Attitudes towards Growth and Future of Limited Liability Partnership in India

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Abstract

Limited Liability Partnership (LLP) was a new corporate structure that combined the flexibility of a partnership and the advantages of limited liabilities of a company at a low compliance cost (Kothari, Business of Government article; part: 13). In other words, it is an alternative corporate business vehicle that provides the benefits of limited liabilities of a company, but allows its members the flexibility of organizing their internal management on the basis of a mutually arrived agreement, as is the case in a partnership firm. Owing to flexibility in its structure and operations, it would be useful for small and medium enterprises, in general, and for the enterprises in service sector, in particular (KB Chandrashekhar, 2009). Internationally, LLPs were the preferred vehicle of business, particularly for service industry or for activities involving professionals. Thus, due to its large importance in the market, it becomes important for us to analyze its scope for growth and viability in the future.

Keywords: LLP, Limited Liability, Foreign Direct Investment, Perpetual Succession, Cash Flow, GDP

Introduction

This topic was chosen because the importance of Limited Liability Partnerships (LLP) has been growing day by day. There has been an increasing trend of LLP registrations and the conversion of traditional unlimited partnerships to LLP status in the world panorama .The move towards conversion to LLP is building momentum day by day. Many are special purpose vehicles but an increasing number are professional firms. “The latest surveys suggest that about 50% of the

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top accounting firms and about 60% of the top law firms will be LLPs by the end of 2015" (Times of India: Nov'1992). Hence it is very necessary to analyze the detailed structure of LLP and have an idea about which is the better form of business organizations.

Limited Liability Partnership (LLP) is a new corporate structure that combines the flexibility of a partnership and the advantages of limited liability of a company at a low compliance cost (Kothari, Business of Government article; part: 13). In other words, it is an alternative corporate business vehicle that provides the benefits of limited liability of a company, but allows its members the flexibility of organizing their internal management on the basis of a mutually arrived agreement, as is the case in a partnership firm. Owing to flexibility in its structure and operation, it would be useful for small and medium enterprises, in general, and for the enterprises in services sector, in particular (KB Chandrashekhar, 2009). Internationally, LLPs are the preferred vehicle of business, particularly for service industry or for activities involving professionals.

Firstly the concepts of LLP have been highlighted and the various advantages of this particular form of business organization have been clearly stated. An effort has been made to compare LLP with its various business alternatives to know the differences in the functioning of such organization. There is a vast difference in the structure of LLP in various parts of the world, for instance in the Virginia state of USA, "A limited liability partnership is formed when a statement of registration is filed with the Virginia State Corporation Commission. This is similar to a limited partnership which also requires a formal filing with the SCC (Intellectual Property and Transactional Law Clinic, 2000). On the contrary, the UK system allows. The partners in a limited liability partnership aren't personally liable for debts the business can't pay. Their liability is limited to the amount of money they invest in the business (http://www.gov.uk/business-legal-structure). But in the Indian system, Limited Liability Partnership is a much more complex format with taxes and other provisions not allowing it to flourish as the other forms of business do.

The growth and the historical background of LLP in India have been discussed and how its importance has been increasing. A comparative study has been made with the structure of US LLP's and comparison has been made to find out the current problems regarding the growth of LLP's in India. After analyzing the problems and comparing them with the best practices we arrive at the factors that affect the growth and future of LLP in India. The conceptual model of the study is based on the factors that affect the current scenario of LLP. Taxation issues, Legal issues and Credit policy of the current Indian Government directly affect the situation and thus

we have laid our Hypothesis in the third chapter to prove our study.

Research Objectives

This study intends to analyze the Limited Liability Partnership business in India that are lagging behind in terms of growth and progress as compared to the other developing economies of the world. This study aims to find out the reasons for slow progress of the LLP businesses in India. The specific objectives are as follows:

- To find out how an Indian LLP is incorporated and gets registered.
- To analyze the structure of LLP in Foreign countries and make a comparison between Indian LLP and an US LLP.
- To highlight some loopholes in the current legal position, taxation scenario and credit policy related to the issue of the Limited Liability Partnerships in India.
- To analyze growth and development of the LLP businesses in India.
- To exhibit the modern system of improving the Structure of LLP in the Indian economy.

