

SUBJECT NAME:INDUSTRIAL ORGANIZATION

SUBJECT CODE : CSCP45

CLASS :- II B .Com (CA)

UNIT-II

INDUSTRIAL ORGANIZATION

INDUSTRIAL OWNERSHIP:

In primitive times, human wants were limited, so the area of business was limited. Most of the businesses were started on private initiative by one single person. Later, the wants increased and the form of business organization changed on its structure and ownership style. Increasing in size of business, it became hard for a

single person, to mobilize the huge capital, control the business activities, and thus the business operation were carried on a joint venture, consequently *partnership firms* were born. In the latter decade of the 19th century i.e., after the industrial revolution, evolution of mass production, use of big machine, expanded market, division of labor and specialization, had made the partnership firm difficult to manage and as a result *Joint Stock Company* emerged. On the basis of the business firm's ownership arrangement and control, business enterprises can be divided in to following types.

- (a) Sole Trading Concern (Sole proprietorship)
- (b) Partnership Organization
- (c) Joint stock Company
- (d) Co-operative organization
- (e) Public enterprises.
- (f) Multinational corporation.

Looking at mentioned various forms of enterprises it might be confusing to answer, "which is the best type of industrial firm", however all the types of industrial ownership have respective advantage as well as disadvantages. One type of organization may be suitable for a particular business activity while another type, for other business activities. The above mentioned business organizations have their own characteristics, merits and demerits which are discussed in following headings. The selection of the form of business enterprise depends on the suitability to the business one is going to undertake. The following are some underlying factor that determines the types of industrial

ownership.

- (1) The nature and size of business to be started.
- (2) The capital requirement and means of procuring it.
- (3) The length of time the enterprise is expected to operate.
- (4) Technical condition affecting the enterprise.
- (5) Type of product to be manufactured.
- (6) Methods and volume of production.
- (7) Kinds of markets to be supplied and method of marketing.
- (8) Competitive conditions in chosen industry.
- (9) Method of sharing benefits and obligations of the enterprises.
- (10) The government laws and legislation.

SOLE PROPRIETORSHIP (INDIVIDUAL OWNERSHIP):

On sole proprietorship enterprise (*SPE*), the ownership of business is totally under a single person called *proprietor*. The proprietor has total control on ownership, management, profit and bearing of loss and investment.

Sole trading concern is the simplest type of industrial ownership. To start such industry, legal provisions are very few and simple. In Nepal, these sole proprietorship industrial are registered under *department of industry* according to *private firm registered act- 2014*.

CHARACTERISTICS OF SOLE PROPRIETORSHIP ORGANIZATION:

Individual ownership: A specific characteristic of sole proprietorship enterprise is individual ownership. The business is established and operated by the individual concerned. The entrepreneur makes all the arrangements for organizing and operating the business. All trade transactions are his sole responsibility.

Capital investment :In sole proprietorship enterprises, the entrepreneur himself makes all the capital and financial arrangement. The entrepreneur invests on his or avails loans for the purpose. Whatever the source of finance; the entrepreneur has the sole ownership.

Control and management :The entrepreneur himself makes all the necessary arrangements for the management and control of the business. As the management and control is in the hands of the entrepreneur, he is both the organizer and manager of the concern. If the business transactions increase or the size expands, he can appoint employees to assist him in his work. The liabilities lie on the entrepreneur despite the works done by others.

Unlimited liability :An important feature of a sole trading concern is unlimited liability of the entrepreneur. Any loss in business has to be borne wholly by the entrepreneur himself.

Nominal legal formalities :To start and operate sole proprietorship enterprise, there is a minimum of legal formalities to be fulfilled. In Nepal sole proprietorship organization are registered under private registration act - 2014, on Department of Industry. If it is a trading concern, it is registered under Department of Commerce.

Secrecy :It is easy in sole proprietorship concern to maintain the secrecy of the business, because of individual ownership and the operation and control of the business by one single person namely the entrepreneur. This is not possible in a partnership firm or Joint Stock Company because any business related matters must be brought to the notice of partners or shareholders and the public. The secrecy is sometime very beneficial to compete with rivals.

Risk Bearing :Another important characteristic of this type of business organization is related to the risk bearing capacity. All the risk are borne by the individual business man himself and all profits are taken by him and loss is also bear by him.

ADVANTAGE OF SOLE PROPRIETORSHIP ENTERPRISE:

Easy to establish and dissolve :The establishment and operation of a sole trading concern is easy and convenient. The establishment requires meeting minimum of formalities. In Nepal, according to the private firm registration Act, 2014, registration with the concerned department is essential to start sole trading concern. Such a business organization is easy to establish with low investment and if there is no profit or there is no desire to continue the business, it can be conveniently dissolved.

