Dr. MPS MEMORIAL COLLEGE OF BUSINESS STUDIES, AGRA

BBA 1ST SEMESTER

BUSINESS ORGANIZATION (BBA 101)

UNIT – I

SYLLABUS:- Concept, Nature and Scope of business, Concept of Business as a System, Business and Environment Interface, Classification of Business Activities.

Forms of Ownership: Sole Proprietorship, Joint Hindu Family Firm, Partnership Firm, Joint Stock Company, Co-Operative Organization, **Types of Companies:** Organs of the Company, Company Meetings and Resolutions, Choice of form of Organization, Stages of Formulation & Establishment of a Firm.

What Is a Business?

The term business refers to an organization or enterprising entity engaged in commercial, industrial, or professional activities. Businesses can be for-profit entities or they can be non-profit organizations that operate to fulfill a charitable mission or further a social cause. Businesses range in scale from sole proprietorships to international corporations and can range in size from small to large.

The term business can also be used to define the efforts and activities of individuals to produce and sell goods and services for profit.

Business concept

A company's business concept is about the direction and form of its operations. If it is apparent to you that the company's success lies in its intangible assets, think carefully about protecting them at an early stage.

A business concept is a fundamental prerequisite for the existence of a company. It does not have to be unique in order for the company to be successful. Through franchising, for example, you can use an existing business concept and establish it in a new market.

External business concept

Customers: Who is your company aimed at? What needs does this group have which this company can satisfy?

Product, goods or service: What will the company sell? How does the product meet the customer's needs?

Internal business concept

Method: How will the company be organized? What processes will be established, e.g. in order to manage intangible assets?

Competition: In what way will the company assert itself with respect to competitors in the same industry, or associated industries? How will the company's intangible assets be safeguarded with

Nature and Scope of Business

Most people think that the scope and nature of the business are very wide. It covers almost all activities associated with the production and distribution of goods and services from a source (the production place) to the destination (consumers) and aims to earn the profit.

Scope of a Business

There are two types of business activities or Business Components. These components actually define the scope of a business to us. Let's enlighten the scope of a business organization with the help of these components.

Role of Business Components in the Scope of Business Organization

Following business components play an important role in the scope of business:

Industry

The word "Industry" refers to the business activities which are linked with the extraction and production or manufacturing of products. The product formed by an industry is either used by the vital consumers or again by the industry. If the product is used by the consumer it is called consumers' goods such as clothes.

If the product is used again by the industry it is called the producer's goods or capital goods. In a case when a product produced by the industry is further processed into finished products for other purposes they are called intermediate goods. e.g. plastic.

The industry is further divided into types on the basis of business activity:

Extractive Industries

The industries which extract, raise and manufacture raw materials from above or under the Earth's surface are known as Extractive Industries and they include mining, fisheries, forestry and agriculture, etc.

Genetic Industries

The industries which are involved in reproducing and multiplying certain species of animals and plants and sell them in the market to earn a profit are named as Genetic Industries. These industries include cattle breeding farms, poultry farms and plant market, etc.

Constructive Industries

The industries which are involved in the construction of building, canals, bridges, dams and roads, etc. are called Constructive Industries.

Service Industries

The industries which are involved in manufacturing the intangible goods which cannot be seen but felt such as services of professionals like doctors, lawyers are examples of Service Industries.

Commerce

The second component of the scope of business is Commerce. It involves the buying and selling of goods and all the activities which are associated with the transfer of goods from the production source to the ultimate consumers or destination. The ranges of activities related to Commerce take place through:

Trade

The process of buying and selling goods is called Trade. It is the process of exchanging goods and services amongst the buyers and sellers and both of them earn profits. Trade can be classified into two types; internal and external.

Internal Trade: The process of buying and selling goods within a country is called internal trade. The internal trade can be either wholesale trade or retail trade.

Wholesale Trade: In wholesale trade, the goods are purchased in bulk from the producers and sell them to the retailers. These retailers then sell these goods to the final consumers.

Retail Trade: In the retail trade, the retailer sells goods and services to the final consumers.

External Trade: The process of buying and selling goods between the two countries is called external trade. The external trade has two types; import trade and export trade.

The elements which help in the purchasing of goods and services are called aid to trade. There are certain constituents that are essential for the progress of the trade and are as follows:

Transport

By using different ways of transport, the goods are transported from industry to the consumers. It includes railways, ships, airlines, etc.

Insurance

Insurance is very important to aid to trade. Insurance reduces the risk of damage to goods due to fire, flood or earthquake, etc. by paying a good amount in this regard.

Warehousing

Warehouses are used to keep the goods and are released and are delivered to the market when demanded. Thus, warehousing plays an important part to overcome the barrier of time and helps the goods reach the consumers in a short span of time.

Banking

Commercial banks play an important role in financing trade activities. They provide funds to the traders for stock holding and transporting the goods. They also support the producers in purchasing and receiving at both national and international levels. The banks also offer credit facility in the form of cash credit, overdrafts and loans to the traders.

