1. Details of Module and its structure

Module Detail	
Subject Name	Business Studies
Course Name	Business Studies 01 (Class XI, Part- 1)
Module Name/Title	Forms of Business Organisation / Types of Companies, Choice of form of Business Organisation – Part 7
Module Id	kebs_10207
Pre-requisites	Knowledge about types of companies, Choice of form of Business Organisation
Objectives	• Types of Companies – Private Company and Public Company • Choice of form of Business Organization
Keywords	Private Company, Public Company, Ownership, Control, Finance, Income, Factors affecting form of business organisation

2. Development Team

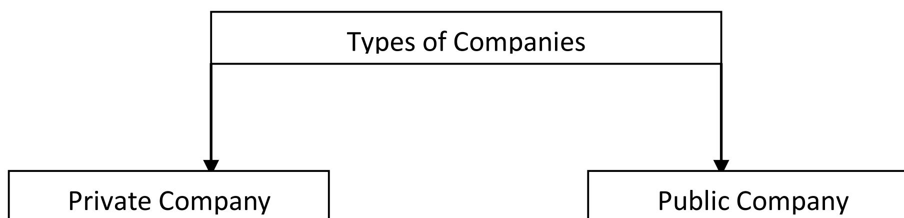
Role	Name	Affiliation
National MOOC Coordinator	Prof. Amarendra P. Behera	CIET, NCERT, New Delhi
Program Coordinator	Dr. Rejaul Karim Barbhuiya	CIET, NCERT, New Delhi
Course Coordinator (CC) / PI	Dr. Punnam Veeraiah	CIVE, RIE Campus, Bhopal
Course Co-Coordinator / Co-PI	Dr. Nidhi Gusain	CIET, NCERT, New Delhi
Subject Matter Expert (SME)	Mrs. Madhu Vaswani	Delhi Public School, Mathura Road, New Delhi
Review Team	Dr. Munipalle Usha	UPGC, Osmania University, Hyderabad
Technical Team	Mr. Shobit Saxena Ms. Khushboo Sharma	CIET, NCERT, New Delhi CIET, NCERT, New Delhi

Table of contents:

1. Types of Companies – Private Company and Public Company
2. Choice of form of Business Organization

1. Types of Companies

A company can be either a private company or a public company.



I. Private Company

Section 2(68) of Companies Act, 2013 defines private companies. According to that, private companies are those companies whose articles of association restrict the transferability of shares and prevent the public at large from subscribing to them. This is the basic criterion that differentiates private companies from public companies.

Private Company is a company whose **shares may not be offered to the public** for sale and which operates under legal requirements less strict than those for a public company.

A private company is a firm held under private ownership. Private companies may issue stock and have shareholders, but their shares do not trade on public exchanges and are not issued through an initial public offering (IPO). As a result, private firms do not need to meet the SEBI's (Securities Exchange Board of India) strict filing requirements for public companies.

Remaining a private company, however, **can make raising money more difficult**, which is why many large private firms eventually choose to go public through an IPO. Private companies do have access to bank loans and certain types of equity funding.

Private companies can have a maximum of 200 members (except for One Person Companies). This number does not include present and former employees who are also members.

This definition had previously prescribed a minimum paid-up share capital of Rs. 1 lakh for private companies, but an amendment in 2005 removed this requirement. Private companies can now have a minimum paid-up capital of any amount.

All private companies must include the words "Private Limited" or "Pvt. Ltd." in their names.

A private company means a company which:

a) restricts the right of members to transfer its shares;

b) has a minimum of 2 and a maximum of 200 members, excluding the present and past employees;

c) does not invite public to subscribe to its securities and It is necessary for a private company to use the word private limited after its name. If a private company contravenes any of the aforesaid provisions, it ceases to be a private company and loses all the exemptions and privileges to which it is entitled.