Quick decision :In business, quick decision is necessary to cope with complex situation. In S.P.E., the control of management and overall organization is in hand of proprietor, so he can immediate take decision as and when required by him.

Secrecy :It is easy in sole proprietorship concern to maintain the secrecy of the business, because of individual ownership and the operation and control of the business by one single person namely the entrepreneur. This is not possible in a partnership firm or Joint Stock Company because any business related matters must be brought to the notice of partners or shareholders and the public. The secrecy is sometime very beneficial to compete with rivals.

Personal Contact: As a SPE is conducted on a small scale and has limited area of operation, there is direct personal contact between the entrepreneur and the customer. This particular feature makes it easy for the entrepreneur to study the choice, demand, economic status of customer, their problems and solutions for the same.

Economy :Due to less overhead administrative cost and other indirect cost, SPE bears economy in operation.

Flexibility : Since the decision maker and the investor is the proprietor, it bears flexibility in operation e.g., for expansion, reduction, production, marketing.

Loan facility: Entrepreneur can take loan on his personal contact and creditors are also assured to provide loan, as they know that, entrepreneur are solely responsible for paying the loans.

Individual freedom: An entrepreneur of SPE has the most individual freedom in operating his business as compared to other forms of business organization.

DISADVANTAGE OF SPE

Limited capital: The responsibility to borrow capital for business is totally dependent on the proprietor. Even though the entrepreneur may have enough capital to invest, he fears to invest all because of the fear of loss in business. In this he has to bear it from his private sources.

Limited managerial ability : Modern business has become complex as well as competitive this needs the entrepreneur to be knowledgeable and well- versed in production, finance, market management aspect etc. As a sole trading concern i.e., one man show, the owner may not have all mentioned expertise. Thus, it is not beneficial to operate SPE in very large scale.

Unlimited liability: In SPE, the entrepreneur himself has to bear all the risks, i.e., he has unlimited liability. If his business fails, any loan he has taken must be paid from his personal source including his property or assets. The state of unlimited liability leads to the hesitation on the part of the entrepreneur to take great risks. But it is also true that there is greater possibility of making profit through ventures, which has greater risks.

Temporary existence: As there is an intimate relation between the sole trading concern and the entrepreneur, the life of the business is temporary. The business comes to be dissolved if the entrepreneur becomes physically incapable or dies or becomes bankrupt. His sons or daughter may receive the business or not depending on whether they have the aptitude for that particular business and the ability to do so. Thus, SPE has a temporary existence.

Restriction on development: A sole trading concern can not develop very much because of limited capital and management capacity, unlimited liability, temporary existence and so on. The progress can be made to a certain limit only even if one takes to manage it on a large scale. Therefore, this form of business organization is suitable only for small scale ventures.

Possibility of wrong decision: Despite of the advantage of being able to take quick decision, the entrepreneur is liable to mistakes as the decisions may be made in haste without any consultation with others. In fact, decisions should be never taken without

going carefully over the pros and cons. Any wrong decision may prove too costly for the business.

Loss in absence: As a SPE is operated in the personal presence of entrepreneur, if he falls sick or may not be able to attend business, it might lead to the difficulties for sound operation of business activities or customers to get the adequate service.

PARTNERSHIP ORGANIZATION

The individual proprietorship organization, with all its limitations, proved unequal to the requirement of expanding business. Expansion of business called for more capital, enhanced the risk, and required more managerial ability than could be expected of a single individual. A wealthy man may lack managerial capacity and an able manager might not have money enough to finance a big concern. This made some kind of an association among individual businessmen necessary. Partnership organization is one form of such association. It

grew essentially out of the failures and limitations of the individual proprietorship and represents the *second*

stage in the evolution of the forms of business organization. Generally, when a sole trader finds it hard to cope with the problems created by the expansion of business, he takes an able employee, or some other capable and well-to-do person, as his associate in business and converts his sole-proprietorship business into a partnership.

The formation and management of partnership organization is governed by the provisions of the *Nepalese Partnership Act 2020*. According to this Act, partnership means, "any business organization formed by mutual agreement by people under one name for the sharing of profit by all partners and all partners for every partner

or any partner for all partners to participate in business and registered with times HMG's record book as per act ". In short, partnership business means any business established legally by two or more persons with the aim of sharing profit as per their contract. In such business, all the partners or any partners in the name of all partner, operate the business. All partners agree to share the profits or bear the loss in proportion to their investment and the partners are individually as well as collectively liable to business. In Nepal, a partnership firm must be registered in concerned department and there must be a written contract by all the partners.

