



SARIYA COLLEGE, SURIYA

DEPT. OF COMMERCE

ICT Teaching-Learning Centre

Paper Name- Business Organization and Management

Topic: Sole Proprietorship-Advantage & Disadvantage

For Students of FYUGP Commerce Sem. I (Minor Paper)

BY: Dr. Santosh Kumar Lal

Principal-Cum-H.O.D. Dept. of Commerce

Sole Proprietorship

Sole proprietorship is a form of business organisation in which an individual brings his own capital, manages the business himself and is solely responsible for the results of its operations also known as sole trader. In sole proprietary business only one person is the owner, manager, controller, risk bearer i.e. all in one.

Origin of Sole Proprietorship

Sole tradership is an ancient and simple form of organisation. Historically, this form of organisation took birth in the same shape, it is said that this organisation was evolved at the time when the man started living in family. As the time changed its shape and size went on changing. This organisation is also known as sole proprietorship, individual proprietorship and single entrepreneurship.

Meaning of Sole Proprietorship

Sole trade is that type of business which is started and managed by one person. Only that person is responsible for its profits and losses. Since that person takes risks alone, therefore, all the profits in the business as well as losses are borne by him. Sole trader is also known as individual entrepreneur, sole organiser, sole owner or sole proprietor. Normally the sole trader starts business at small scale. A sole trader cannot expand its business at a very large extent because he has limited resources in terms of capital and working capacity but still to some extent the business can be expanded by employing helpers.

Definitions of Sole Proprietorship

Kimball and Kimball, "The individual proprietor is the supreme judge of all matters pertaining to his business subject only to the general laws of the land and to such special legislation as may affect its particular business."

C.W. Grestenberg, "The business proprietorship is a business enterprise owned by an individual who is usually the manager and the pivot of the business as well as its owner."

Edward T. Elbowine, "The business is initiated by the sole trader who takes all responsibilities of financial as well as managerial nature."

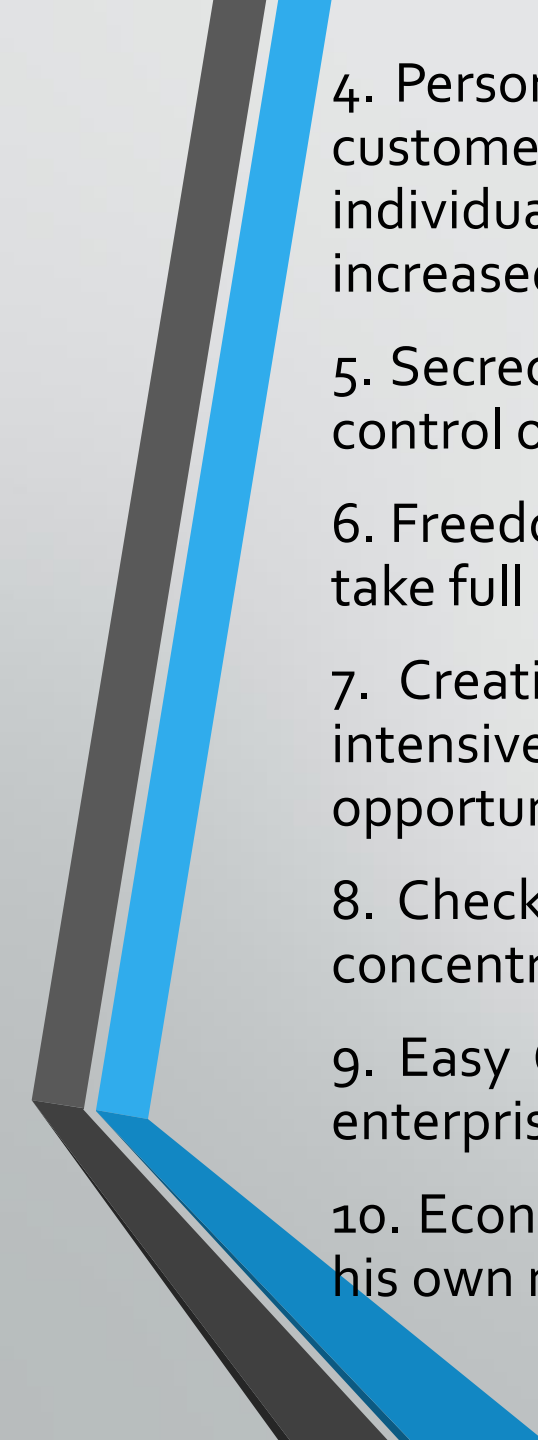
On the basis of above definitions we can say that this form of organisation is related to one person. He is the supreme decision maker regarding all matters relating to his business. He himself invests money in the business, manages and controls. His personal property is attached with his business.

Characteristics of Sole Proprietorship

1. Sole Ownership
2. Owner-cum-manager
3. Entire Risk
4. Unlimited Liabilities
5. No Separate Entity
6. Freedom from Government Control
7. Common Identity
8. Capital
9. Management and control
10. No sharing of Profits and Losses

Advantages of the Sole Proprietorship

1. **Ease of Formation:** No legal formalities are required to form and operate the sole proprietorship. However, the sole trader may be required to obtain permission of the local authorities in certain cases to run a particular business or to get the firm registered with appropriate authorities.
2. **Direct Incentive:** In a sole proprietary business there is direct relationship between efforts and reward which serves as a powerful incentive to the sole proprietor to put in his best efforts. He knows that he is bear all losses and he will get all the profits if he works hard.
3. **Quick decision-making:** The sole proprietor can take business decisions quickly. He can take full advantages of business opportunities as and when they arise.