Scope of the Study

The LLP business in India is very fresh and new. It was implemented recently in 2008 through the Indian Limited Liability Partnership Act, 2008. The Growth and Future of Limited Liability Partnership business in India is a vital topic to us because it acts an important role to the development of our economy. It is a broad theory but I maintain restrained my study on of expansion and development of LLP sector its taxation system, its legal problems along with the factors of economies of scale and thus arrive at a possible solution for the betterment and growth of the business. The study will help in shaping a better future for the Indian LLP businesses. It will help us understand and hopefully eradicate the reasons for the disorganized structure of LLP firms in India.

Methodology

The study is about the Growth and Future of Limited Liability Partnership in Indian businesses cause and effect of such in today's business world. For this type of financial study, I will use the Mixed Method approach. We will begin with the Qualitative method by taking a series of interviews from various corporate houses dealing in the LLP sector. And then, after having collected the reviews and knowledge through qualitative methods, we would prepare a unique and developed set of questionnaires that would be tested through the IOC testing methods. We

will discuss both the aspects qualitative and quantitative subsequently now.

Qualitative research is especially effective in obtaining culturally specific information about the values, opinions, behaviors, and social contexts of particular populations (Qualitative Research Methods: A Data Collector's Field Guide, n.d.). In case of this study qualitative methods would be more significant in the beginning because the findings would help us achieve a better testing system in the quantitative approach. Qualitative approach has ability to provide complex textual descriptions of how people experience a given research issue. According to Norman K. Denzin there are mostly three common qualitative methods that are participant observation, in-depth interviews and focus groups. Each method is particularly suited for obtaining a specific type of data. Within these three methods for this study will be conducted by in depth interviews or it's called individual interviews.

Quantitative research attempts precise measurement of something usually consumer behavior, knowledge, opinion or attitude (Cooper & Schindler, pp. 160-161). Qualitative research is less structured than most quantitative research because it does not rely on self-response questionnaire containing structured format. It is advised that the best way using either to match the right approach to the right research context. Somehow, many good research project apply both qualitative and quantitative research (Zickmund, Babin & Griffin, 2013, pp. 132-133).

In this research, the researcher uses survey by the questionnaire for this study, as it is the method of primary data collection. A survey is a measurement process used to collect information during a highly structured interview, which can be human interviewer or other instrument (Cooper & Schindler, p. 242). Moreover, Zikmund (2013) stated that survey could provide quick, inexpensive, efficient and accurate. In the addition, secondary data is applied in the research regarding to be useful references, including textbook, previous researches, and the relevant articles on the internet.

The researcher applies descriptive and inferential statistic method to analysis the result of this study. Descriptive statistics are used to describe the basic features of the data in the study, which provide simple summaries about the sample and the measurement (research method knowledge base). They are used to present quantitative description in manageable by using frequency and percentage. Inferential statistics as t-test are concerned with making prediction or inferences about a population from observation and analysis of sample (Crossman). After collecting data for respondents, the data is coded into symbolic form that is use in SPSS software,

and then those data will be analyzed in correlation.

Result and Discussion

The purpose of this research was to study the factors that influence the Growth and Future of LLP business in India. In order to analyze the factors that impact on respondents' attitude and decision making towards the LLP structure, a series of qualitative and then quantitative questionnaires were prepared. The conceptual framework of the study contained three main components with two independents variables.

The researcher first conducted a series of Interviews and analysis of understanding of six of the Respondents who were Branch managers, Audit managers and held important positions in the LLP structures in our target area of Kolkata, India. After analysis of their answers a set of questionnaires was prepared and put forward to a group of 400 respondents involved in the business.

The researcher used survey by the questionnaire to collect primary data. The survey took place in Kolkata with 400 respondents, which were 169 females and 231 males who had experience working in the LLP business sector of Kolkata in some way or the other. Quantitative research was applied to collect the primary data. The result was analyzed by descriptive and inferential statistic method calculating by SPSS.

