

UNIT II FORMS OF BUSINESS ORGANISATION

CHAPTER

4

SOLE PROPRIETORSHIP



எண்ணித் துணிக கருமந் துணிந்தபின்
எண்ணுவ மென்ப திழுக்கு.

– குறள் 467

Couplet:

Consider, and then undertake a matter; after having undertaken it, to say “We will consider,” is folly.

Learning Objectives

To enable the students to understand

- the Forms of Business Organisation
- the meaning of a Sole Trader, Characteristics, Advantages and Disadvantages

According to *Wheeler*, “a business undertaking is a concern, company or enterprise which buys and sells, is owned by one person or a group of persons and is managed under a specific set of operating policies”.

All business undertakings are directly or indirectly engaged in the transfer or exchange of goods and services for value. They deal in goods and services on a regular basis. Their main motive is to earn profits and they are exposed to various types of risks.

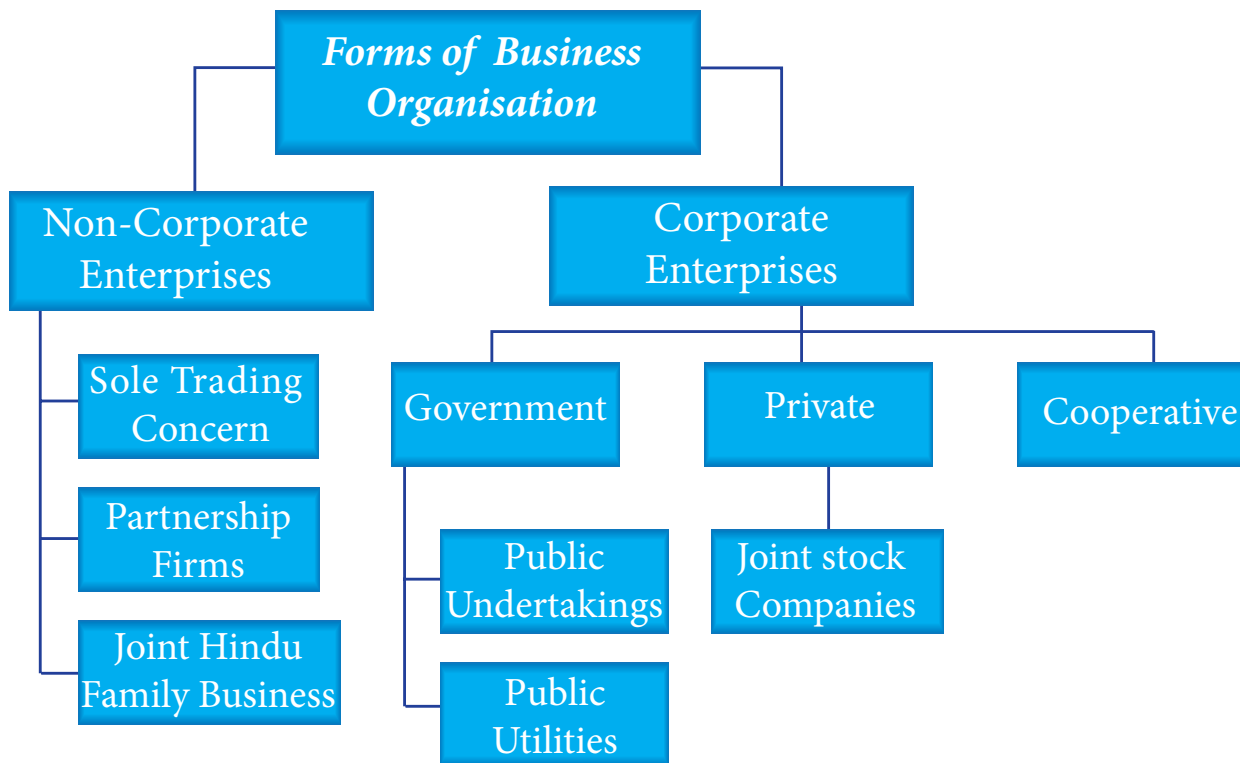
4.01 Introduction

A business organisation is an organisation which is engaged in some industrial or commercial activity. It represents an institutional arrangement for carrying on any kind of business activity. It may be owned and controlled by a single individual or by a group of individuals who have entered into a formal or informal agreement to jointly conduct the business.