4. Personal Relations: The sole trader is able to maintain personal relations with his customers. He is able to know his customers personally. He can cater to their individual taste and needs. As such his customers feel satisfied. This results into increased sales.

5. Secrecy: The sole proprietor need not share the secrets of his business. He has full control over his business.

6. Freedom of Initiative: Since sole proprietor is in full control of his enterprise, he can take full initiative to introduce any innovation or change.

7. Creation of Employment Opportunities: Sole proprietary business uses labour, intensive technique of production, thereby creating larger employment opportunities.

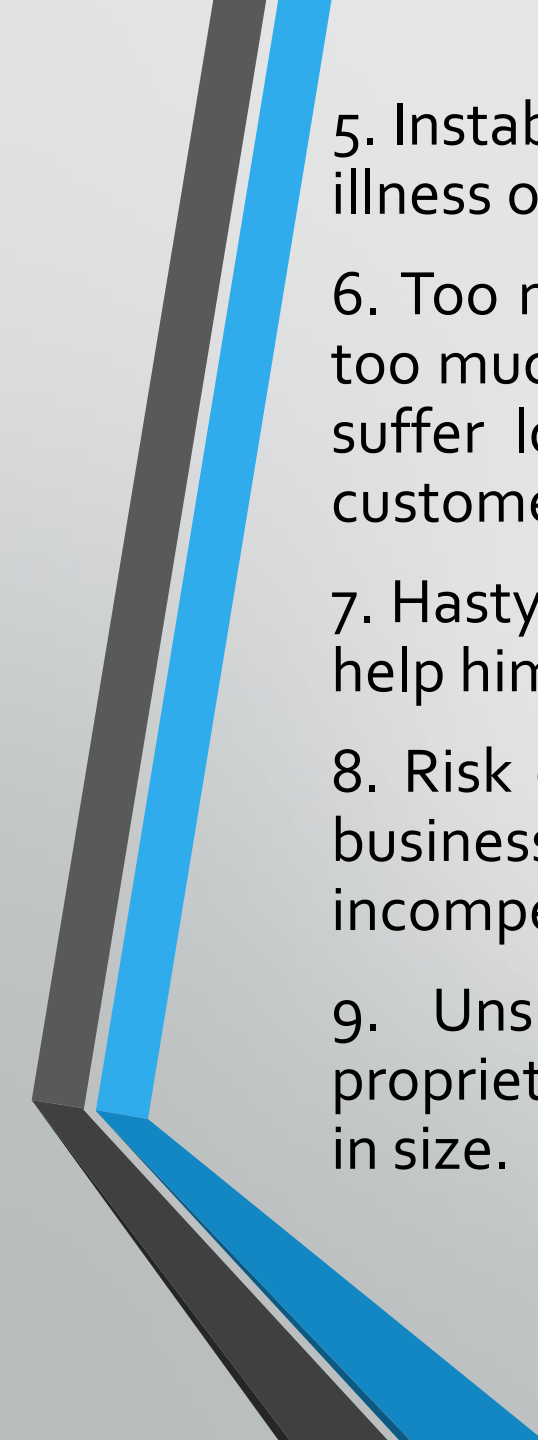
8. Checks Concentration of Economic Power: Sole proprietorship helps in checking concentration of economic power.

9. Easy Coordination: A sole proprietor can coordinate the various activities of his enterprise easily as he can take decisions himself. He need no consult any one else.

10. Economy: Sole proprietor can eliminate wasteful expenditure. He knows that it is his own money which should be spent wisely.

Disadvantages

1. **Limited Resources:** The financial resources of a sole proprietor are limited. He cannot take the risk of borrowing and investing large sums of money in his business. Therefore, sole proprietary business cannot be carried on at a large scale.
2. **Unlimited Liabilities:** One of the most serious limitations of a sole proprietor is his unlimited liabilities. The sole proprietor will be reluctant to introduce new technology and take up risky adventures.
3. **Limited Managerial Skill:** Sole trader has limited organising power and managerial skill. No individual can be expert in all areas.
4. **Small Size:** A sole proprietary business is small in size. As such it is not suitable for large scale business. The benefits of specialisation and economies of large scale are not available to such business. It cannot grow in size due to limited finance and managerial ability.



5. Instability: The sole proprietary business may come to an end with the detail illness or insolvency of the proprietor.

6. Too much Dependence on the Owner: In sole proprietary business there is too much dependence on the sole proprietor. In his absence the business may suffer loss due to negligence of assistance, loss of personal contact with customers, loss of customers to competitors etc.

7. Hasty Decisions: A sole trader may make hasty decisions. There is no one to help him in making decisions.

8. Risk of Incompetent Inheritance: On the death of the sole proprietor the business may suffer heavy losses and may be closed down if it passes into incompetent hands.

9. Unsuitable for developing Business: Last but not the least sole proprietorship form is unsuitable for a business which is gradually expanding in size.

Suitability

Sole proprietorship form of business organisation is the best form the point of view of ease of operation, profitability and effectiveness provided the sole proprietor is able to overcome his limitations. In the words of William Bassets, "The one-man control is the best in the world if that one man is big enough to manage everything." However, such a person is rarely found. Hence, sole proprietary business organisation is suitable for the following kinds of business:

- (i) Where little or no capital is needed
- (ii) Where there is no risk
- (iii) Where quick decisions are necessary
- (iv) Where the customers require personal attention
- (v) When special attention is required to meet the tastes of the customers.

Sole proprietorship is a suitable form of business for small scale enterprises. The sole proprietorship is suitable for enterprises which require personal attention and limited capital such as local grocery shops, small bakery shops, tailoring shops, health and doctor's clinic, lawyers offices etc.