CHARACTERISTICS (FEATURE) OF A PARTNERSHIP FIRM

Based on the meaning and definition of partnership firm, it's characteristics are as follows:

Number of persons: The main characteristic of partnership firm is that it is operated under the ownership of two or more people. Such a business organization cannot be operated by an individual. So, it is necessary to have a minimum of two persons. Generally a partnership firm has a maximum of *ten* partners if it is a banking organization and *twenty* partners if it is an ordinary or trade organization.

Based on agreement: A partnership firm is based on the mutual agreement between all the partners involved. Every matter related to business includes the course of action, does and don't, individual capital investment, profit sharing, the type of business selected etc., depends on the agreement made by the concerned partners. According to Partnership Act 2020, partnership agreement must be in the written form and submitted to the concerned department.

Unlimited liability: As in a sole trading concern, the partners in partnership firm have individual as well as collective liability. The only difference is that in a sole trading concern, the owner has to bear all the responsibility but in a partnership firm, it is collective. In a partnership firm, if any loan cannot be repaid on a personal basis, then every partner is liable to repay the same through his family possessions. Even then, if any partner is unable to repay then other partners have to bear the liability. Therefore, individually as well as collectively, the partners have unlimited liability towards the firm.

Based on utmost goodwill: Partnership business is based on the goodwill, trust and honesty among the partners. If there is dishonesty or lack of mutual trust on the part of the partners, the firm cannot function smoothly and ultimately it has to end operation.

Existence of business : Another characteristic of partnership is the existence of business. Partnership firm must be established by two or more people coming together for operating any business with the motive of making profit. The business must also be within the limits outlined by the law.

Sharing of profit: The profit is divided among the partners according to the proportion

of investments, but sharing may differ according to agreement between partners.

Principal-Agent relationship: In partnership organization, every partner is the owner of his share in the business and other partners are the agent. Therefore, in a partnership firm, principle agent relationship exists among the partners. Even if one partner is given the authority to act as the agent all the partners are equally responsible for his actions.

Compulsory registration: Official registration of a partnership firm is compulsory in most of the countries including Nepal. In Nepal, partnership act 2020 is applicable.

Restriction on transfer of interest: In a partnership business, no partner can transfer his interests according to his individual wish. If the transfer of interest has to make, then this can be done only with the permission of the other partners.

TYPES OF PARTNERS

If two or more person joins together and operates business according to a partnership deed, then it is called partnership business and the members are referred to partners. In partnership business, some partners may invest capital while other may actively undertake the management works. In this manner, the right, duty and liability of partners may be different. Depending on the ability, work, quality, rights and responsibilities, partners can be classified according to the following major types.

General Partner :Generally, partners have unlimited liability in any partnership business and this is one of the important characteristics. In this way, a member with unlimited liability towards the business is called a *general partner*. A general partner is a genuine member of a partnership firm. A general partner has the full right to participate in the partnership business and has liability for personal or collective loans taken for business. There

may be partners with limited liability but not all are of this type. Thus, a member with unlimited liability is called a general partner.

Limited Partner :In a partnership business, a member who bears liability only for the capital investment he makes is known as limited partner. If the partnership business goes in excess of the capital investment made by all the partners, the limited partner does not bear liability in excess of the capital he has invested. In comparison to a general partner, a limited partner has limited rights. Such a type of partner has no right to participate in management, control and supervision of the firm but can look into account and offer suggestions. A limited partner makes no contribution in the operation of the business, he only makes capital investment and takes profit. Generally, a few limited partners are included in a partnership firm with unlimited liability.

Nominal Partner :A Nominal partner is one who does not invest capital, does not participate in the management affairs and does not take profit but name is only included. Especially the names of respected and famous people are included as partners for name sake only. The reason behind this move is to give creditability to the partnership. Though, the nominal partner is not concerned with the management of the business and profit of the partnership firm like other general partners but he is liable to all other liabilities as other partners.

Active partner :Generally, not all the partners take an active role in the operation and management of the partnership. There are some partners for name sake, some who have not reached age and some who make capital investment but remain inactive as far as the management of the partnership firm is concerned. Partner who invest capital and participate full time in the operation and manager of the partnership business are known as

active partners. An active partner acts as the agent or representative of all the other partners and there by his responsibility is greater.

A part from these main 4 type of partner other types of partners are also exist. They are:

Minor partners :Normally, any person below age of 16 according to legal provision cannot be a signatory to a partnership deed and therefore cannot be a partner. But, consensus of all the partners can make it possible for a minor to be a partner. So, any minor below the age of 16 can be a partner by making capital investment in business. Such a person is referred as a *minor partner*. The minor partner has limited liability.