Advertisements

Advertisements play an important part in selling the good to the consumers. The advertisement is either shown on television or printed in newspaper or magazines etc. and help the consumers to choose their desired product. Thus, advertisements are very important for the seller as well.

What is a business system?

A business system is a group of interdependent elements or tasks that meet a business objective. You should document every step for each business process or activity.

Business activities consistently produce results. Strategizing how you complete these tasks can help streamline daily operations. Business activities may include:

- Lead generation
- Prospect conversion
- Invoicing
- Accounting
- Bookkeeping

- Marketing
- Sales
- Operations
- Order fulfillment
- HR
- Training
- Payroll

Business systems connect an organization's departments, steps, and strategies, turning your internal operations into a well-oiled machine. With a cohesive system, all parts of your company work together to achieve your overall business strategy.

Ultimately, business owners who create and maintain business systems can scale their businesses without daily input or check-ins.

Why Implement a Business System?

There are several reasons to implement a business system.

Improving Top-Line Performance: Part of the business system is the development and implementation of strategy creation, business processes and strategic planning throughout your organization. Those foundational elements lead to a much more insightful way to investigate and grow top-line revenue. In short, a business system takes care of your future. It ensures you meet your customers' expectations and improve your brand, which are key to growing a healthy business.

If you use a systematic approach, your organization will have constant information on areas that need to be improved and you will begin to understand the unmet needs of customers.

Meeting Customer's Expectations: If you use a systematic approach, your organization will analyze, measure, compare and test all the possibilities of what your customers want and don't want. You will have constant information on areas that need to be improved and, even more importantly, you will begin to understand the unmet needs of customers. A business system is key to improving the brand that the organization projects to your community, including customers, employees and suppliers.

Consistent Results: Whether we are considering safety, quality or getting the job done in a timely manner, a business system is designed to give you effective, efficient and repeatable results. In short, the business system gives you a "process to fix your processes."

Employee Engagement: The goal of the system is to enable proper education and opportunities to all employees so they can complete their work more efficiently and effectively. We also seek to harness their ideas and creativity and, in the process, increase their personal engagement. Additionally, having the system in place allows you to quickly integrate new-hires, and makes it easy for them to see their role within the organization and bring forth new ideas.

Reduce Cost and Increase Profits: It has been proven time and again that the implementation of a sound business system helps reduce costs, but so will many things. A business system is intended to reduce costs without taking the shortcuts that often lead to an erosion of profitability due to the necessity to lower quality expectations or service levels.

The benefits of business systems

Running a business is time-consuming. Business systems can provide a plethora of benefits for business owners looking to scale their efforts, free up valuable time, and produce real results. Systematizing your daily operations can yield five benefits.

1. Greater freedom

Many business owners are their company's Chief Doer, but they never relinquish that role. Gerber says holding on to that control can be a fatal mistake for an organization looking to grow. Business owners must be willing to hand over the reins to their team members. Systems are the framework through which business owners can delegate tasks.

Strategizing and implementing the appropriate business systems can help you scale your business and free up time to work on your business. Use the "working on versus working in" theory to devote your time and energy to activities that can help your business grow. Don't just focus on the daily operations that merely sustain current success.

Systematizing your business means spending more time growing it and less time running it. Are you going on vacation? Enjoy your break, knowing work will get done. Do you want to focus your efforts on acquiring new skills essential for building your organization? Business systems will help your team complete their initiatives while you're out. Streamlined procedures can provide much-needed peace of mind when you're not there to do things yourself.

2. Better delegation

96% of business owners are reluctant to delegate, according to a QuickBooks Live Business survey. Gerber says the failure to delegate can make it impossible to grow your business. Gerber indicates that nothing is off-limits when it comes to delegating a business owner's responsibilities.

"Business owners should give everything up," Gerber says. "And when they give everything up, they begin to understand what they shouldn't give up. So until they give up everything, they will never understand what they shouldn't give up."

However, Gerber explains, business owners shouldn't give up responsibilities without developing systems that produce results. Gerber uses Ray Kroc as an example. Kroc joined McDonald's in 1954. And his efforts transformed McDonald's into a global multibillion-dollar corporation.

"[Kroc] delegated the management work, and he delegated the leadership work," Gerber explains. "And each of those plateaus of work is a different form of work. And every one of those forms of work was a system that effectively worked again and again and again. He could depend upon them to work in the hands of people who were authoritatively transformed by using the system that worked."

The above illustrates how business systems streamline delegation. Workers can memorize and apply a dedicated system for a given business process, ensuring they do the job correctly. Furthermore, you can create these systems for virtually every facet of your business and turn new hires into capable team members.

3. Improved consistency

The right business systems can ensure your team produces the best results every time, with or without your involvement. Creating systems with detailed, sequential steps can help your employees follow appropriate procedures and produce the same caliber of product or service. Process improvements can enhance customer experience, streamline product development, and marry previously parts of your business.

4. Added value

Do you plan to scale your business and sell it down the line? A streamlined business may have a competitive advantage when it comes time to sell. Your organization may be more valuable if you can show how your business systems provide tangible value.