Every business undertaking is a separate and distinct business unit. It has its own identity and separate ownership. It can be distinguished from other undertakings on the basis of its ownership, management and control.

Sole Trading Business

Sole Proprietorship is a form of business organisation in which an individual introduces his own capital, uses his own skill and intelligence in the management of its affairs and is solely responsible for the results of its operations. The individual alone may run the business or may obtain the assistance of employees. It is the first stage in the evolution of the forms of organisation and is, thus, the oldest among them.



It is also known as individual entrepreneurship. To raise the required capital the individual may depend mostly on his own savings, or else, he may borrow part or whole from his friends or relatives or financial institutions. The business may be started either in a portion of the proprietor's own house or in a rented premises. There are no legal formalities to be gone through except those required for a particular type of business. For example, if one wants to start a restaurant has to obtain a license from the Health Department of the Municipal Corporation.

4.02 Definition of Sole Trader

"Sole trader is a type of business unit where a person is solely responsible for providing the capital, for bearing the risk of the enterprise and for the management of business"

- J.L.Hansen

"Sole proprietorship is that form of business organisation which is owned and controlled by a single individual. He receives all the profits and risks all of his property in the success or failure of the enterprise".

- Wheeler

4.03 Characteristics

The following are the characteristics of a Sole Trader.

i. Ownership by one man

This is owned by single person. The sole trader contributes the required capital. He is not only the owner of the business but also manager of the entire affairs.

ii. Freedom of work and Quick Decisions

Since the individual is himself as a owner, he need not consult anybody else. Hence he can take quick decisions.

iii. Unlimited Liability

When his business assets are not sufficient to pay off the business debts he has to pay from his personal property.

iv. Enjoying Entire Profit

He strives tirelessly for the improvement and expansion of his business and enjoys all the benefits of his hard work.

v. Absence of Government Regulation

A sole proprietor concern is free from Government regulations. No legal formalities are to be observed in its formation, management or in its closure.

vi. No Separate Entity

The sole trading concern comes to an end with death, disability, insanity and insolvency of the individual.

vii. Maintenance of Secrecy

Since he/she manages all the affairs of the business, the secrecy can be maintained easily.

4.04 Advantages and Disadvantages

Advantages

The following are the advantages of a Sole trader.

i. Easy Formation

No legal formalities are required to initiate a sole trading concern. Any person capable of entering into a contract can start it, provided he has the necessary resources for it.

ii. Incentive to Work hard

There is a direct relationship between effort and reward. The fact that the entire profit can be taken by himself without sharing with anybody else induces him to work ceaselessly.

Success story of Murugappa Group



The Murugappa Group is an Indian business conglomerate, founded, managed, and largely owned by the Murugappa family. The group has 28 business concerns including eleven listed companies traded on the National Stock Exchange of India and the Bombay Stock Exchange. Headquartered in Chennai, the major companies of the group include Carborundum Universal Ltd, Cholamandalam Investment and Finance Company Ltd., Cholamandalam MS General Insurance Company Ltd., Coromandel International Ltd., Coromandel Engineering Company Ltd., EID Parry (India) Ltd., ParryAgro Industries Ltd., Tube Investments of India Limited, and Wendt (India) Ltd., and Shanthi Gears Limited (Coimbatore).

They have presence in several segments including abrasives, auto components, bicycles, sugar, farm inputs, fertilizers, plantations, bioproducts and nutraceuticals, the group has forged strong alliances with leading international companies like Groupe Chimique Tunisien, Foskor, Cargill, Mitsui Sumitomo, Morgan Crucible and Sociedad Quimica y Minera de Chile (SQM). The Group has a wide geographical presence spanning 13 states in India and five continents around across the globe.

Brands like BSA, Hercules, Ballmaster, Ajax, Parry's, Chola, Gromor and Paramfos are from the stables of Murugappa. The organisation has a workforce of over 32,000 employees.

