enterprises?</li> <li>4. Are small enterprises really "small"?</li> </ol>



# Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises

## 12.5 Classification of Small Scale Enterprises

<b>Value addition 12.5.1: Focus of the section</b>
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<b>12.5 Classification of Small Scale Enterprises</b>
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After studying how small scale enterprises are defined, we next take up the classification of small scale enterprises. It is based on the input process (technology used) and kind of output (products).
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Depending on the technology they use and the type of products they produce, small-scale sector/ enterprises can be classified into **Traditional industries** and **Modern industries**.

Traditional industries are those that are based on traditional skills and techniques. They include handicrafts and village / household industries producing commodities that involve high degree of workmanship (such as wood/ ivory carving, carpet making etc) or common consumer goods produced by hand or simple tools (such as pottery, leather products, textiles etc). They are highly labour-intensive. However, most of these enterprises fail to provide a decent level of income to the workers. The prospects of growth of such enterprises are very limited. Most of the traditional industries are in the nature of **micro enterprises**.

**Figure 12.9 Traditional industries**



Source: <http://indianblogger.com/wp-content/uploads/2010/08/small-scale-industry-rural-india.jpg>

<http://www.bridgeandtunnelclub.com/bigmap/outoftown/india/rajasthan/salawas/pottery/index.htm>

Modern industries, on the other hand, make use of modern technology and produce goods of wide variety such as television sets, fans, repair works etc. They quite often act as ancillary units to large scale industries. They are capital-intensive. These enterprises are able to provide reasonable incomes to their workers. The modern industries can be micro enterprises as well as small enterprises.

## Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises

**Figure 12.10 Modern industries**

Tetra Pak's manufacturing unit at Takwe, Pune, in Maharashtra.



Grey Iron Castings and Metallic Patterns industry



Source: <http://www.tribuneindia.com/2005/20050908/biz3.jpg>  
<http://174.123.135.195/uploads/product/737.gif>

### Value addition 12.5.2: Check Your Comprehension

#### 12.5 Classification of Small Scale Enterprises

Are you thinking- small business doesn't seem to be a homogenous group? That's right. It includes enterprises that may cater to very small local limited market as well as those whose products travel miles and miles and are consumed by people of other countries. Also notice that most of the traditional industries have very small investment and are micro enterprises. However not all micro enterprises are traditional industries.

Now you should be able to answer the following question.

Classify the following small scale enterprises into traditional and modern.

T.V. factory  
Auto repairs

Carpet making  
Pottery

**Pick the option that best suits.**

**This section...**

Completely understood	Partially Understood	Not understood
↓	↓	↓
<b>Move on to next section</b>	<b>Move on to next section but note that there is a need to revise this.</b>	<b>You need to re read this and discuss it with your friends.</b>

### Value addition 12.5.3: Test Yourself

#### 12.5 Classification of Small Scale Enterprises

1. What are the different types of small scale enterprises?
2. How are traditional industries different from modern industries?

# Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises

## 12.6 Features of Small Business

<b>Value addition 12.6.1: Focus of the section</b>
<b>12.6 Features of Small Business</b>
We now turn to the features of small business. You must have guessed some of them by now. Since small business includes traditional as well as modern industries, their features cannot be laid down in uniform. You will notice the variation in each feature.

Let's now lay down important characteristic features of small business.

### *Management and organization*

The dominant type of ownership pattern is sole proprietorship with a small fraction operating as partnership and private limited companies. As a result, management and organization is personal.

### *Capital*

Small business includes enterprises whose capital requirements vary from very small amounts to large amounts. Still amount of capital required is less than that needed by large scale enterprises.

### *Technology*

Small businesses generally use simpler machine and implements as compared to large scale enterprises.

### *Area of operation*

These units generally cater to local markets. However the products of several small business firms are exported and earn valuable foreign exchange for the country.

<b>Value addition 12.6.2: Check Your Comprehension</b>		
<b>12.6 Features of Small Business</b>		
Hope you acknowledge the variation that exists in every feature of small business. Now you should be able to answer the following question. Pick up any three keywords that describe the features of small business.		
<b>Pick the option that best suits.</b>		
<b>This section...</b>		
<b>Completely understood</b>	<b>Partially Understood</b>	<b>Not understood</b>
↓	↓	↓
<b>Move on to next section</b>	<b>Move on to next section but note that you need to revise this.</b>	<b>You need to re read this and discuss it with your batch mates.</b>



# Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises

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<b>Value addition 12.6.3: Test Yourself</b>
<b>12.6 Features of Small Business</b>
1. List the features of a small business.