Buyers will be looking for robust systems that show the business will flourish after you depart. Systematizing your procedures today can pay dividends in the future. Channeling your business processes into cohesive systems can help it grow and endure.

5. Focused talent

Build business systems on delegation. Matching the right tasks to the right individuals in your organization allows your staff to focus on what they do best. Assign team members with specific knowledge and skills to tasks that suit them best. And delegate the right responsibilities to new hires from day one. Matching tasks can lead to process improvements that enhance efficiency and turn your organization into a well-oiled machine.

The Interface between Business and Various Types of Business Environment

Both the environment and business are interrelated and interdependent on each other for its survival and growth. Both cannot- exist without each other. Business to run successfully has to adjust with the changing environment.

Business Environment

Both business and environment are closely related concepts.

The interface between business and various types of environment can be briefly explained with the following points:

1. Business and Demographic Environment:

Demography is the study of human population with reference to their age, gender, status, occupation, income, education etc. The demographic environment differs from country to country and has significant implications on business.

On the other hand business firm also affect the demographic pattern of a country. Due to diversified demographic environment, a business is compelled to adopt different functional and marketing strategies.

For example:

Business undertakes various social welfare programmes like health camps, awareness, and literacy programmes etc. In the same way rise in the income level of consumers helps in rise in demand for products.

The business undertakes research activities to turn the potential customers into final customers with reference to their age, gender, income, status, qualification etc. for undertaking production, marketing and promotional activities. The business firm has to adjust with the changing demographic pattern of the country.

2. Business and Economic Environment:

The economic environment of a country comprises of the structure of the economy, economic resources, level of income, economic policies etc. Any change in the economic policy can have a positive or negative impact on the working of the business.

Business organization has to consider the various economies prevailing in the country like import policy, industrial policy, taxation policy etc. which can have a great impact on the business.

Economic policies like liberalization, privatization, and globalization had a considerable impact on the business-.

Changes in the economic policy ultimately affect the business. For example: change in the income structure of the consumers will ultimately affect their purchasing power and sale of the organization.

Increase in the income well result into growth of organizational sale and vice versa. Favorable economic environment helps in rise in the national income and increase in the standard of living.

Favorable economic environment also facilitates increase in foreign direct investment and growth of industrial sector resulting into growth of economy as a whole.

The business should study the economic environment to understand the market conditions, international events, to analyze investment policies, competitor's policies, economic policies of government etc.

3. Business and Technological Environment:

Technology refers to the set of process in an organization to transform raw material of resources into finished goods and services. Technology includes tools- both machine (hard technology) and way of thinking (soft technology).

It includes not only the knowledge and method but also the entrepreneurial expertise that enhances the competitiveness of a nation. Technology can greatly influence business decisions. It helps in minimizing cost, reducing wastage and brings higher efficiency in the production process. Information technology has brought about revolutionary changes in the world of business environment.

On the other hand business is responsible for technological up gradation as a huge amount is spent on Research and Development to introduce new products and concepts in the business. This technological revolution became a compelling reason for inter-nationalization and Globalization. Quick adoption of latest technology will help the business to gain competitive advantage and facilitates overall industrial efficiency.

4. Business and Natural Environment:

Both natural environment and business are closely related and have influence over each other. Natural environment is also termed as physical environment Business depends on the nature for supply of resources like raw material, water etc.

The business has to adjust with the environment to ensure its survival. Ecological factors have recently assumed great importance. The excessive use of these resources, environmental pollution and the disturbance of ecological balance has caused great concern. One cannot take the environment granted.

The business should give due consideration for the conservation of natural resources. Similarly geographical factors affect the location of industries. Availability of natural resources is the fundamental factor in the development of industries.

Weather and climatic conditions affect the demand pattern. Manufacturing the most important aspect of business depends upon physical environment. Thus natural environment has a great influence on the economic activities. Similarly environment is also depended upon the business. Business should produce pollution free products and service to keep the environment pollution free and maintain the ecological balance.

5. Business and Cultural Environment:

Culture refers to values, attitude, belief, morals, customs and traditions. Culture is a critical component of business environment. Proper understanding of cultural dimension is very important for product development, promotion, human resource management etc.

Business and culture are closely associated with each other. Culture is the powerful element to shape the business. The business should come up with various cultural events, thereby promoting and preserving the rich culture of a country.

Business should be well versed with the culture, language, traditions shared by different community to meet their wants. Understanding of culture is very essential in the formulation of business strategies. As culture influence business activities, business also should influence our culture by promoting festivals and cultural events in the country.

Classification of Business Activities: Industry and Commerce

Business activities may broadly be classified into two categories namely (A) Industry and (B) Commerce. Industry involves production of goods and services whereas commerce is concerned with the distribution of goods and services.

Classification of Business Activity

1. Industry:

Industry is concerned with the making or manufacturing of goods. It is that constituent of production which is involved in changing the form of goods at any stage from raw material to the finished product, e.g., weaving woolen yarn into cloth. Thus, industry imparts ‘form utility’ to goods.