When admitting a

minor as a partner, his dividends are fixed and receives the profits at a specified rate. After the minor partner attains the age 16, decision must be made within six months whether he is to remain as a partner or not. This decision must be published through a public notice in the newspaper. If such a partner decides to remain a partner, his liability becomes unlimited.

Holding out partner : Holding out partner generally make no capital investment and is not concern with the profit and loss status of firm. A holding out partners is included for credibility in taking out loans from third parties.

Incoming partners : In a smoothly operating partnership business, through the consent of all the partners, if any new person is included as a partner then he is referred to as *incoming partner*. The incoming partner besides making the necessary capital investment must pay some amount in lien of the good will of the business.

Outgoing partners : Any partner who leaves the partnership firm is known as *outgoing partner*. Any member can leave the firm, running smoothly, on his own will or with the consent of all the other partners. In this manner, the outgoing partner gets back his capital investment together with the proportionate amount of profit calculated on the basis of goodwill of the business organization. The outgoing partner bears liability prior to the date of leaving only. A public notice is regarded on the sane.

Partner in profit only ; If any person is made a partner to share in the profit but not to bear the loss incurred by the firm, then such a member is called *partner in profit* only. Such a partner's liability is limited, as he receives profit in proportion to the capital he has invested. Such partner has no role in the management of business. Furthermore, he can not interfere in the activities of the firm but can put forth suggestions.

In this way, in partnership there are different type of partner's and their right and liability may varies accordingly to the types.

PARTNERSHIP DEED

Partnership business runs on the principle of mutual understanding and faith among partners. This makes it essential for the right selection of partners. For the partnership to be stable and successful, such people must be selected as partners who are able, honest, with aptitude regarding nature of business and are fit to conclude legal deeds concerning business. Generally, there is good understanding and co-operation among the partners in the beginning, but when difficulties arise, there exits misunderstanding and quarrels, which may lead to closure of

business. To avoid such controversies and problems, the members must sign the partnership deed. Before starting the business, the partners must describe all the details and conditions in preparing the partnership deed.

Partnership deed must include the rights, responsibilities and duties of all partners. Partnership deed may be both *verbal* or in *written* form. But written deed is a more safe and has a legal basis, so it is preferred. A partnership deed is a must to start any such business, so that no controversies may arise later on. If any controversies arise, then they can be resolved on the basis of partnership deed. The partnership deed mentions the activities that may be undertaken, the investment to be made by each partner, their rights, liability, responsibility and duty etc.

The partnership deed must be written in simple and comprehensible language. The deed must not raise any form of doubt or suspicion. Framing of the partnership deed thus, requires much forethought so that controversies in the future may not arise. Henceforth, it is better for a legal professional to be consulted in framing a deed. The partnership deed may vary according to the nature of business and types of partner. However, the following are some main points to be included in deeds:

- Name of the partnership firm
- Partnership firm's full address
- Nature of business, type of business and area.
- Objective of the partnership firm
- Name and address of partner
- Name and partners representative
- Capital investment of each partner
- Interest to be given on the capital investment of each partner
- Withdrawal of capital allowed or not
- Method of sharing profit/loss and proportion
- Facilities and remuneration to be given to each partner
- Partner's division of work
- Rights, duty and liability of the partners
- Authorized partner sign cheques, agreements etc., on behalf of the partnership firm
- Method of book keeping
- Auditing arrangement
- Work method to be followed for removal or death of any partner and admitting new partners
- Evaluation technique of firm's good will
- Arrangement of arbitration in the event of controversy, misunderstanding between partners without going to court
- Any prohibition on the partners
- Arrangement and system to be followed for dissolving the partnership

The partnership deed has to be carefully worked out so that it facilitates the long term

requirement of the firm. Any changes or amendments must be notified to the concerned department in writing within 35 days. The changes or amendments made must bear signature of all the partners.

MUTUAL RELATIONSHIP OF PARTNERS (MUTUAL RIGHTS AND OBLIGATION OF PARTNERS)

In partnership, mutual relationship refers to the relation that exists between the partners. It is related to their mutual understanding, brotherhood, rights, duty and liability. Every partner has to be aware of these, so that their relations are stable. The partnership deed is an important document which includes all the necessary details regarding the business organization. The deed also mentions the relationship between partners i.e., rights and obligations of partners. The rights and duties of mentioned in the partnership deed is based on the partnership act -2020. Generally, the rights and duties of partners are as follows:

Right of partners

1. **Right to conduct business and participate in management:** In partnership, every partner has the right to conduct business and participate in management. Unless otherwise mentioned in the partnership deed, every partner has the right to discuss business details and participate all the decision making process. In this way, the consensus of all the partners is essential in every business activity. General issues are agreed upon by the majority, while unanimous decision is made for important matters.
2. **Right to share in profit :**The profit made by the firm is mutually shared by partners. Every partner has the right to take profit. The sharing of profit is based on the provisions mentioned in the partnership

deed. If there is loss in business then the partners have to bear it in the same proportion as they share the profits.