## 12.7 Role of Small Business

<b>Value addition 12.7.1: Focus of the section</b>
<b>12.7 Role of Small Business</b>
After studying what small enterprise are, what are their features, we now move on to their role. They play a very important role in our lives and our economy. This section talks about the important functions that small business performs.

The small-scale industries require smaller capital and have a huge potential for employment generation. The small-scale sector has grown rapidly over the years. The arguments in its favour can be summarized with the help of **Industrial Policy Resolution, 1956** which states-

“They provide immediate large scale employment; they offer a method of ensuring a more equitable distribution of national income and they facilitate an effective mobilization of resources of capital and skill which might otherwise remain unutilized. Some of the problems that unplanned urbanization tends to create will be avoided by establishment of small centres of industrial production all over the country”.

### *Contribution to national output*

The number of small-scale units has increased to over 13.37 million in the year 2007-08 from an estimated 0.87 million units in the year 1980-81. The small-scale sector contributes almost 40% of the gross industrial value added in the Indian economy. Over the past few years, the growth of small industries has led to an improved production of non-durable consumer goods of mass consumption. There has been an increase of 62.56% in output of small enterprises between 1991-92 to 2000-01. The growth rate of small scale industries has been higher than that of total industrial sector. For example, in 2005-6, total industrial sector growth rate was 8.1% whereas small SSI growth rate was 12.32%.

### *Employment generation*

The small scale sector is the most employment-generating segment. This sector employed 4 million people in 1973-74 which by 2007-08 has grown 32.23 million persons. This represents an average annual growth rate of 4.57 per cent in employment. Thus it is rightly called the segment which provides major employment next only to agriculture. The employment intensity of the segment (registered units) is 1 person for every 1.49 lakh of rupees invested in fixed assets, as against 1 person per Rs. 5.56 lakh in the large organized sector. And, the rate of growth of employment in this segment is well above that of the population of India (1.5 per cent) or, that in the large industries segment (0.85 per cent). These enterprises hence provide employment to the surplus amount of labor in the economy that is not



## **Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises**

being provided by the large and capital intensive sector. This, in turn, helps in scaling down the extent of unemployment as well as poverty.

**Figure 12.11 Art & craft in Tripura**



Source: [http://www.ignca.nic.in/images/cft1/big/btr\\_eco.jpg](http://www.ignca.nic.in/images/cft1/big/btr_eco.jpg)

### *Contribution to exports*

Small enterprises play a major role in India's export performance. Total exports of small sector products increased from Rs.155 crores in 1971-72 to Rs. 150242 crores in 2005-6 recording a growth rate of around 15% per annum. Small scale sector contributed 34% of the total Indian exports in 2002. It is non-traditional products that account for more than 95% of the exports from such industries.

### *Decentralization*

There is a need for regional dispersal of industries. Large industries tend to be concentrated in already industrialized areas and metropolitan cities. Industrialization of a country cannot be complete unless it reaches the smaller towns/ countryside. The small scale sector helps to solve the problem of congestion in few industrial towns. It also helps in improving standards of living in backward regions. Decentralization also allows tapping of local resources- raw materials, local talent and hoarded wealth- that otherwise may remain unutilized.

### *Better industrial relations*

Most of these enterprises are sole proprietorships or partnerships, relations between workers and employers are more harmonious in small enterprises.

### *Equitable income distribution*

The income generated in large enterprises encourages concentration of economic power while income generated in a large number of small enterprises is dispersed. Small enterprises help in bringing about equitable income distribution

### *Support to large enterprises*

Small scale units are complementary to large scale enterprises as they provide spare parts, sales services to big firms.

The above discussion clearly shows that the growth of small enterprises is not only a pre-requisite to improving our overall growth performance but these enterprises also have the solution to the problems of unemployment and poverty.

## Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises

<b>Value addition 12.7.2: Activity</b>
<b>Small business versus big business</b>
We have just discussed how small enterprises can be complementary to large industries. Can we say the 'big fish eats the small fish' in this context?
Hint: The relationship between small and big industries depends on the kind of products they are producing. An ancillary unit will be complementary to the bigger business it is catering to. However, if both small and big enterprises are producing similar products, there would be competition between the two. The big enterprise, by way of being able to spend more on advertising, will put the small unit at a disadvantage.

<b>Value addition 12.7.3: Check Your Comprehension</b>		
<b>12.7 Role of Small Business</b>		
That was an eye- opener, indeed! Small enterprises are very much desirable as well as absolutely inevitable.		
Now you should be able to answer the following question.		
1. What is the central idea of this section? (Word limit: 15 words)		
<b>Pick the option that best suits.</b>		
<b>This section...</b>		
<b>Completely understood</b>	<b>Partially Understood</b>	<b>Not understood</b>
↓	↓	↓
<b>Move on to next section</b>	<b>Move on to next section but note that there is a need to revise this.</b>	<b>You need to re read this and discuss it with your friends.</b>

<b>Value addition 12.7.4: Test Yourself</b>
<b>12.7 Role of Small Business</b>
1. What is the contribution of small scale business to Indian economy?

# **Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises**

## **12.8 Problems faced by small scale enterprises**

<b>Value addition 12.8.1: Focus of the section</b>
--

<b>12.8 Problems faced by small scale enterprises</b>
---

Although small enterprises are very vital to our country, they face a lot of handicaps because of their small size. Can you guess any one? This section deals with the problems that confront small business.
---

Small business firms face a large number of problems in comparison with larger units. These can be discussed as follows:

### *Problem of funds*

Finance is said to be the lifeblood of business. Small enterprises face a chronic shortage of finance both for fixed and working capital requirements. Banks and financial institutions are reluctant to give loans to small units. Also they cannot raise funds from public as most of them are proprietorships, partnerships or private limited companies.

### *Shortage of raw materials*

Small firms are in a disadvantageous position since they have limited means to buy in bulk. The cost of purchase becomes higher and they do not get much credit facilities from suppliers.

### *Technique of production*

Many small firms employ only traditional and outmoded methods of production as they cannot afford new machinery and equipment necessary for modernizing manufacturing activities. It adversely affects cost of production and also competitive strength.

### *Problem of marketing*

Small firms also face the handicap of marketing their products. Due to limited resources, it is not possible for them to undertake rigorous advertising / sales promotion measures.

### *Problem of management*

Most of small scale units are managed by owners who often lack managerial ability. The problem gets aggravated when growth of firm is desired because there is a shortage of managerial personnel with enough knowledge and skill and who are willing to work for small scale units.


### *Lack of infrastructure*

Many a time small scale units are not able to utilize their full capacity because of power shortage. They cannot afford to have their own generating sets so that

## Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises

production process can be continued uninterrupted. Also these firms face infrastructural bottlenecks of transport, communication etc.

Besides the above-mentioned problems, small business units also suffer from problems like competition from large scale industry, imperfect knowledge of market conditions, lack of quality consciousness etc.

<b>Value addition 12.8.2: Check Your Comprehension</b>		
<b>12.8 Problems faced by small scale enterprises</b>		
Now you should be able to answer following questions.		
1. Pick up one keyword that did not appear in this section.		
<i>Shortage of raw materials</i> <i>Technique of production</i> <i>Problem of funds</i> <i>tax problems</i> <i>competition from large scale industry</i>		
2 Complete the following sentence such that it highlights problems faced by small enterprises.		
The small size may not allow entrepreneur to procure more funds, ..... .		
<i>Make sure you are reading carefully!</i>		
		
<b>Pick the option that best suits.</b>		
<b>This section...</b>		
<b>Completely understood</b>	<b>Partially Understood</b>	<b>Not understood</b>
↓	↓	↓
<b>Move on to next section</b>	<b>Move on to next section but note that there is a need to revise this.</b>	<b>You need to re read this and discuss it with your friends.</b>

<b>Value addition 12.8.3: Test Yourself</b>
<b>12.8 Problems faced by small scale enterprises</b>
1. What are the problems faced by small business in India?