The goods produced may either be used by other enterprises as raw materials for further production, they are known as “producers goods”. The production of plant, machinery equipment etc. are, examples of producers’ goods. When goods are finally used by consumers they are known as consumers’ goods. The examples of such goods are cloth, bread, groceries, drugs, etc.

An enterprise may produce materials which will further be processed by yet another concern for converting them into finished goods. These goods are known as intermediate goods. The examples of this category are—plastics, rubber, aluminum, etc.

Classification of industries:

Industries may be classified as to the types of goods produced, scale of investment and type of technology employed.

I. On the basis of type of goods produced:

The industries may be studied on the basis of the type of goods produced as follows:

(i) Primary and Genetic Industry:

Genetic industry is related to the re-producing and multiplying of certain species of animals and plants with the object of earning profits from their sale. Nurseries, cattle breeding, fish hatcheries, poultry farms are all covered under genetic industry. The plants are grown and birds and animals are reared and then sold on profit. No doubt nature, climate and environment play an important part in these industries but human skill is also important.

(ii) Extractive Industry:

The extractive industry is engaged in raising some form of wealth from the soil, climate, air, water or from beneath the surface of the earth. These industries are classified into two categories. In the first category, workers merely collect goods already existing.

Mining, fishing, and hunting is covered in this category. In the second category', the goods are to be produced by the application of human skill, i.e., agriculture and forestry. Extractive industries supply basic raw materials that are mostly the products of the soil. Products of these industries are usually transformed into many useful products by manufacturing industries.

(iii) Construction Industry:

This industry is engaged in the creation of infra-structure for smooth development of the economy. It is concerned with the construction, erection or fabrication of products. These industries are engaged in the construction of buildings, roads, dams, bridges, and canals. These industries use the products of other industries such as cement, iron, bricks and wood, etc. Engineering and architectural skills play an important part in construction industry. Engineering and constructing firms are organized for undertaking operations of construction industry.

(iv) Manufacturing Industry:

This Industry is engaged in the conversion of raw materials into semi--finished or finished goods. This industry creates form utility in goods by making them suitable for human use. Most of the goods which are used by consumers are produced by manufacturing industries. These industries supply machines, tools and other equipment's to other industries too.

The products of extractive industry are generally used as raw materials by manufacturing industry which may be classified as follows:

(a) Analytical Industry:

In this industry, a product is analyzed and many products are received as final products. In the processing of crude oil we will get kerosene, petrol, gas and diesel, etc.

(b) Processing Industry:

In this industry a product passes through various processes to become a final product. The finished product of one process becomes the raw material of the receiving process and soon the final process produces the finished goods. In case of cotton textiles, cotton passes through ginning, weaving and dyeing processes to become cloth. Sugar industry and paper industry are other examples of processing.

(c) Synthetic Industry:

In this industry many raw materials are brought together in manufacturing process to make a final product. In manufacturing cement, rocks, gypsum, coal etc. are required. Soap making, paints are the other examples of synthetic industry.

II. On the basis of size and investment:

Industries may further be divided on the basis of their size and investment:

(i) Large Scale Industry:

Though there may not be any hard and fast rule for such classification but government has fixed certain limits on investments which differentiate between large scale and small scale industries. At present the industries investing more than Rs. 3 crore in plant and machinery in manufacturing units and in ancillary units are covered in large scale sector. Large scale units are in a position to use latest methods of production and economies on various inputs.

(ii) Small Scale Industry:

The units having an investment up to Rs. 1 crore in plant and machinery are small units. A small scale unit has the disadvantage of lower production and comparatively higher cost of production.

III. On the basis of technology employed:

Different units use different types of technology. This classification may be as follows:

(i) Heavy Industry:

The industries engaged in the production of machinery, steel, power generation are called heavy industry. These units need heavy .investments and employ complex technology in production.

(ii) Light Industry:

Industries engaged in producing consumer goods etc. arc called light industries. The production technology is simple and machinery used is inexpensive.

2. Commerce:

All those activities which are connected with taking goods and services from producers to users come under the purview of commerce. The goal of commerce is to ensure a proper flow of goods and services for the benefit of both producers and consumers. People are able to buy goods produced anywhere in the world with the help of commerce.

Commerce activities may precisely be described as follows:

(i) Commerce is related to the activities dealing with distribution and exchange of goods and services. These activities relate to trade aspect

(ii) Commerce covers all these activities which smoothen or help trade. These activities are transport, banking, insurance, warehousing, advertising, etc. These are ancillary services and are called aids to trade.

(iii) Commerce is a part of business. Business is a wider concept and includes industry too.

(iv) Commerce is a part of economics. Economics is a study of human beings as consumers and producers and it has a much wider scope than commerce.

Business and Profession:

Business is a sum total of activities pursued with a purpose to produce and accumulate wealth. A profession is also adopted to earn a living. The purpose of both business and profession is to earn a living. Though both look similar yet there is a difference between the two.

Business and Employment:

In employment a person serves an employer under certain agreement and is paid an agreed remuneration. A business, on the other hand, is working for himself and aiming at earning profit out of it.