3. **Right to inspect and take copy of the books of accounts :** Every partner has the right to inspect and get a copy of any part of the books of accounts whenever he feels like and the copy so taken must be attested by other partners.
4. **Right to get interest on additional capital ;**If any partner want to invest additional capital over the amount specified, then he is entitled to receive interest not exceeding 10%.
5. **Right to be indemnified :**The partners have the right to take the needful measures to save the firm from any crisis.
6. **Right to use partnership property :**Every partner has equal right to the property of the partnership. Similarly, all partners have the right to use partnership properly but not for personal use.
7. **Right to separate from the firm :**Every partner has the right to dissociated himself from the firm but for this the consensus of the entire partner is necessary.
8. **Right to remuneration :**Generally, not all the partners are active, only a few look after the management and day to day business. For those who actively participate in the management activities, provision of adequate remuneration is clearly made in the partnership deed. So, it is the right of the partner is to get remuneration for their active role in conducting business and management affairs.
9. **Right to change :**For any change related to business, there has to be total agreement among all partners. This is their right. In partnership, any changes in the deed or business related matters have to be notified to the concerned department through a notice within 35 days.
10. **Right to express opinion :**Every partner has the right to express has opinion regarding business related matters of the firm. The decision making process of the firm is based on the discussion between all the partners where every members has the right to express himself freely. In this manner, decisions on important issues are made through the majority.
11. **Right to dissolution of partnership firm :**It is the right of the partners to dissolve the partnership firm through their consensus.
12. **Right to appeal :**If the department, where the partnership firm is registered due to specific reason dissolves the firm and penalizes the firm, then the partners have the right to appeal to the supreme court with in 35 days of receiving the notice in case they are not satisfied with the departments decision.

Duties of partners

1. **Use of firm's property for business purpose** :A partnership firm's property is the common property of all the partners, therefore the duty of partner is to use such property only for business purpose. Unless mentioned in the partnership deed, the firm's property cannot be used for personal purpose.
2. **To work within the authority** :In partnership business, every partner has to work within the limit specified and if he crosses the limits or misuses authority then the firm is not responsible for the action. The partner himself will be held responsible if he does not work within the authority rested in him. This is his duty to remain within authority.
3. **Mutual faith and honesty** :Partnership firm operates successfully, if there exist mutual faith and honesty among the partners. It is the duty of every partner to work with honesty and have faith on all the other partners. If dishonesty prevails, then the business has a short life.
4. **To share the loss** :In partnership business, if loss is incurred it must be borne by all the partners in proportion to the amount of capital that each member has invested. Hence, if the firm goes in loss then it is the duty of the partner to bear the loss.
5. **Permission for transfer of interest** :The official consent of all the other partners is necessary if any partner decides to transfer his interests in the partnership firm to a third party. Hence, it is the duty of partner to ask for consent for the transfer of interest.
6. **To render true accounts**: It is the duty of every partner to keep true accounts of the firm's transactions.

7. **To work for the greatest common advantage:** All the partners have the duty to work collectively for the welfare and progress of the business organization. The partner must have a feeling that the firm is everyone's concern and they have the duty to work for its progress and increase the profits.

The partners while utilizing their rights must not forget the duties to be fulfilled by them. Without fulfilling the duties, rights cannot be utilized. Rights and duties are two sides of the coin and are complementary to each other.

DISSOLUTION OF PARTNERSHIP AND PARTNERSHIP FIRM IN NEPAL

Partnership business is formed through the partnership deed between the partners. Accordingly, if any partner breaks relations and other partners carry on the business operation, in that situation, deed is considered null and void, in other words, the dissolution of partnership. On the other hand, if the relationship between all the partners breaks then it is considered as the dissolution of the partnership firm. Therefore, there exist a difference

between the *dissolution of partnership and partnership firm*.

If any partner breaks relation with the other partners and the remaining partners want to continue business then the earlier made partnership deed become redundant which means the end or dissolution of the partnership. For example, if a partner wants to leave the partnership or dies or declares insolvency or is expelled, the partnership deed is automatically cancelled and partnership ends. The other partners, if they want to continue business, they formulate new deed. The end of partnership does not necessarily mean the end of partnership business; it only means the partnership deed becomes null and void.

When the relation between all the partner breaks and business is closed down then it means the dissolution of the partnership but not necessarily the dissolution of the partnership firm. Even though the partnership ends, business can be operated under the previous name but with a new partnership deed. So ever if the partnership ends, the business can be operated again but, if the firm is dissolved the business has to be closed down and the partnership also ends.