Success story of TVS Group



TVS Motor Company is the third largest two-wheeler manufacturer in India, with a revenue of over 13,000 Cr (\$2 billion) in 2016-17. It is the flagship company of the ₹40,000 Cr (\$6 billion, in 2014-15) TVS Group. The company has an annual sales of 3 million units and an annual capacity of over 4 million vehicles. TVS Motor Company is also the 2nd largest exporter in India with exports to over 60 Countries. TVS Motor Company Ltd (TVS Motor), member of the TVS Group, is the largest company of the group in terms of size and turnover, with more than 3 Cr (30 million) customers riding a TVS bike. TVS was established by Mr TV Sundaram. He began with Delhi first bus service in 1911 and founded T.V. Sundaram and Sons Limited, a company in the transportation business with a large fleet of trucks and buses under the name of Southern Roadways Limited. When he died in 1955, his sons took the company ahead with several forays in the automobile sector, including finance, insurance, two-wheelers/ three wheelers, tyres and components, housing, aviation, logistics etc. The group has managed to run 97 companies that account for a combined turnover of nearly US\$6 billion.

iii. Small Capital

Small capital is an important as well as specific advantage of sole proprietorship. Sole proprietor can start business with small capital.

iv. Credit Standing

Since his private properties are held liable for satisfying business debts, he can get more financial assistance from others.

v. Personal Contact with the Customers

Since sole proprietor knows each and every customer individually he can supply goods according to their taste and preferences. Thus he can cultivate personal relationship with the customers.

vi. Flexibility

The sole trader can easily adjust himself to the changing requirements of his business.

Disadvantages

The following are the disadvantages of a Sole Trader.

i. Limited Capital

Since the capital is contributed by one individual only, business operations have necessarily to be on a limited scale.

ii. Limited Managerial Skill

Single person's intelligence and experience may not help him beyond a certain stage. Since he has to focus on each and every activity, his managerial ability is bound to be limited.

iii. Unlimited Liability

The creditors have the right to recover their dues even from the personal property of the proprietor in case the business assets are not sufficient to pay their debts.

iv. Lack of Specialisation

Since the business unit is small and the financial resources are limited, experts in different fields cannot be employed to secure maximum advantages.

v. Hasty Decisions

Sole proprietor is more likely to take hasty decision as he need not consult anybody else.

Key Terms

Business Organisation
Sole Proprietorship
Unlimited Liability
Managerial Skill
Legal Entity
Credit Standing



For Own Thinking

- How to start a snacks manufacturing unit at home?
- Dried Fish – Trading Explain.
- Individual – Independent software companies run by New graduates



Case Study

Rajendran has done his B.Com., this year. He wants to do some good business now. Kesavan, his father, is a Sole-proprietor of a small Banian-manufacturing plant in Salem and ask Rajendran to join business with him as a partner. However, Rajendran likes to go in for an independent venture. A discussion follows between them on this issue. Meanwhile Mr.Arul, an advocate and friend of Rajendran's father, comes there and gives comments on both of them. Assume the role of Rajendran, Kesavan and Arul and state and defend your positions.



For Future Learning

- Mahesh is a young graduate who has inherited a sum of ₹1,00,000 by way of family savings. He also has a family house to which he has sole title as the only son of his father. He is thinking of starting a small factory for the manufacture of plastic toys. What form of ownership organisation will you advise him to choose?
- Amar started a business on his own. He has his father helping him with the accounts and his brother helps him with looking after customers in the evening. Amar pays a monthly salary to his father and brother. Identify the form of business organisation.



Exercise

I. Choose the Correct Answer

- Which is the oldest form of Business organisation?**
 - Sole Proprietorship
 - Partnership
 - Co-operative Society
 - Company
- In which form the owner, establisher and manager is only one?**
 - Joint Enterprise
 - Government Company
 - Co-operative Society
 - Sole Proprietor



3. A major disadvantage of sole proprietorship is _____

- a. Limited liability
- b. Unlimited liability
- c. Easy Formation
- d. Quick decision

4. From the following which one is Non-corporate form of business?

- a. Joint stock company
- b. Sole trading business
- c. Government company
- d. Co-operatives

Answers

1. a 2. d 3. b 4. b

II. Very Short Answer Questions

- 1. Who is called a Sole Trader?
- 2. What are the Non-Corporate enterprises?
- 3. What are the Corporate enterprises?

III. Short Answer Questions

- 1. How is it possible to maintain secrecy in Sole Proprietorship?
- 2. What is unlimited liability?
- 3. Give some examples of Sole trading business.

IV. Long Answer Questions

- 1. Explain the characteristics of Sole trading business. (any 5)
- 2. What are the advantages of Sole trading business. (any 5)
- 3. What are the disadvantages of Sole trading business.

Reference

- 1. Kathiresan & Radha - "Business Organisation", Tenth Edition, Prasanna Publishers, Chennai.
- 2. Subhanjali Chopra - Business Organisation and Management