Restricts the right of members to transfer its shares

Has a minimum of 2 and a maximum of 200 members

Does not invite public to subscribe to its securities

Example: Rajiv owns a garments shop with his two brothers. They decided to diversify its business by creating a company that will manufacture garments. They are facing some financial difficulties in this regard. They collectively have just Rs. 80,000 as capital. Furthermore, they wish to limit their liabilities because of such financial shortcomings. Under such conditions, Rajiv and his brothers can incorporate a private company. Although the Companies Act had previously prescribed a minimum capital requirement of Rs. 1 lakh, this is now omitted.

Since private companies do not freely transfer their shares and involve limited interest by members, the law has granted them several exemptions that public companies do not enjoy.

Some prominent examples of Private Company in India

- Marriott Hotels India Pvt. Ltd. - Registered Office: Mumbai
- American Express (India) Private Limited- Registered Office: Delhi
- Life Style International Private Limited -Registered Office: Bangalore

The following are some of the **privileges of a private limited company** as against a public limited company:

1. A private company can be formed by only two members whereas seven people are needed to form a public company.
2. There is no need to issue a prospectus as public is not invited to subscribe to the shares of a private company.

3. Allotment of shares can be done without receiving the minimum subscription. A private limited company can start business as soon as it receives the certificate of incorporation.
4. A private company needs to have only two directors as against the minimum of three directors in the case of a public company. However, the maximum number of directors for both types of companies is fifteen.
5. A private company is not required to keep an index of members while the same is necessary in the case of a public company. Public Company A public company means a company which is not a private company.

II. Public Company

A public company means a company which is not a private company. A public company, sells all or a portion of itself to the public via an initial public offering (IPO), meaning shareholders have a claim to part of the company's assets and profits.

The Dutch East India Company (VOC) became the first company in history to issue bonds and shares of stock to the general public. In other words, the VOC was officially the first publicly traded company, because it was the first company to be ever actually listed on an official stock exchange.

Some prominent examples of Public Company in India

- Reliance Industries Limited.
- Bharat petroleum corporation ltd
- Kotak Mahindra Finance Ltd.

As per The Companies Act, a public company is one which:

a. has a minimum of 7 members and no limit on maximum members;
b. has no restriction on transfer securities; and
c. is not prohibited from inviting the public to subscribe to its securities. However, a private company which is a subsidiary of a public company is also treated as a public company.

Public Company has a minimum of 7 members and no limit on maximum members

Public Company has no restriction on transfer securities

Public Company is not prohibited from inviting the public to subscribe to its securities.

Advantages of a Public Company

Public companies possess some of the following advantages over privately held businesses:

- Publicly traded companies are able to raise funds and capital through the sale of shares of stock whereas it is very difficult to obtain large amounts of capital for private enterprises.
- The financial media, analysts, and the public are able to access additional information about the business, regarding the financial status and future of the company to its many shareholders and the government.
- Because many people have a vested interest in the company's success, the public company may be more popular or recognizable than a private company.
- The initial shareholders of the company are able to share risk by selling shares to the public. For example, in 2013 Facebook founder Mark Zuckerberg owned 29.3% of the company's class A shares, which gave him enough voting power to control the business, while allowing Facebook to raise capital from, and distribute risk to, the remaining shareholders. Facebook was a privately held company prior to its initial public offering in 2012.
- If some shares are given to managers or other employees, potential conflicts of interest between employees and shareholders would be removed. As an example, in many tech companies, entry-level software engineers are given stock in the company upon being hired (thus they become shareholders). Therefore, the engineers have a vested interest in the company succeeding financially, and are incentivized to work harder and more diligently to ensure that success.

Disadvantages of a Public Company

It is compulsory for publicly traded companies to have their accounts regularly audited by outside auditors, and then publish the accounts to their shareholders.

- Besides the cost, this may make useful information available to competitors. Various other annual and quarterly reports are also required by law.
- The principal-agent problem or the agency problem is a key weakness of public companies. There is separation of a company's ownership and control. Because a public company is owned and invested by large number of shareholders but controlled by limited number of Board of Directors.