In this manner, even though there is great difference between the dissolution of partnership and dissolution of partnership firm, the partnership act 2020 of Nepal does not differentiate between the two which leads to controversies. A clearer picture of the differences between the dissolution of partnership and dissolution of partnership firm can be made through the following method.

Dissolution of partnership

Partnership is dissolved in the following circumstances

- On the death of any partner
- On the insolvency of any partner
- If any partner voluntarily wants to leave the partnership
- If any partner is expelled from the partnership
- If any partner becomes a mental patient or unable to conclude agreements.

Dissolution of partnership firm

A partnership firm is dissolved under the following circumstances and relation between the partners break up and the existence of the firm ends.

1. **Dissolution by agreement:** A partnership firm is established according to the deed prepared by mutual consent of the partners and similarly with every one's agreement, on the basis of deed, the firm can be dissolved at any time.
2. **Dissolution by the end of fixed period: If,** according to the partnership deed the firm is established for a fixed period then it is automatically dissolved once the term is completed.
3. **Dissolution on the completion of fixed work: If,** according to the partnership deed, the firm is established for one or more specific work then it is automatically dissolved on the completion of work.
4. **Dissolution on the death or insolvency of partners: On** the death or insolvency of one partner or the entire partner, the firm is automatically dissolved.
5. **Dissolution if the business becomes illegal :** If the business of the firm is contrary to the law or changes in country's law makes the previous legal business illegal then the firm has to be dissolved automatically. But if a firm is engaged in business which becomes illegal can be abandoned and it is not necessary for the dissolution of the firm.

According to the partnership act 2020, the dissolution of partnership firm must be publicly notified. If a public notice to this effect is not made or the third party has no knowledge of the dissolution, then the partners have to bear the liability for any business conducted in the firm name. But a death partner or insolvent partner has not to bear any liability.

EVALUATION OF PARTNERSHIP FIRM (MERIT AND DEMERIT OF PARTNERSHIP FIRM)

Advantage of partnership firm

To operate business through the establishment of partnership firm has many advantages. Some of the advantages of a partnership are as follows :

1. **Ease of formation:** Establishment of partnership firm is easy because of lesser legal formalities have to be fulfilled. It can be established with minimum of expenses. Two or more people can establish partnership any time based on mutual contract. The partnership firm is registered according to partnership act 2020, which is very simple and easy process.
2. **Larger financial resources:** The partnership organization can have larger financial resources because of more capital investment from the partners and loans are easily available.
3. **Combined abilities:** As people of different abilities are joined together, efficient management and joint effort is possible. Division of work according to skill, knowledge and ability of partners is easier. Therefore, the combined ability of the partners leads to efficient management and success of the business.
4. **Quick and balanced decisions:** As all the terms and conditions are specified in partnership deeds, quick and balanced decisions could be taken on partnership firm.
5. **Great incentive to work:** In this form of business, the partners them selves are the owners as well as managers. As all profit or loss and business are shared by the partners, there is a great incentive to work for the success of the business. In this manner, the members work hard and enthusiastically which leads to the development of business there by a commensurate increase in profit.
6. **Flexibility :** Partnership business has the added quality of flexibility. Changes regarding business modalities can be made as and when needed. In doing so, there is no legal complication, consensus among the partner with the minimum of legal formalities have to be fulfilled. Changes regarding the increase or decrease in business size, starting new business, admitting new partners etc., can be done by consensus of the partners when need arises. According to the

partnership act of Nepal, any changes made must be notified in writing to the concerned department.

7. **Secrecy** : In partnership business, business secrecy can be maintained. The progress report, balance sheet etc., do not have to be made public through newspaper as needed in Joint Stock Company. This improves secrecy of partnership business.
8. **Democracy** :Partnership is conducted as per the democratic system. The management of the business is done by all the partners and everyone of them has the right to participate and express their view regarding the subject matter. The consensus of all members is necessary to make any amendment, changes or reforms in business matters.
9. **Better relation with customers and employees** : As the business management is done by partners themselves, it is convenient to deal directly with customers, employees and other business men. This makes it easier for partners to satisfy the customers and employees by taking in to consideration of their needs, problems etc. In business, good relation with customers aids the development and goodwill of the business.
10. **Continuity of business**: In comparison to the sole trading concern, partnership firm has continuity and hence it has permanency. Other partner can continue business activities even on the death of any member. More ever, in partnership various types of business activities are undertaken, so the loss in one type of venture can be compensated from other type of business. Therefore in partnership there is continuity of business and there by stability of business.