# **Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises**

## **12.9 Government Policy towards Small Business**

<b>Value addition 12.9.1: Focus of the section</b>
--

<b>12.9 Government Policy towards small business</b>
--

Since small business is so important and they face so many problems, the next logical thing to discuss is how these problems are being addressed. This section deals with how government has been trying to remove the handicaps that a small business faces. The objective is to assist small business to function effectively and create environment for them to grow.
--

The evolution of policy framework of government can be broadly grouped under following three periods:

### *1948-1991*

During this period, much attention and recognition was given to micro and small enterprises. Micro, Small and Medium Enterprises Development Organization (earlier known as a Small Industries Development Organization- SIDO) was set up in 1954 as an apex body for growth of small enterprises. National Small Industries Corporation (NSIC), Khadi and Village Industries Commission and the Coir Board were also set up. The support measures included reservation of items for exclusive manufacture, access to bank credit on priority through Priority Sector Lending programme of commercial banks, excise exemptions, reservation under government Purchase Programme. Small Industries Service Institution- SISI (now MSME-Development Institution) was set up to provide training to youth and tool rooms were established to provide technical services. District Industries centres were also set up at state-level.

### *1991-1999*

The new policy for Small, Tiny and Village Enterprises of August 1991 replaced protection with competitiveness. Supportive measures were taken to improve infrastructure, technology and quality and testing centres were set up for quality certification. Small Industries Development Bank of India (SIDBI) and a new Technology Development and Modernization Fund were created to accelerate finance and technical services. Industrial Infrastructure Development (IID) scheme was launched to set mini industrial estates for small industries. While the small scale sector were mainly entitled to one-time benefits (like preference in land-holdings/ power connection, access to facilities for skill/ technological upgradation), the tiny enterprises were eligible for additional support on a continuing basis

### *1999 onwards*

The ministry of MSME (earlier known as Ministry of Small Scale Industries and Agro & Rural Industries) came into being in 1999 and new policy package was announced

## **Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises**

in the year 2000. In 2006, MSME Act was passed which provided first-ever legal framework for recognition of enterprises which recognized both manufacturing and service entities and defined Medium Enterprises for the first time. In 2007, a third package for promotion of MSE was announced keeping in view the fast changing economy where competition is the key of success.

### *1. Facilitating Credit flow:*

Credit is one of the critical inputs for promotion of micro and small enterprises (MSE). Emphasis has now shifted from providing subsidized/ cheap credit to ensuring both adequate flow of credit on a normative basis, and the quality of its delivery. Following measures have been taken in this regard.

SIDBI is the principal financial institution for promotion, financing and development of MSE sector.

For public and private sector banks, 40% of net bank credit is earmarked for Priority sector.

New sources of finance have emerged such as venture capital, private equity, factoring services, external commercial borrowings.

Credit Guarantee Scheme was launched in 2000. It covers collateral free credit facility for eligible loans.

Exemption limit for relief from payment of central excise duty has been raised to Rs. 1 crore.

There has been removal of restriction of 24% ceiling for equity holding by individual undertakings- whether domestic/ foreign. There is an expected legislation on Limited liability Partnership for greater corporatization of small and medium enterprises.

### *2. Assistance for modernization, technological and quality up-gradation*

To overcome problems of low grade technology and shortage of skilled personnel, technical assistance is provided in order to improve productivity and efficiency and many Tool rooms and Training centres have been set by the government. MSE Cluster Development Programme has been implemented for holistic development of clusters of MSEs. Also Credit Linked Capital Subsidy scheme has been started that aims at assisting individual MSE to replace their existing machinery with modern ones.

**Figure 12.12 Prime Minister giving MSME awards**



Source: [http://www.google.com/imgres?imgurl=http://img.tradeindia.com/cmsmedia/47/19/v.0/manmohan-singh-msme-awards.jpg&imgrefurl=http://smetimes.tradeindia.com/smetimes/news/top-stories/2008/Sep/01/awards-motivate-us-to-work-harder-msmes.html&usq=\\_3wC9xV\\_6g-](http://www.google.com/imgres?imgurl=http://img.tradeindia.com/cmsmedia/47/19/v.0/manmohan-singh-msme-awards.jpg&imgrefurl=http://smetimes.tradeindia.com/smetimes/news/top-stories/2008/Sep/01/awards-motivate-us-to-work-harder-msmes.html&usq=_3wC9xV_6g-)

# Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises

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### 3. Infrastructural facilities

IIDS was launched to set up industrial estates and to develop infrastructural facilities such as power distribution network, water, telecommunications, roads, banks, raw materials and pollution control facilities.

