

To any entrepreneur....

“If you want to do it, do it now. If you don’t, you’re going to regret it.”

“You could have a million ideas, but they’re all worthless if you don’t get them done”.

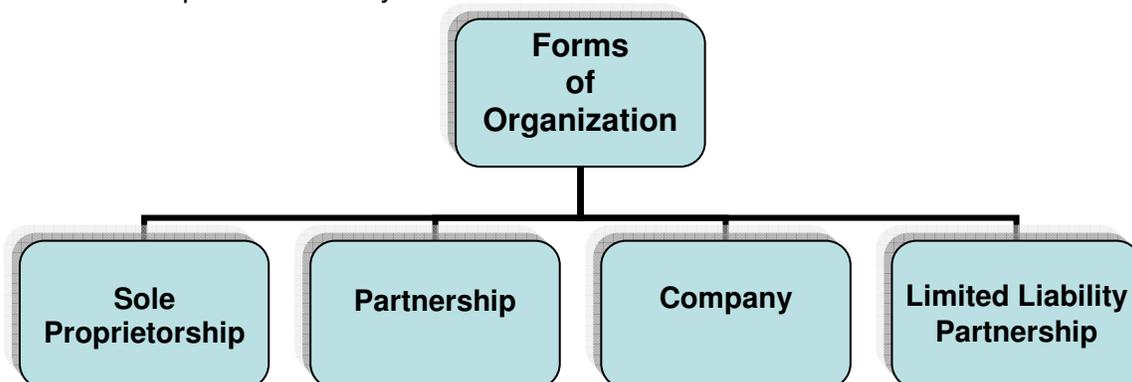
The **power of ideas** must translate into **power of action**. An entrepreneur needs to make the right choice at every step. As Zig Ziglar says **“Every choice you make has an end result”**. It begins with what kind of legal form of business you choose to undertake the entrepreneurial activity.

The Lex Valorem team salutes the entrepreneurial spirit in you and attempts to equip you with the right kind of information, insight and inspiration.

This article covers the basics of various types of organizations available to the entrepreneur to commence his/her business. Forthcoming issues will delve deeper into the subject.

VARIOUS FORMS OF BUSINESS ORGANIZATIONS IN INDIA

A business can be set up in several forms. Each form of organization has its own merits and demerits. The ultimate choice of the form of organization depends upon the balancing of the advantages and disadvantages of the various forms. The right choice of the form of organization is very crucial because it determines the power, control, risk, responsibility and operational flexibility of the entrepreneur as well as the division of profits and losses. Being a strategic decision the choice of the form of organization should be made after considerable thought and deliberation. The different forms of business setups can be briefly examined as below:



➤ **SOLE PROPRIETORSHIP**

Any person who is competent to enter into a contract can start this form of business. The business is fully owned by an individual who runs the show, may be with the help of family members or relatives or by employing one or more persons to assist. Legally

there is no distinction between the Proprietor and the business which is the least regulated among all the forms. Sole proprietorship does not require any specific registration with any authority to commence business. Tax and labour registrations required will be dealt with later.

➤ PARTNERSHIP

The Indian Partnership Act, 1932 defines partnership as “the relation between two or more persons who have agreed to share profits of a business, carried on by all or any of them acting for all.”

In order to form a partnership concern a minimum of 2 persons who are willing to share the profits of business in necessary. The maximum is 20. One or all of them can be the working partner. Registration of partnership is not mandatory but it does come with certain advantages. Referred to as a **partnership firm** or simply a **firm** it has no separate legal identity from its partners. A large proportion of business in India is carried on in this mode which enjoys great flexibility and ease of operation. However it suffers from certain disadvantages which propels entrepreneurs to look for other options.

➤ COMPANY

It is said that “**men may come and men may go, but the company goes on forever**”. A Company is an artificial person created under law, having perpetual succession which means the management and ownership may change but the entity as such will continue to be alive until it is legally extinguished. The owners or the shareholders of the Company are different from the Company itself and this results in certain advantages as well as disadvantages to the business. In India at least 2 persons - individuals or Companies are required to form a Company, since the concept of one man company is yet to become law.

➤ LIMITED LIABILITY PARTNERSHIP

Limited Liability Partnership took its baby steps in India in the year 2009 when the Limited Liability Partnership Act was enacted.

As the name suggests, the liability of the partners is limited to the partner’s capital contribution as in the case of a Company’s share holders. With no ceiling on the number of partners that can come together to form an LLP, this form of business provides the internal flexibility of a partnership i.e. allowing the partners to adopt whatever form of internal organization they prefer with little or no regulation by the authorities. An LLP enjoys the best of both the worlds - limited liability of a Company as well as flexibility in operations of a partnership firm.

“You were born to win, but to be a winner, you must plan to win, prepare to win, and expect to win”