Disadvantage of partnership business

In spite of numerous benefits of partnership, there are some disadvantages also. The main disadvantages of partnership business are as follows:

1. **Unlimited liability:** A major draw back of partnership is the unlimited liability of partners towards the business. If the business incurs loss the partners have to repay the loans even from their household sources.
2. **Mutual friction and differences:** In partnership, smooth functioning of business is only possible when there is co-ordination and understanding among all partners involved. If there is mutual friction or differences, then possibility arises to wind up the business. As there are many partners, there are times when mutual differences emerge, which makes it difficult to arrive at correct decision and the business suffers. The greater, the number of members, the greater the possibility of mutual friction and differences.
3. **Difficult in transferring ownership:** It is not easy for a partner to transfer ownership in a partnership without consent of all the other partners. Even, if there is opposition from one member, the process of transfer of ownership becomes difficult. This is the reason for some to hesitate from investing in partnership venture.
4. **Risk from dishonest partner:** Another disadvantage can arise from a dishonest partner. In fact, mutual trust and good will among partners are the basis of partnership. If any partner breaks the trust, then all the members have to suffer. The harms arising from the misuse of authority or dishonesty on the part of any partner has to be borne by all the members. This lead to a split and the business secrets get revealed (exposed) to the detriment (loss) of the business.
5. **Liability after retirement:** Even if a partner retires from partnership, his liability does not end instantly. The partner is not absolved of his liability even after his retirement. Notice has to be published in newspaper of his retirement as public information. Otherwise he will be held liable for the business activities carried out by the firm even after his retirement.
6. **Less public confidence:** Partnership business is not excessively controlled by the government on a legal basis. The progress report, economic status accounts etc., do not have to be publicly reported. Therefore, the public has no idea about the activities of the partnership firm. This may lead to less confidence of the public in the partnership.
7. **Delay in work:** In any business, quick decisions have to be made and implemented according to the needs and situation for success. But in partnership, decisions have to be made by the concern of all the partners then, there is naturally delay in work. Moreover, if there are differences among partners', arriving at decisions becomes difficult. Therefore, delayed decisions may impair the business growth.
8. **Unsuitable for large scale business:** The number of partners in a partnership

firm is limited as per legal provisions. Generally, the numbers of partners are limited to 10 in a banking firm and 70 in others. Due to limited number of partner, the capital raise is also limited. Unlimited liability of the partners, discourage capital investment for the development of the business. However, in contrast to capital raising difficulties number of partners is kept low to maintain mutual understanding and co- ordination. Because of these reasons, capital resources are limited and the business can not expand to a greater extent.

JOINT STOCK COMPANY

The emergence of mass production system and industrial revolution brought about the radical change in the form of business organization. The global market has aroused the need of huge capital investment, better and efficient management and risk bearing capacity in the operation of business leading to the formation of another type of industrial ownership called "*Joint Stock Company*".

A joint stock company has the capacity to raise adequate capital for operating business on large scale, together with the capacity to bear greater risk. It is an independent business organization established as per legal provision by people as shareholders making capital investment. The shareholders of Joint Stock Company have limited liability. Some share holders are selected as members of the management committee to oversee the business activity of the company. There is a common seal which is used on the relevant papers dealing with the company's business. It is permanent in nature and thus, exists or death of any of shareholders or bankruptcy does not affect the existence of the company. Such share can be independently transferred. Joint Stock Company was supposed to start at 14th century in Italy. In Nepal, in 1993 BS (1936 AD), company act laid the foundation for the establishment of joint stock company. Biratnagar Jute Mill way the first company to be established under this act in 1993 Bs. The act has been revised many times and at present company act 2053 BS (1997) is under action.

FEATURE OF JOINT STOCK COMPANY

The main features of a joint stock company are as follows:

- (a) **An artificial person created by law:** Joint stock companies are established by law and come into existence only after the various legal formalities have been fulfilled. In a way, the company is like an artificial person created by law and has the right to operate business as any other normal person is. The company can buy assets, conclude contracts and be involved in other business activities. In some manner, the company can file litigation (court case) against others and vice versa. The management committee formed according to provision of law (made up of selected shareholders) acts in the name of company.
- (b) **District legal entity:** An important feature of Joint Stock Company is its legal entity. The company has a separate existence as per the law. Its existence is separate from the existence of its owner or shareholders. No shareholders are held responsible for the acts of the company and similarly the company is not held responsible for the actions of the shareholders. The shareholders are the owners of the company but they are not its agents. The company does not close even if the shareholders die or go bankrupt. This is to say that the company has a district legal existence and so is different from its owners, the shareholders.
- (c) **Limited liabilities:** The liabilities of shareholders are limited. Their liability towards the company is limited to the shares that they have bought. Therefore, if the company goes bankrupt the shareholders liability is limited to the shares that they have invested in it. The shareholder's liability is limited to the *face value* of the shares that they have bought.
- (d) **Division of authorized capital:** Another feature of the company is that its authorized capital is divided into units i.e., The authorized capital is divided into various lots of shares. The people buying the shares are the owners of the company and are known as shareholders.
- (e) **Perpetual existence:** Life of joint stock company is more stable and long lasting than other forms of business organization. The life of a joint stock company is not dependent on the life of its shareholder's as in the case with the sole trading concern and partnership firm. There is no impact on the company even on the death or mental sickness of any shareholders or if any shareholder becomes bankrupt or leaves the company or transfer his shares.
- (f) **Common seal:** The company has a seal in its name which is marked on its business related documents. The seal is important because when it is affixed, it proves the authenticity of the document and hence must be kept safely.
- (g) **Transfer of shares:** The shareholders of a public limited company can transfer their share independently without the consent of other shareholders. This facilitates the shareholders in either selling or transferring the shares or mortgaging them when he is in need of cash for his personal requirement.
- (h) **Lack of secrecy:** The progress report and accounts must be made known to the

shareholders as well as people through public notification, which makes it impossible to maintain secrecy. Lack of maintaining secrecy is a characteristic of joint stock company, unlike in the sole trading concern and partnership firm. Every shareholder has the right to get information about the activities of the company.

- (i) **Number of members:** In a public company the minimum number of shareholders is seven, while the maximum number can be according to the number of share issued. The minimum and maximum number of shareholders in private company is 2 and 50 respectively.
- (j) **Management:** The operation and management of the company is in the hands of the management committee, which consists of selected/elected members from shareholders.

CLASSIFICATION OF JOINT STOCK COMPANY

The joint stock company can be as ; private company, public company, government company, non government company, national and foreign company etc. However a very basic classification is to classify as private company and public company.

Private company

The shares of private company is not sold or purchased freely in the market and the transfer of interest is not allowed by the shareholders. Such company has a minimum two and maximum fifty shareholders. The company can use name private limited at the end of official name. The main features of private company are as follows:

- There must be a minimum of two and maximum of fifty shareholders.
- The company's share can not be sold/purchased freely in the market.
- Transfer of interest is not allowed without the company's permission.
- The shareholders must be represented in board of directors.
- The company does not have to bring out its prospectus.
- The company can initiate business as soon as it is registered.
- The company does not have to make public its progress report and annual report.

Any company with the abovementioned features is called a ***private limited company*** , in Nepal private company in established under company act 2053.

Public company

A public company is one where the public can openly sell or purchase shares in the market, transfer the interest can be done independently. It has a minimum of 7 shareholders to a maximum of any number and is established under the company act. A company has fewer limitations as compared to a private company. A public company has the following features:

- The minimum number of shareholders is seven and the maximum can be any number.
- A minimum of three and maximum up to eleven shareholders must be represented in the boards of directors.
- The shareholders can independently sell, mortgage or transfer their share and for this permission from the company is not needed.
- The company's name must include limited at the end.
- The company can public its prospectus appealing to the public to buy its share and debentures.
- The company must publicly make its prospectus and accounts known to its shareholders and the people.
- After registration with the concerned department, the company must get the certificate to commerce business before it can operate business.

In Nepal, public companies are established under the provisions of the company act - 2053. As expressed earlier, Joint Stock Company is various types except private and public company. Some companies are public companies that are incorporated under special act. These are called *statutory company*. These company's right duty and liability is mentioned on the act under which it is established e.g., Nepal Electricity Authority, Nepal Rastra Bank, Employees Provident Fund, RNAC etc.

Similarly company can be government Company or non governmental company. A company established solely by the government with the participation of the private sector under the company act is known as *government company*. Government Company is a type of public company, on such company government may have full or partial ownership (51 or 49% share). Apart from the government company, all the companies that are established under company act are non governmental company.

ADVANTAGE AND DISADVANTAGE OF JOINT STOCK COMPANY

Joint Stock Company offers the following advantage:

- (a) Stable existence
- (b) Large volume of capital collection
- (c) Sound management

- (d) Transfer of shares
- (e) Opportunity of business expansion
- (f) Limited liability
- (g) Public confidence
- (h) Tax privileges
- (i) Research and development
- (j) Democratic management

Joint Stock Company offers the following disadvantage:

- (a) Difficult to establish
- (b) More legal formalities
- (c) Lack of secrecy
- (d) Limited field work
- (e) Negligence of shareholders
- (f) Evils of large scale business
- (g) Possibility of negligence in management.
- (h) Possibility of fraud by promoters.