Forms of ownership:

Business organizations can be of different types, depending upon factors like their nature, the extent of operation, ownership, legalities, terms, financial structure, liabilities, etc. The form of a business is likely to have long-term impacts on the company. Thus, the members of an organization must choose wisely as to which sort of business would be ideal for them.

The primary aspect, based on which forms of business organizations are decided, is its characteristics. Various factors determining the character of business include:

- Ease of Formation
- Capital or Financial Requirements
- Nature of Liability
- Control
- Stability and Continuity
- Flexibility to Conduct Operations.
- Secrecy
- Legal Aspects

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

- Sole Proprietorship
- Hindu Undivided Family
- Company
- Partnership
- Corporations or Statutory Bodies
- Co-operative Societies
- LLP (Limited Liability Partnerships)

Sole Proprietorship of an Organization

Sole proprietorship of a company suggests that the complete ownership of that organisation lies with a single person. This is one of the primary forms of business organizations where an individual not only owns the company wholly but also manages it single-handedly. Here, the business organisation and the owner are a single entity.

A sole proprietorship is among the simplest forms of business organizations, which is why it has minimal or no registration formalities. This is the ideal form of organisation for small or medium scale businesses. The biggest advantage of these business organizations is that the owner gets to access the entire incentive. He is not liable to share the profits with anyone else. However, a huge amount of personal liability can be seen as a setback in these business organizations.

Corporations or Statutory Bodies

A statutory body means any such authority or organisation which is non-constitutional. Such bodies have been set up by the parliament, and hold power to take decisions on behalf of an entire nation. Some notable examples of statutory bodies in India are:

- National Green Tribunal
- National Commission for Women
- National Human Rights Commission
- National Commission for Backward Classes
- National Law Commission
- Armed Forces Tribunal

On the other hand, corporations are such forms of business organizations which consist of many shareholders. A corporation has the legal authority to act as a single entity. It usually has a board of directors (elected by all the shareholders), led by a president. The board of directors are authorized to make management decisions. To set up this legal form of business organisation, it requires proper paperwork and lawful proceedings.

Partnerships

If we consider the corporate scenario in India, companies set up on partnership deals are the most popular and basic form of business organisation. A partnership is a mutual agreement between two or more parties that agree to carry out a common business. Parties entering into a partnership could include individuals, companies, schools, governments, etc.

This form of business organisation has to follow the norms specified under the Indian Partnership Act of 1932. Such entities are known as partnership firms. Here, the partners work towards the common goal of business, which is profit.

Businesses run on charitable or non-profit causes cannot be considered as partnership firms. Partnerships happen to be among the 3 main forms of business organizations, and its nature is determined by the types of partners included.

HUF or Hindu Undivided Family Business

This is a special form of business entity which is limited only to India. Such forms of business organizations are governed by the Hindu law prevalent in the country. Any member of a Hindu Undivided Family can co-own the business owned by that family. These members will be known as coparceners in the business. The head of a Joint family Business in India is called the 'Karta'. He usually holds full control of the management and finance of the business.

Companies

The Indian Companies Act of 2013 defines different types of companies as different forms of business organizations. It is not mandatory for a company to be multinational or operate in different locations. It can be a small-scale business or even a start-up initiative.

As per the Indian Companies Act, a company can either be private or public. Private companies are the ones in which the minimum paid-up share capital has to be Rs.1 lakh. On the other hand, public companies are separate legal entities which must have a paid-up share capital of at least Rs.5 lakh. The shares of these companies can be owned by members of the public.

Co-operative Societies and Trusts

A co-operative society is a type of business organisation which combines joint ownership with shared leadership. Such forms of business organizations are common in sectors like healthcare, finance, food, agriculture, and so on. Co-operative societies and trusts work towards the welfare of a section of people.

Limited Liability Partnerships

This form of business organisation is operated by organizations facing troubles of several liabilities in the business. LLP or Limited Liability Partnerships enable partners to hold separate obligations in business. Here, the partners continue to share the profits, just like a regular partnership firm. But unlike regular firms, the partners in LLP can choose the profit-sharing ratio by themselves. In this form of business organisation, the minimum number of partners has to be two.

Types of Companies

- Companies Limited by Shares
- Companies Limited by Guarantee
- Unlimited Companies
- One Person Companies (OPC)
- Private Companies
- Public Companies
- Holding and Subsidiary Companies
- Associate Companies
- Companies in terms of Access to Capital
- Government Companies
- Foreign Companies
- Charitable Companies
- Dormant Companies
- Nidhi Companies
- Public Financial Institutions

We can classify all these companies in various categories.

Classification of Different Types of Companies

Companies on the Basis of Liabilities

When we look at the liabilities of members, companies can be limited by shares, limited by guarantee or simply unlimited.

a) Companies Limited by Shares

Sometimes, shareholders of some companies might not pay the entire value of their shares in one go. In these companies, the liability of members is limited to the extent of the amount not paid by them on their shares.

