

Sole Proprietorship

Features of Sole Proprietorship

Ownership

The business is owned by a single individual.

Management and control

Being small in size, it is managed by the owner himself. However, he may have some paid workers to assist him. In any case, the ultimate control rests in his hands.

Finance

The necessary capital to run the business is provided by the sole owner. However, he may borrow from other sources such as friends or bank as need arises.

Risk

The proprietor himself bears all the risks. Nobody else has any stake in the business.

Unlimited liability

The sole trader is personally liable for debts of the business. The creditor can lay claim not only on his business assets but also his personal Property such as car, houses, furniture etc to recover the loan.

Legal status

In law, the sole trader and his business are considered as one, In other words, all the assets and liabilities of the business are the personal assets and liabilities of the proprietor. We can say that the owner and the business exist together. In other words, the two are considered as one in the eyes of the law.

Relationship with customers

The sole trader tries to keep good relationship with his customers. The customers are generally personally known to the proprietor and their orders are higher valued.

No legal formalities

The sole trader can set up or close the lawful business as and when he likes the operation of his business is not governed by any special act or ordinance.

Ease of dissolution

The sole trading business is as easy to end or dissolve as is its formation. The decision of the proprietor alone ends the business.

Advantages of Sole Proprietor Form of Business:

Easy formation:

The formation of sole proprietorship business is very easy and simple. No legal formalities are involved for setting up the business except a license or business permit in certain cases. The entrepreneur with initiative and certain amount of capital can set up such form of business.

Direct motivation:

The entrepreneur owns all and risks all. The entire profit goes to his pocket. This motivates the proprietor to put his heart and soul in the business to earn more profit. Thus, the direct relationship between effort and reward motivates the entrepreneur to manage the business more efficiently and effectively.

Better control:

The entrepreneur takes all decisions affecting the business. He chalks out the plan and executes the same. His eyes are on everything and everyone. There is no scope for laxity. This results in better control of the business and ultimately leads to efficiency.

Promptness in decision-making:

When the decision is to be taken by one person, it is sure to be quick. Thus, the entrepreneur as sole proprietor can arrive at quick decisions concerning the business by which he can take the advantage of any better opportunities.

Secrecy:

Each and every aspect of the business is looked after by the proprietor and the business secrets are known to him only. He has no legal obligation to publish his accounts. Thus, the maintenance of adequate secrecy leaves no scope to his competitors to be aware of the business secrets.

Flexibility in operations:

The sole proprietorship business is undertaken on a small scale. If any change is required in business operations, it is easy and quick to bring the changes.

Scope for personal touch:

There is scope for personal relationship with the entrepreneur and customers in sole proprietorship business. Since the scale of operations is small and the employees work under his direct supervision, the proprietor maintains a harmonious relationship with the employees. Similarly, the proprietor can know the tastes, likes and dislikes of the customers because of his personal rapport with the customers.

Inexpensive formation and management:

The cost of formation of a sole proprietorship is the minimum because no cost is involved in its formation excepting the license fee in certain cases. The management of the business is also inexpensive as no specialists are normally appointed in various functional areas of the business which is the added advantages.

Free from Government control:

Sole proprietorship is the least regulated form of business. Regulated laws are almost negligible in its formation, day-to-day operation and dissolution.

Easy dissolution:

Like that of formation, the dissolution of the sole proprietorship is also very easy. Since the proprietor is the supreme authority and no regulations are applicable for closure of the business he can dissolve his business any time he likes.

Socially desirable:

New and small entrepreneurs can take up business on small-scale basis. There will be no scope for concentration of wealth in few hands. Sole proprietorship continues its operation in almost each and every area of business activity and caters to the need of the society. Further, it provides ample opportunities for large-scale self-employment for rural and less skilled personnel. Thus, it is socially desirable.

Disadvantages of Sole Proprietor Form of Business:

The sole proprietorship business is not free from criticism. It suffers from certain limitations and drawbacks, because of its very nature and scope of operations. These points may be duly taken care of while entrepreneur adopting this mode of business.

Limited resources:

The financial resource of any small entrepreneur as an individual is limited. He mainly finances from his own savings or borrows from financial institutions, friends and relatives as per his capacity. Thus, limited resource is the major drawback of this form of business.

Limited managerial capability:

Modern business requires updated managerial skills in each and every sphere of activity. We cannot hope a single individual to possess all the managerial talents necessary to carry on a business efficiently. The limited financial resource of the sole proprietorship is a hindrance to hire the services of managers with expertise in different areas, thereby the growth of the business.

Unlimited liability:

Since the liability of the sole proprietor is unlimited, the private property of the proprietor is also at risk. When the business fails, the private properties of the owner are utilized to pay off the business debts. Thus, the entrepreneur must have to look this aspect carefully.

Uncertainty of continuity:

The continuity of the business is uncertain because the business may come to an end due to the incapacity or death of the proprietor. Even if at all the business passes on to the successor of the proprietor, it is unlikely that they may possess the business acumen like that of the proprietor.

Less scope for economies of large-scale:

The economies of large-scale operation are enjoyed only by a large-scale enterprise, which the sole proprietorship business normal lacks. Therefore, there is less scope for availing the economies of large-scale.

Not suitable for large-scale business:

The limited financial resources, limited managerial capability of the proprietor, risk to the private property etc. makes the sole proprietorship business unsuitable for large-scale business. This system of business cannot afford for large-scale operation.

Difficult to maintain personal contact:

Even though there is scope for personal touch in sole proprietorship business, it is unlikely to happen when the business is undertaken in different areas. It is not so easy on the part of the proprietor to have personal contact with customers and suppliers at the same time