### 4. Entrepreneurship and Skill development training

Government provides support to entrepreneurs through training programmes by MSME- Development Institutes, Regional Testing Centres and Tool rooms.

### 5. Marketing Support

Under government Stores Purchase Programme, facilities are provided to enterprises registered with NSIC such as price preference upto 15% over quotation of large scale units and reservation of 358 items for exclusive purchase from MSE sector. Also domestic fairs and exhibitions are organized to facilitate marketing of their products.

Figure 12.13 Trade Fair held in Mumbai



Source:

[http://3.bp.blogspot.com/\\_tKeJ8l8RysY/S9lV4kIQ7JI/AAAAAAAAAB4/kqoARjFOMqk/s320/msme.jpg](http://3.bp.blogspot.com/_tKeJ8l8RysY/S9lV4kIQ7JI/AAAAAAAAAB4/kqoARjFOMqk/s320/msme.jpg)

### 6. Export Promotion

In order to strengthen the performance of MSEs on export front, assistance is provided to MSE sector for participation in overseas fairs, exhibitions. Also exporters are acquainted with latest packaging standards and techniques.

### 7. Protection from competition from large-scale industries

Reservation provides support to small sector against competition from medium/large/ multinational companies. As on March, 2007, 114 items are reserved for exclusive manufacture in the small scale sector. Large/Medium units can, however, manufacture such reserved items provided they undertake to export 50% or more of their production. It is only **manufacturing** of items that comes under purview of reservation, hence trading in these items is permitted and is not a violation of the reservation policy.



## Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises

<b>Value addition 12.9.2: Did You Know?</b>
<b>List of Items Reserved for Small sector</b>
<p>As on 10 October 2008, following items are reserved for exclusive manufacture by micro and small enterprise sector:</p> <ul style="list-style-type: none"> <li>• <b>Food and Allied Industries:</b> Pickles &amp; Chutneys, Bread, Mustard Oil (except solvent extracted), Ground nut oil (except solvent extracted).</li> <li>• <b>Wood and Wood Products:</b> Wooden furniture and fixtures</li> <li>• <b>Paper Products:</b> Exercise books and registers</li> <li>• <b>Injection Moulding Thermo Plastic Product:</b> PVC Pipes, including conduits upto 110 mm dia, Fittings for PVC pipes</li> <li>• <b>Other Chemicals &amp; Chemical Products:</b> Wax candles, Laundry soap, Safety matches, Fire works, Agarbatties</li> <li>• <b>Glass &amp; Ceramics:</b> Glass Bangles</li> <li>• <b>Mechanical Engg. Excluding Transport Equipment:</b> Steel almirah, Rolling shutters, Steel chairs – all types, Steel tables – all other types, Steel furniture – all other types, Padlocks, Stainless steel utensils, Domestic utensils - Aluminium</li> </ul>
<p><b>Source:</b> <a href="http://www.iloveindia.com/finance/doing-business-in-india/small-scale-industries.html">http://www.iloveindia.com/finance/doing-business-in-india/small-scale-industries.html</a></p>

Also, government seeks to encourage creation of new enterprises through Prime Minister's Employment Generation Programme (PMEGP), promotes Cluster based approach. All the policies aim at **improving competitiveness of MSMEs, supporting existing enterprises and encouraging creation of new entities.**

<b>Value addition 12.9.3: Check Your Comprehension</b>		
<b>12.9 Government Policy towards small business</b>		
<p>These are the steps that government has taken to help, support and promote small scale enterprises. Now you should be able to answer the following question. 1. Pick up any five keywords that describe govt. policy towards small enterprises.</p>		
<b>Pick the option that best suits.</b>		
<b>This section...</b>		
<b>Completely understood</b>	<b>Partially Understood</b>	<b>Not understood</b>
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## Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises

Move on to next section	Move on to next section but note that you need to revise this.	You need to re read this and discuss it with your batch mates.
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<b>Value addition 12.9.4: Test Yourself</b>
<b>12.9 Government Policy towards small business</b>
<p>1. What is the need for government policy towards small business in India? <b>Hint: The answer to "Need for government policy" should convey the importance of small business and because of problems faced by them, govt. needs to support them.</b></p> <p>2. Critically examine the recent policy measures taken by government in this regard.</p>