Difference between Public Company and Private Company:

Basis of Difference	Private Company	Public Company
1. Meaning	A private company is one that is not listed on a stock exchange and its securities are held privately by its members.	The public company refers to a company that is listed on a recognized stock exchange and its securities are traded publicly.
2. Name	For a private company, it is mandatory to write the words “private limited” at the end of its name.	A public company need not include the word “private” in its name.
3. Number of Members	A private company can be started with a minimum of 2 members and can have a maximum of 200 members including its past and present employees.	There must be at least seven members to start a public company. There must be at least seven members to start a public company. There is no ceiling on the maximum number of members in a public company.
4. Number of Directors	A private company can have a minimum of 2 directors.	A public company should have at least three directors
5. Quorum	Presence of two members is an adequate quorum for the	It is compulsory to call a statutory general meeting of

	general meeting in case of a private company.	members, in the case of a public company. On the other hand, there must be at least five members, personally present at the annual general meeting for constituting the requisite quorum in case of a public company.
6. Commencement of Business	A private company can start its business just after receiving a certificate of incorporation.	To start a business, the public company needs a certificate of commencement of business after it is incorporated.
7. Articles of Association	A private company must prepare and file its own Articles of Association.	A public company can adopt the model Articles of Association given in the Companies Act.
8. Invitation to public to subscribe to shares	Cannot invite public to subscribe to its shares	Can invite public to subscribe to its shares
9. Transferability of Shares	The transferability of shares of a private company is completely restricted.	On the contrary, the shareholders of a public company can freely transfer their shares.
10. Restrictions on the Appointment of Directors	Any restrictions related to appointment of Directors do not apply to a private company.	A director of a public company shall file with the registrar consent to act as such. He/she shall sign the memorandum and enter into a contact for qualification shares. He/she cannot vote or take part in the discussion on a contract in which he/she is interested. Two-thirds of the directors of a public

		company must retire by rotation.
11.Index of members	It is not compulsory to maintain Index of members.	It is compulsory to maintain Index of members.

Key Takeaways

- In most cases, a private company is owned by the company's founders, management, or a group of private investors.
- A public company is a company that has sold all or a portion of itself to the public via an initial public offering.
- The main advantage public companies have is their ability to tap the financial markets by selling stock (equity) or bond

Choice of form of business organisation

After studying various forms of business organisations, it is evident that each form has certain advantages as well as disadvantages. It, therefore, becomes vital that certain basic considerations are kept in mind while choosing an appropriate form of organisation. The important factors determining the choice of organisation are discussed as follows:

(i) Cost and ease in setting up the organisation: As far as initial business setting-up costs are concerned; sole proprietorship is the most inexpensive way of starting a business. However, the legal requirements are minimum and the scale of operations is small. In case of partnership also, the advantage of less legal formalities and lower cost is there because of limited scale of operations. Cooperative societies and companies have to be compulsorily registered. Formation of a company involves a lengthy and expensive legal procedure. From the point of view of initial cost, therefore, sole proprietorship is the preferred form as it involves least expenditure. Company form of organisation, on the other hand, is more complex and involves greater costs.

(ii) Liability: In case of sole proprietorship and partnership firms, the liability of the owners/partners is unlimited. This may call for paying the debt from personal assets of the owners. In joint Hindu family business, only the karta has unlimited liability. In cooperative societies and companies, however, liability is limited and creditors can force payment of their claims only to the extent of the company's assets. Hence, from the point of view of investors, the company form of organisation is more suitable as the risk involved is limited.

(iii) Continuity: The continuity of sole proprietorship and partnership firms is affected by such events as death, insolvency or insanity of the owners. However, such factors do not affect the continuity of business in the case of organisations like joint Hindu family business, cooperative societies and companies. In case the business needs a permanent structure, company form is more suitable. For short term ventures, proprietorship or partnership may be preferred.

(iv) Management ability: A sole proprietor may find it difficult to have expertise in all functional areas of management. In other forms of organisations like partnership and company, there is no such problem. Division of work among the members in such organisations allows the managers to specialise in specific areas, leading to better decision making. But this may lead to situations of conflicts because of differences of opinion amongst people. Further, if the organisation's operations are complex in nature and require professionalised management, company form of organisation is a better alternative. Proprietorship or partnership may be suitable, where simplicity of operations allow even people with limited skills to run the business. Thus, the nature of operations and the need for professionalised management affect the choice of the form of organisation.