This means that in case of winding up, members will be liable only until they pay the remaining amount of their shares.

b) Companies Limited by Guarantee

In some companies, the memorandum of association mentions amounts of money that some members guarantee to pay.

In case of winding up, they will be liable only to pay only the amount so guaranteed. The company or its creditors cannot compel them to pay any more money.

c) Unlimited Companies

Unlimited companies have no limits on their members' liabilities. Hence, the company can use all personal assets of shareholders to meet its debts while winding up. Their liabilities will extend to the company's entire debt.

Companies on the basis of members

a) One Person Companies (OPC)

These kinds of companies have only one member as their sole shareholder. They are separate from sole proprietorships because OPCs are legal entities distinct from their sole members. Unlike other companies, OPCs don't need to have any minimum share capital.

b) Private Companies

Private companies are those whose articles of association restrict free transferability of shares. In terms of members, private companies need to have a minimum of 2 and a maximum of 200. These members include present and former employees who also hold shares.

c) Public Companies

In contrast to private companies, public companies allow their members to freely transfer their shares to others. Secondly, they need to have a minimum of 7 members, but the maximum number of members they can have is unlimited.

Companies on the basis of Control or Holding

In terms of control, there are two types of companies.

a) Holding and Subsidiary Companies

In some cases, a company's shares might be held fully or partly by another company. Here, the company owning these shares becomes the holding or parent company. Likewise, the company whose shares the parent company owns becomes its subsidiary company.

Holding companies exercise control over their subsidiaries by dictating the composition of their board of directors. Furthermore, parent companies also exercise control by owning more than 50% of their subsidiary companies' shares.

b) Associate Companies

Associate companies are those in which other companies have significant influence. This "significant influence" amounts to ownership of at least 20% shares of the associate company.

The other company's control can exist in terms of the associate company's business decisions under an agreement. Associate companies can also exist under joint venture agreements.

Companies in terms of Access to Capital

When we consider the access a company has to capital, companies may be either listed or unlisted.

Listed companies have their securities listed on stock exchanges. This means people can freely buy their securities. Hence, only public companies can be listed, and not private companies.

Unlisted companies, on the other hand, do not list their securities on stock exchanges. Both, public, as well as private companies, can come under this category.

Other Types of Companies

a) Government Companies

Government companies are those in which more than 50% of share capital is held by either the central government, or by one or more state government, or jointly by the central government and one or more state government.

b) Foreign Companies

Foreign companies are incorporated outside India. They also conduct business in India using a place of business either by themselves or with some other company.

c) Charitable Companies (Section 8)

Certain companies have charitable purposes as their objectives. These companies are called Section 8 companies because they are registered under Section 8 of Companies Act, 2013.

Charitable companies have the promotion of arts, science, culture, religion, education, sports, trade, commerce, etc. as their objectives. Since they do not earn profits, they also do not pay any dividend to their members.

d) Dormant Companies

These companies are generally formed for future projects. They do not have significant accounting transactions and do not have to carry out all compliances of regular companies.

e) Nidhi Companies

A Nidhi company functions to promote the habits of thrift and saving amongst its members. It receives deposits from members and uses them for their own benefits.

f) Public Financial Institutions

Life Insurance Corporation, Unit Trust of India and other such companies are treated as public financial institutions. They are essentially government companies that conduct functions of public financing.

Organs of the company

The Board of Directors is a key organ in your company, and it has the power to both lead and represent your company. However, the General Meeting is the highest decision-making body consisting of your company's shareholders. Your company may also select a Managing Director to lead the practical operations.

Company Meetings & Resolution

What is a Meeting?

In common parlance, the word meeting means an act of coming face to face, coming in company or coming together.

Company meeting - Essentials, Kinds

The Oxford Dictionary defines a meeting as

An assembly of number of people for entertainment, discussion or the like.

A meeting therefore, can be defined as a lawful association, or assembly of two or more persons by previous notice for transacting some business. The meeting must be validly summoned and convened. Such gatherings of the members of companies are known as company meetings.

Essentials of Company Meetings

The essential requirements of a company meeting can be summed up as follows:

1. Two or More Persons: To constitute a valid meeting, there must be two or more persons. However, the articles of association may provide for a larger number of persons to constitute a valid quorum.

2. **Lawful Assembly:** The gathering must be for conducting a lawful business. An unlawful assembly shall not be a meeting in the eye of law.

3**. Previous Notice:** Previous notice is a condition precedent for a valid meeting. A meeting, which is purely accidental and not summoned after a due notice, is not at all a valid meeting in the eye of law.

4. **To Transact a Business:** The purpose of the meeting is to transact a business. If the meeting has no definite object or summoned without any predetermined object, it is not a valid meeting. Some business should be transacted in the meeting but no decision need be arrived in such meeting.

Kinds of Company Meetings

The meetings of a company can be broadly classified into four kinds.

1. Meetings of the Shareholders.

2. Meetings of the Board of Directors and their Committees.

3. Meetings of the Debenture Holders.

4. Meetings of the Creditors.

1. Meeting of the Share Holders

The meetings of the shareholders can be further classified into four kinds namely,

- Statutory Meeting,
- Annual General Meeting,
- Extraordinary General Meeting, and
- Class Meeting.

