

**BUSINESS RISKS.:** Business risk refers to the possibility of inadequate profits or even losses due to uncertainties or unexpected events.

Business enterprises face two types of risks. 1) Speculative 2) Pure risk  
Speculative risk involves both possibility of gain or loss but pure loss involves possibility of losses only.

**NATURE OF BUSINESS RISKS:**

1. **BUSINESS RISK ARISES DUE TO UNCERTAINTIES:** Uncertainties means lack of knowledge about what is going to happen in future. Natural calamities, change in demand and prices change in government policy, improvement in technology are some of the examples.
2. **RISK IS AN ESSENTIAL PART OF BUSINESS.** No business can avoid risk but the amount of risk may vary from business to business and can be minimized but cannot be eliminated.
3. **DEGREE OF RISK MAINLY DEPENDS ON THE NATURE AND SIZE OF BUSINESS:** Nature of business – type of goods and services produced sold and the size of business.i.e. volume of production and sale. If the size of the business is large the risk is more and if the business is small the risk associated will be less.
4. **PROFIT IS THE REWARD FOR RISK TAKING.** Greater the risk involved higher is the chances of profit. An entrepreneur takes with the expectations of higher profits.

**CAUSES OF BUSINESS RISKS:**

1. **NATURAL CAUSES:** Human beings have little control over natural calamities like flood earthquake lightning famine etc.
2. **HUMAN CAUSES:** -Dishonesty, carelessness of employees ,stoppage of work due to power failure, strikes, management inefficiency etc.
3. **ECONOMIC CAUSES:** They include demand for goods, competition, price collection of dues from customers, change in technology etc. Financial problems like rise in interest rates, higher taxes etc.
4. **OTHER CAUSES.** These are unseen events like political disturbances, mechanical failure etc.

**FACTORS TO BE CONSIDERED WHILE STARTING THE BUSINESS**

1. Selection of line of business
2. Size of the firm
3. Choice of form of ownership
4. Location of business
5. Source of financing.
6. Physical facilities
7. Plant layout
8. Competent and committed work force
9. Tax planning
10. Launching the enterprise.

**CHAPTER -2**

**FORMS OF BUSINESS ORGANISATION**

**SOLE PROPRIETORSHIP :** Sole proprietorship organization is a form of business organization which is owned, managed and controlled by an individual who is the recipient of all profits and the bearer of all risks.

**FEATURES:**

1. **Formation and closure:** There is no separate law to start a sole proprietorship business. Just an licence may be required to start a business. Closure of business can also be done easily.
2. **LIABILITY:** Sole proprietor have unlimited liability. This implies that the owner is personally responsible for payments of debts in case the business assets are not sufficient to meet the debts his personal assets have to be sold for repaying the debts.
3. **SOLE RISK BEARER AND PROFIT RECIPIENT:** If the business is successful th proprietor enjoys all the benefits. He recveives all the profits which becomes a direct reward for his risk bearing.
4. **CONTROL:** The right to run the business and to make all decisions lies with sole proprietor. He can carry out his plans without any interference of others.
5. **NO SEPARATE ENTITY:** No distinction made between sole trader and his business as the business does not have an identity separate from the owner.
6. **LACK OF BUSINESS CONTINUITY:** The death insolvency, insanity imprisonment and physical ailment of the sole proprietor will have direct effect on the business. It may even lead to closure of business .

**MERITS:**

1. **QUICK DECISION MAKING.** A sole proprietor can take quick decision as there is no need to consult anybody . He enjoys full freedom in making business decisions.
2. **CONFIDENTIALITY OF INFORMATION:** A sole proprietor can keep all the information related to the business secretly. He is not bound by law to publish all the accounts.
3. **DIRECT INCENTIVE.** Asole proprietor reaps the benefits of his efforts and is the recipient of all profits. This provides maximum incentive to the sole trader to work hard.
4. **SENSE OF ACCOMPLISHMENT:** The knowledge of the sole trader not only contributes to the self satisfaction but also sense of accomplishment and confidence in one's abilities.
5. **EASE OF FORMATION AND CLOSURE:**There is no separate law that governs sole proprietorship. It is easy to start and close the business as per the wish of the owner.

**LIMITATIONS:**

1. **LIMITED RESOURCES:** Resources of a sole proprietor are limited to his personal savings and borrowings. Banks and other lending institutions may hesitate to extend a long term loan . Lack of resources is one of the reaons the business rarely gtrows and are generally small.
2. **LIMITED LIFE OF BUSINESS:** The sole proprietorship is owned and controlled by one person, so death insanity ,imprisonment bankruptcy will lead to closure of business.
3. **UNLIMITED LIABILITY:** liability of the sole trader is unlimited. If a business fails the creditor can recove4r the debts ont only from his business assets but also the personal assets of the proprietor.
4. **LIMITED MANAGERIAL ABILITY:** The sole trader has various managerial task such as purchasing, selling and financing etc. decision making may not be balanced in all these areas. Due to limited resources sole proprietor may not be able to employ and retain talented and ambitious employees.