<b>Value addition 12.9.5: Keywords</b>																																		
<b>Summary</b>																																		
<table> <tr> <td><a href="#">Sole Proprietorship</a></td> <td><a href="#">Partnership</a></td> </tr> <tr> <td><a href="#">Joint Hindu Family Business</a></td> <td><a href="#">Private Limited Company</a></td> </tr> <tr> <td><a href="#">Public Limited Company</a></td> <td><a href="#">Co-operatives</a></td> </tr> <tr> <td><a href="#">Unincorporated enterprises</a></td> <td><a href="#">Incorporated enterprises</a></td> </tr> <tr> <td><a href="#">extended version of sole proprietorship</a></td> <td><a href="#">Extended version of</a></td> </tr> <tr> <td><a href="#">partnership</a></td> <td></td> </tr> <tr> <td><a href="#">Desirable characteristics of business form</a></td> <td><a href="#">Volume of business</a></td> </tr> <tr> <td><a href="#">Willingness to take up personal liability</a></td> <td><a href="#">Suitability of business forms</a></td> </tr> <tr> <td><a href="#">Expansion of business</a></td> <td><a href="#">Choices for</a></td> </tr> <tr> <td><a href="#">expansion of sole trader</a></td> <td></td> </tr> <tr> <td><a href="#">Choices for expansion of partnership firm</a></td> <td><a href="#">Choices for expansion of</a></td> </tr> <tr> <td><a href="#">Private co.</a></td> <td></td> </tr> <tr> <td><a href="#">Relatively smaller investment</a></td> <td><a href="#">MSMED Act</a></td> </tr> <tr> <td></td> <td></td> </tr> <tr> <td><a href="#">Vital role in the economy</a></td> <td><a href="#">Difficulties faced by small</a></td> </tr> <tr> <td><a href="#">units</a></td> <td></td> </tr> <tr> <td><a href="#">Package for promotion of Small units</a></td> <td></td> </tr> </table>	<a href="#">Sole Proprietorship</a>	<a href="#">Partnership</a>	<a href="#">Joint Hindu Family Business</a>	<a href="#">Private Limited Company</a>	<a href="#">Public Limited Company</a>	<a href="#">Co-operatives</a>	<a href="#">Unincorporated enterprises</a>	<a href="#">Incorporated enterprises</a>	<a href="#">extended version of sole proprietorship</a>	<a href="#">Extended version of</a>	<a href="#">partnership</a>		<a href="#">Desirable characteristics of business form</a>	<a href="#">Volume of business</a>	<a href="#">Willingness to take up personal liability</a>	<a href="#">Suitability of business forms</a>	<a href="#">Expansion of business</a>	<a href="#">Choices for</a>	<a href="#">expansion of sole trader</a>		<a href="#">Choices for expansion of partnership firm</a>	<a href="#">Choices for expansion of</a>	<a href="#">Private co.</a>		<a href="#">Relatively smaller investment</a>	<a href="#">MSMED Act</a>			<a href="#">Vital role in the economy</a>	<a href="#">Difficulties faced by small</a>	<a href="#">units</a>		<a href="#">Package for promotion of Small units</a>	
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## **Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises**

### **Summary**

- An entrepreneur should evaluate various aspects when choosing to form a business enterprise. An informed choice enables flexibility in raising capital, address investors' tax needs, and provide liability protection.
- Scale of operations and size of the market area served are the key determinants. Large scale enterprises are better organized than private or public companies. Small and medium scale firms can be set up as partnerships and proprietorship.
- Choosing a form of business ownership is a decision which can not be altered with the change in circumstances. Therefore the entrepreneur needs to pick up the form of business which is right for his circumstances, and the decision can be reviewed as the business expands.
- Because of its less capital intensive and high labour absorption nature, small scale industries sector has made significant contributions to employment generation and overall growth of output.
- A number of protective and promotional measures have been undertaken by the Government to protect, support and promote small enterprises to help them become self-dependent.