The chart given below gives a classification of company meetings.

- **Statutory Meeting**

This is the first meeting of the shareholders conducted after the commencement of the business of a public company. Companies Act provides that every public company limited by shares or limited by guarantee and having a share capital should hold a meeting of the shareholders within 6 months but not earlier than one month from the date of commencement of business of the company.

Usually, the statutory meeting is the first general meeting of the company. It is conducted only once in the lifetime of the company. A private company or a public company having no share capital need not conduct a statutory meeting.

Kinds of Company Meetings

Kinds of Company Meetings

- **Annual General Meeting**

The Annual General Meeting is one of the important meetings of a company. It is usually held once in a year. AGM should be conducted by both private and public ltd companies whether limited by shares or by guarantee; having or not having a share capital. As the name suggests, the meeting is to be held annually to transact the ordinary business of the company.

- **Extra-ordinary General Meetings (EOGM)**

Statutory Meeting and Annual General Meetings are called the ordinary meetings of a company. All other general meetings other than these two are called Extraordinary General Meetings. As the very name suggests, these meetings are convened to deal with all the extraordinary matters, which fall outside the usual business of the Annual General Meetings.

EOGMs are generally called for transacting some urgent or special business, which cannot be postponed till the next Annual General Meeting. Every business transacted at these meetings is called Special Business.

Persons Authorized to Convene the Meeting

The following persons are authorized to convene an extraordinary general meeting.

The Board of Directors.

The Requisitionists.

The National Company Law Tribunal.

Any Director or any two Members.

- **Class Meetings**

Class meetings are those meetings, which are held by the shareholders of a particular class of shares e.g. preference shareholders or debenture holders.

Class meetings are generally conducted when it is proposed to alter, vary or affect the rights of a particular class of shareholders. Thus, for effecting such changes it is necessary that a separate meeting of the holders of those shares is to be held and the matter is to be approved at the meeting by a special resolution.

For example, for cancelling the arrears of dividends on cumulative preference shares, it is necessary to call for a meeting of such shareholders and pass a resolution as required by Companies Act. In case of such a class meeting, the holders of other class of shares have no right to attend and vote.

2. Meetings of the Directors

Meetings of directors are called Board Meetings. These are the most important as well as the most frequently held meetings of the company. It is only at these meetings that all important matters relating to the company and its policies are discussed and decided upon.

Since the administration of the company lies in the hands of the Board, it should meet frequently for the proper conduct of the business of the company. The Companies Act therefore gives wide discretion to the directors to frame rules and regulations regarding the holding and conduct of Board meetings.

The directors of most companies frame rules concerning how, where and when they shall meet and how their meetings would be regulated. These rules are commonly known as Standing Orders.

3. Meetings of Debenture Holders

The debenture holders of a particular class conduct these meeting. They are generally conducted when the company wants to vary the terms of security or to modify their rights or to vary the rate of interest payable etc. Rules and Regulations regarding the holding of the meetings of the debenture holders are either entered in the Trust Deed or endorsed on the Debenture Bond so that they are binding upon the holders of debentures and upon the company.

4. Meetings of the Creditors

Strictly speaking, these are not meetings of a company. They are held when the company proposes to make a scheme of arrangements with its creditors. Companies like individuals may sometimes find it necessary to compromise or make some arrangements with their creditors, In these circumstances, a meeting of the creditors is necessary.

Resolution of Company

At a company's general meeting, which shareholders attend to discuss matters relating to the company, any decisions made by the members are ratified by means of a company resolution. The requirements for this are set out in the Companies Act and the articles of association and any resolutions made must adhere to these requirements.

What is an ordinary resolution?

An ordinary resolution can be passed by a simple vote either by proxy or in person and is passed by a majority. Most standard business decisions are made with an Ordinary Resolution at an Annual General Meeting. The notice period for those entitled to attend and vote is 7 clear working days. Below are some examples of other decisions passed by ordinary resolution:

Giving a company authority to purchase its own shares

Appointing or removing a company director or secretary

What is a Special Resolution?

Not all changes can be made with an Ordinary Resolution. Special Resolutions are made in order to make any significant changes to a Company's constitution or share structure. In contrast to an ordinary Resolution, which can be passed with a simple majority vote, Special Resolutions are passed with a majority vote of at least 75%. At least 21 days clear notice needs to be given for a special resolution to all of those that are entitled to attend and vote. Examples of the types of decisions made by special resolution are:

Making amendments to the articles of association

Change of company name

Share capital reduction

These are merely examples and this list is not exhaustive. There are many changes that may need to be made throughout the life of the company.

Choice of Form of Organization

While choosing a particular form of organization, the following factors should be considered by an entrepreneur:

1. **Ease in Formation.** A business organization should be such which may be formed easily. An organization which involves the least expenses in formation and minimum legal formalities, is the best. Form this point of view; sole trader ship and partnership are preferable.

