

# Essential requisites of an ideal form of business organisation essay sample



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1. What are the essential requisites of an ideal form of business organisation? Explain the criteria for the selection of the form of organisation.

Answer:- Before undertaking a description of the various forms of organisation and their respective merits and weaknesses it will be desirable to refer to the features which make for an ideal form of business organisation. These characteristics will be found applicable to the various forms of organisation in varying degrees. In choosing a particular form of organisation an entrepreneur will try to find out how far his requirements will be met by a particular form of organisation. The following factors will be taken into account.

(i) Ease of formation:

An ideal form of organisation is one which can be brought into existence with the least difficulty, i. e., in the form of least expenses in formation and minimum legal formalities.

(ii) Ease of financing:

Another important feature of a good form of organisation is the facility of raising the required amount of capital.

(iii) Limited liability:

From the point of view of risk, the entrepreneurs will naturally prefer limited liability. In case of insolvency or winding up owner or owners must be in a position to lose only to the extent of their investment in the business.

(iv) Direct relationship between ownership and control of management:

As a rule, the control should lie where the ownership lies. It will ensure that

the management takes active interest in running the business efficiently and effectively.

If the control is not with the owners, the management may not show required interest in maximising profits through increase in efficiency (v)

Flexibility of operations:

The organisation should lend itself to change and adjustment without much difficulty as and when the need arises. A good form of organisation offers the maximum flexibility and adaptability. (vi) Continuity and Stability:

An ideal form of organisation enjoys uninterrupted existence over a long period of time. According to L. H. Haney “ The organisation must both be able and, when undisturbed to last through a long period of time and also to resist temporary disturbing influences, that is, be stable.”

(vii) Maintenance of business secrets:

The organiser will also have to be careful to ensure that the form of organisation chosen by him will allow the vital business secrets to be retained without being leaked out to the other competitors.

(viii) Free from state regulation and control:

Various forms of organisation are exposed to varying degrees of control and regulation by the state. If the regulation is too much, the organisation may have to spend more time, money and energy in complying with legal formalities. It is better to see that the form of organisation selected does not attract the eye of law at every step (ix) Tax liability:

Different bases are used to assess the income tax for different organisations.

The ideal form of organisation is that, which attracts the minimum amount of  
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tax liability.

The various characteristics of an ideal form of organisation are to be taken into consideration. The most important consideration in choosing a form of organisation for business in actual practice is dictated by the peculiar requirements of the enterprise proposed to be started.