# **Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises**

## **Exercises**

### **Short Questions**

- 12.1 What factors need to be considered while choosing a particular business form?
- 12.2 What choices are available to a sole proprietor when he wishes to expand his business? How would he decide which option to go for?
- 12.3 What choices are available and what considerations should a partnership firm keep in mind in order to expand its business?
- 12.4 What choices are available to private limited concern at the time of planning for expansion of its business? What considerations should it keep in mind in order to choose from the options available?
- 12.5 What are the different types of small scale enterprises?
- 12.6 Define small scale enterprises. What are their essential features?
- 12.7 Describe the role of small scale units in the Indian economy.
- 12.8 What problems are faced by small business?
- 12.9 Discuss the government policy towards such units.

### **Long Questions**

- 12.10 Which form of business organization is "ideal"? Support your answer with arguments.
- 12.11 Discuss the factors that should be kept in mind while expanding the business whose current form of ownership is
  - a. Partnership firm
  - b. Private Company.
- 12.12 What problems are faced by small industries. Discuss how government policy has helped in supporting such units.

<b>Value addition 12.9.6: Past University Questions</b>
<b>Chapter 12 Administrative Function</b>
2005 Q3a. Discuss briefly the various considerations while selecting a suitable form of business ownership. (5marks)
2005 (correspondence) Q3 a. How is small business defined in our country? Discus its significance and point out various problems it faces in our country. (10 marks)
2007 Q3.a. What is the need for government policy towards small business in India? Critically examine the recent policy measures taken by government in this regard. (6 marks) ( <i>Hint:</i> The answer to "Need for government policy" should convey the importance of small business and because of problems faced by them, govt. needs to support them.)
2008 Q2 (a) Discuss the importance of small business in India and point out various problems faced by it. (4+4= 8 marks)

# **Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises**

## **Glossary**

**Ancillary unit:** Ancillary industries are those which manufacture parts and components which are used by larger industries.

**Flow through taxation:** A flow-through entity (FTE) is a legal entity where income "flows through" to investors or owners such that the income of the entity is treated as the income of the investors or owners. A common type of FTE is partnership.

**Priority sector:** Includes agriculture (Direct and Indirect finance), small Scale Industries whose investment in plant and machinery (original cost) excluding land and building does not exceed the amounts specified, small business/ service enterprises, Micro Credit, Education loans

**SIDO:** Small Industries Development Organisation: The apex coordinating body of the government for small business. It has been renamed as Micro, Small and Medium Enterprises Development Organization in 1999.

**NIESBUD:** National Institute for Entrepreneurship and Small Business Development Institute, which provides training for entrepreneurs

**NSIC:** National Small Industries Corporation helps in marketing and procurement of machinery on hire purchase basis

**SISIs:** Small Industries Service Institutes: Provides technical training to entrepreneurs





# **Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises**

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### **2. Suggested Readings**

Gupta, C.B., "Modern Business Organisation", Mayur Paper Backs, New Delhi.  
Lele, R.K. and J.P. Mahajan, "Business Organisation", Pitamber Publishing, New Delhi.  
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### **3. Web Links**

[http://en.wikipedia.org/wiki/Limited\\_liability\\_partnership](http://en.wikipedia.org/wiki/Limited_liability_partnership)  
<http://www.llp.gov.in/>  
[http://en.wikipedia.org/wiki/Limited\\_liability\\_company](http://en.wikipedia.org/wiki/Limited_liability_company)

## Administrative Function: Choice of a Suitable Form of Business Ownership and Small Venturing Enterprises

In other words, Table 2 below gives a comparative picture of the main features differentiating a producer company from a conventional producer's cooperative

Table 2: Cooperative and Producer Company - Key Differentiators		
Features	Producer Cooperative	Producer Company
Registration	Cooperative Societies Act	Companies Act
Membership	Open only to individuals and cooperatives	Only those who participate in the activity
Relationship with other corporates/ business houses /NGOs	Transaction based	Producers and corporate entity can together float a producer company
Shares	Not tradable	Not tradable but transferable
Voting Rights	One person, one vote, but Government and RCS holds veto powers	One person one vote. Those not having transactions with company can't vote
Reserves	Created if there are profits	Mandatory to create every year
Role of Registering authority	Significant	Minimal
Administrative control	Overbearing	None
Borrowing Power	Restricted	More freedom and alternatives
Dispute Settlement	Through Cooperative mechanism	By Arbitration

The United States of America, New Zealand and Denmark have provisions for cooperatives and producer enterprises to register and operate under the same laws as govern companies. While at the back end, these are producer owned enterprises, at the front end, they look and function like any other corporate enterprise.

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