**What are the factors that affect the Choice for the Form of Organisation?**

The choice of the most suitable form of business organisation is a crucial decision because it affects the rights and liability of the owners. Therefore, the choice should be made with great thought and deliberations.

Each form of business organisation has its own merits and demerits. These merits and demerits should be duly considered before selecting the form of organisation. The factors which affect the choice of the form of business organisation are given below:

**1. Nature of business:**

The nature of business has an important bearing on the choice of the form of ownership. Businesses providing direct services, e.g., small retailers, hair-dressing sa­loons, tailors, restaurants, etc., and professional services, e.g., doctors, lawyers, etc., depend for their success upon personal attention to customers and the personal knowledge or skill of the owners and are, therefore, generally organised as proprietary concerns.

Business activities requir­ing pooling of skills and funds, e.g., wholesale trade, accounting firms, tax consultants, stock broker, etc., are better organized as partnerships. Manufacturing organisations of large size are more commonly set up as private and public companies.

**2. Size and area of operations:**

Large scale enterprises catering to national and interna­tional markets can be organised more successfully as private or public companies. The reason is that large sized enterprises require large financial and managerial resources which are beyond the capacity of a single person or a few partners.

On the other hand, small and medium scale firms are generally set up as partnership and proprietorship. Small scale enterprises like hairdressers, baker­ies, laundries, workshops, etc., cater to a limited market and require small capital.

The risk and liability are not heavy and the management problems can easily be handled by the owner himself. Therefore, the owner likes to be his own master by organising as a sole proprietor.

Medium-sized enterprises and profes­sional firms, e.g., health clinics, chartered accountants, etc. are predominantly partnerships.

They pool their capital and expertise to operate on a larger scale and to avail of the benefits of specialisation. Large scale enterprises and enterprises involving heavy risks, e.g., engineering firms, departmental stores, five-star hotels, chain stores, etc. are normally organised as companies. These enterprises require huge capital, heavy risks and expert managers.

Proprietary and partner­ship firms are unable to provide these resources. The company form is, therefore, best suited to large scale enterprises.

Similarly, where the area of operations is wide spread (national or interna­tional), company ownership is appropriate. But if the area of operations is confined to a particular locality, sole proprietorship or partnership will be a more suitable choice.

**3. Degree of control desired:**

A person who desires direct control of business prefers propri­etorship rather than the company because there is a separation of ownership and management in the latter case. In case the owner is not interested in direct personal control but in large scale operation, it would be desirable to adopt the company form of ownership.

**4. Amount of capital required:**

The funds required for the establishment and operation of a business has an important impact on the choice. Enterprises requiring heavy investment, i.e., iron and steel plants, etc., should be organised as joint stock companies.

A partnership has to be converted into a company when it grows beyond the capacity and resources of few persons. Requirements of growth and expansion should also be considered in making the choice.

There is maximum scope for expansion in case of a public company. Where the funds required initially are small and scope for expansion is not desired, proprietorship or partnership is a better choice.

**5. Degree of risk involved:**

The volume of risk and the willingness of owners to bear it, is an important consideration. A single individual may have large financial resources sufficient for a medium scale enterprise but due to unlimited personal liability he may not like to organise as a proprietorship or a partnership.

Due to limited liability and a large number of shareholders, there is maximum diffusion of risk in a public company. But an enterprising individual not afraid of unlimited liability may go in for sole proprietorship.

**6. Division of surplus:**

A sole trader receives all the profits of his business but he also bears all the risks. If a person is ready to bear unlimited personal liability and desires maximum share of profits, proprietorship and partnership are preferable to company form.

**7. Duration of business:**

Temporary and ad-hoc ventures can be organised as proprietorships and partnerships as they are easy to form and dissolve. But they lack continuity and stability. Enterprises of a permanent nature can be better organised as joint stock companies and coopera­tives because they enjoy perpetual succession.

**8. Government regulation and control:**

Proprietorships and partnerships are subject to little regulation and control by the Government. Companies and cooperatives are, on the other hand, subject to severe restrictions and have to publish their accounts. It is also easier to maintain secrecy of business in case of proprietorship and partnership.

**9. Flexibility of operations:**

Businesses which require a high degree of administrative flex­ibility should better be organised as proprietorships or partnerships. Flexibility of operations is linked with the internal organisation of a business.

The internal organisation of sole proprietor­ship and partnership is much simpler and less elaborate than the internal organisation of a joint stock company. Moreover, the objectives and powers of a company cannot be changed easily or without legal formalities.