2. **Liability**. Limited liability is an important feature of a good form of organization. It means that in case of insolvency or winding up, the owner(s) will be responsible only up to the amount of capital contributed by them. The company form of organization restricts the liability of an entrepreneur to the minimum.

3. **Nature of Business.** Nature of business activities is an important factor affecting the decision about the choice of organization. Business activity may be trading, manufacturing or rendering services. Trading business generally managed by a sole-proprietorship organization. Service activities are usually undertaken by proprietorship firm. For a manufacturing business, partnership or joint stock company organization may be a better choice.

4. **Ease of Raising Finance.** Capital is the life blood of the business. Without capital we cannot even think of starting a business. Where a large amount of capital is needed, company

may be the right form of organization. But much would depend upon the facility with which finance can be reused.

5. **Control.** If an entrepreneur wants to have a direct control over his business, the preferable form would be sole proprietorship. If a partnership is created, the sole proprietor has to share control with other partners. In a private company, the promoters may be able to retain effective control over the business of company, but in case of a public company, the owners will have indirect control over the management of the company.

6. **Business Secrecy.** Ordinarily firm of organization which enables retention of business secrets is preferred to the one wherein business secrets are difficult to preserve. From this point of view, the sole proprietorship is the most ideal form or organization. In case the partners have been chosen carefully, partnership form comes next to proprietor form of organization in this respect.

7. **Flexibility Operation**. An ideal form of business organizations one which allows for maximum flexibility of operations. In other words, it should provide enough scope to the entrepreneur to adjust and adapt to changes. Any right in regard to taking of new members or raising of additional capital will not serve the interests of business.

8. **Stability or Continuity.** From the point of view of stability, company form is the ideal form of organization because it remains unaffected by the continuance or discontinuance of its members, whereas sole-proprietorship and partnership get affected immediately if the partner or the sole proprietor ceases to exist.

9. **Freedom from Government Regulations.** A form of organization which does not attract too many government regulations in its day-to-day working is preferred to a form in which there are frequent government regulations. Some of the government regulations apply on the basis of the size of the business enterprise rather than on the basis of the form of its ownership. but still a company form of organization is subjected to more regulations by the Government than any other form. Sole proprietorship and partnership to that extent are in a preferable position.

10. **Taxation.** Everybody wants to minimize the burden of income-tax. While selecting the form of organization, impact of taxation should be given due consideration. Tax liability is not

the same in all forms of ownership. The impact of tax burden should be considered in the light of the prevailing rates of tax.

Stages of Formation & Establishment of a Firm

The formation of a company goes through a number of steps, starting from idea generation to commencing of the business. This whole process can be broken down into 4 major phases or steps, which we will be discussing in the lines below.

The major steps in formation of a company are as follows:

- Promotion stage
- Registration stage
- Incorporation stage
- Commencement of Business stage

Let us discuss these steps in detail.

Promotion Stage: Promotion is the first step in the formation of a company. In this phase, the idea of starting a business is converted into reality with the help of promoters of the business idea.

In this stage the ideas are executed. The promotion stage consists of the following steps:

- Identify the business opportunity and decide on the type of business that needs to be done.
- Perform a feasibility study and determine the economic, technical and legal aspect of executing the business.
- Interest shown by promoters towards the business idea and supply of capital and other necessary procedures to start the business.

Registration stage: Registration stage is the second part of the formation process. In this stage, the company gets registered, which brings the company into existence.

A company is said to be in existence, if it is registered as per the Companies Act, 2013. In order to get a company registered, some documents need to be provided to the Registrar of Companies.

There are several steps involved in the registration phase, and are as follows:

- Memorandum of Association: A memorandum of association (MoA) must be signed by the founders of the company. A minimum of 7 members are required in case of a public company and 2 in case of a private company. The MoA must be properly registered and stamped.
- Article of Association: Article of Association (AoA) is also required to be signed and submitted. All members who previously signed MoA, should also be signing the AoA.
- The next step is preparing a list of directors which should be filed with the Registrar of Companies.
- Directors of the company should provide a written consent agreeing to be directors, should be filed with the Registrar of Companies (RoC).
- The notice of address of the office needs to be filed.
- A statutory declaration should be made by any advocate of either the High Court or Supreme Court, or a person of the capacity of Director, Secretary or Managing Director. This declaration shall be filed with the RoC.

Certificate of Incorporation: Certificate of incorporation is issued when the registrar is satisfied with the documents provided. This certificate validates the establishment of the company in the records.

Certificate of commencement of business: Certificate of commencement of business is required for a public company to start doing business, while a private company can start business once it has received the certificate of incorporation.

Public companies receiving the certificate of incorporation can issue prospectus in order to make the public subscribe to the share for raising capital. Once all the minimum number of required shares have been subscribed, a letter should be sent to the registrar along with a bank document stating the receiving of the money.

The registrar will issue a certificate upon finding the provided documents satisfactory. This certificate is known as certificate of commencement of business. The company can start business activities from the date of issue of the certificate and the business shall be done as per rules laid down in the MoA (Memorandum of Association).