(v) Capital considerations: Companies are in a better position to collect large amounts of capital by issuing shares to a large number of investors. Partnership firms also have the advantage of combined resources of all partners. But the resources of a sole proprietor are limited. Thus, if the scale of operations is large, company form may be suitable whereas for medium and small sized business one can opt for partnership or sole proprietorship. Further, from the point of view of expansion, a company is more suitable because of its capability to raise more funds and invest in expansion plans. It is precisely for this purpose that in our opening case Neha's father suggested she should consider switching over to the company form of organisation.

(vi) Degree of control: If direct control over operations and absolute decision making power is required, proprietorship may be preferred. But if the owners do not mind sharing control and decision making, partnership or company form of organisation can be adopted. The added advantage in the case of company form of organisation is that there is complete separation of ownership and management and it is professionals who are appointed to independently manage the affairs of a company.

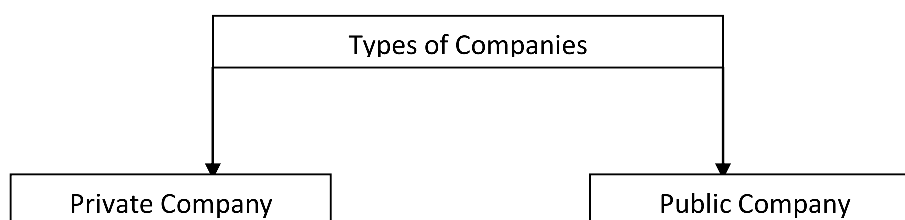
(vii) Nature of business: If direct personal contact is needed with the customers such as in the case of a grocery store, proprietorship may be more suitable. For large manufacturing units, however, when direct personal contact with the customer is not required, the company form of organisation may be adopted. Similarly, in cases where services of a professional nature are required, partnership form is much more suitable.

All the factors stated above are inter-related. Factors like capital contribution and risk vary with the size and nature of business, and hence a form of business organisation that is suitable from the point of view of the risks for a given business when run on a small scale might not be appropriate when the same business is carried on a large scale. It is, therefore, suggested that all the relevant factors must be taken into consideration while making a decision with respect to the form of organisation that should be adopted.

Summary

Types of Companies

A company can be either a private company or a public company.



Private Company

Section 2(68) of Companies Act, 2013 defines private companies. According to that, private companies are those companies whose articles of association restrict the transferability of shares and prevent the public at large from subscribing to them.

A private company means a company which:

a. restricts the right of members to transfer its shares;
b. has a minimum of 2 and a maximum of 200 members, excluding the present and past employees;
c. does not invite public to subscribe to its securities and It is necessary for a private company to use the word private limited after its name.

The following are some of the **privileges** of a private limited company as against a public limited company:

a. A private company can be formed by only two members whereas seven people are needed to form a public company.
b. There is no need to issue a prospectus as public is not invited to subscribe to the shares of a private company.
c. Allotment of shares can be done without receiving the minimum subscription. A private limited company can start business as soon as it receives the certificate of incorporation.
d. A private company needs to have only two directors as against the minimum of three directors in the case of a public company. However, the maximum number of directors for both types of companies is fifteen.
e. A private company is not required to keep an index of members while the same is necessary in the case of a public company. Public Company A public company means a company which is not a private company.

Public Company

As per The Companies Act, a public company is one which:

a. has a minimum of 7 members and no limit on maximum members;
b. has no restriction on transfer securities; and
c. is not prohibited from inviting the public to subscribe to its securities. However, a private company which is a subsidiary of a public company is also treated as a public company.

Choice of form of business organisation

The important factors determining the choice of organisation are listed and are discussed as follows:

i. Cost and ease in setting up the organisation
ii. Liability
iii. Continuity
iv. Management ability
v. Capital considerations
vi. Degree of control
vii. Nature of business

It is, suggested that all the relevant factors must be taken into consideration while making a decision with respect to the form of organisation that should be adopted.