According to the result in the first part, demographic information included gender, age, occupation, and income level. The researcher collected demographic data from 400 respondents by using questionnaire in five area of Kolkata, India. The researcher found that the majority of respondents were male (57.8%), with the aged between 36-45 years old (45.0%), at the education level of a diploma degree (44%), an average income ranging between Rs30,001 to 50,000 per month (45.5%) and majority employee were State Enterprise Employees (35.8%).

In the second part, the researcher surveyed the respondents about their awareness towards the scenario of LLP business in India. The study found that most respondents preferred private limited business as their first choice of business enterprise (160 people/ 40%). The respondents felt that in consensus, it would take more than a year for the LLP business to flourish and start getting a positive balance (139 people/ 34.8%). The majority of respondents felt that the enterprise with maximum taxation and legal support would be the private limited company with 163 people opting for it. When it came to deciding the business entity with maximum growth potential, most of the respondents felt that the joint venture company would give them the most advantage in such scenario (147 people/

36.8%). Lastly, in the case of the biggest problem with the structure of Limited Liability Partnership business in India, the majority people opted for Legal issues (146 people or 36.5%), the second popular was Economic issues with 22.3% followed by Credit issues at 19% and Legal issues at 18%.

In the third part, the researcher focused on consumer's attitudes towards the Growth and foreseeable future of LLP business in India. The study showed that the level of importance of the first set of questions based on the growth of the LLP business in India was high with an average of 4.18. Significantly, the level of importance towards the second set of questions based on the theme of Indian LLP vs Foreign LLP was also very high with an average of 4.30. The third and final set of questions based on the future of LLP business in India also had a high level of importance at 4.17.

In the fourth part, the result of first hypothesis testing showed that the Difference in demography of the respondents does not affect their attitude towards the growth and future of LLP business in India. However, gender, education and income level do not cause a different perception and decision towards the attitude of the Growth and future of LLP business in India. The second hypothesis results showed that, the Difference in preferred type of business entity will not affect the respondent's attitude towards the Growth and Future of LLP business in India. The result of the third hypothesis showed that Difference in Type of business entity towards taxation and legal benefits will also not have any influence over the attitude towards the growth and future of LLP business in India. And, finally the fourth Hypothesis result showed that the difference in issues concerned with the Indian structure of LLP business will also not influence the Growth and Future of LLP business in India. Thus, it was concluded that since the sigma value of all the various results was over 0.05 which is acceptable, therefore the various factors mentioned above had no influence of the Growth and Future of LLP business according to our study. The study was extensively concluded after taking into account the results of both qualitative and quantitative analysis of the respondents.

The factors that affect the Growth and Future of the current LLP's in India (Qualitative Findings):

- **General Public's Lack of awareness of the LLP business**

This point was raised by 5 out of six respondents of our interview. The general feeling was that people of our country did not wish to enquire about the LLP business because the market was full of public and private businesses.

"People don't care! They just don't care even if they are attending a seminar on the LLP

business, most of them would be busy on figuring out the food that's being served out to them."

- **The Credit Policy**

Four out of six respondents mentioned that the credit policy of the government towards the LLP business needs a change. Either they were not satisfied or unhappy with the current credit policy that was 'being served' to them by the regional governments. The Finance manager of a leading LLP in India said in his response:

"My opinion is that the future is sharp, but if you go into the details, there are sharp contrasts as to what you may consider as good or below par. The credit policy that is being served to us is pretty bad. The government fluctuates every now and then and change one or two major finance credit policies."

One of them felt that the future of LLP in India could well be from an credit insurgence.

"I believe that the credit policies are the backbone to every financial entity, you can never have a successful business enterprise without a strong credit policy. We Indians are used to the give and ask and take and forget schemes. So if there is no strong credit policy, then we may run into a deep black hole".

For some, it was a mere financial term.

"Credit policy doesn't affect anything; it is just a term which is used out of proportions to enable personal logic"

- **The Taxation Issues**

Most of the respondents agreed that the taxation issues of the LLP system should be revised if they want more entrepreneurs to join the business.

"The taxation system is too heavy, with the scale of production that my business manages; it is very difficult for us to enable a smooth working capital after the heavy impositions of taxes are laid out".

Some also believed that the system of having the same tax bracket should be disallowed by the regulating authorities.

Recommendation

1. The various sectors of LLP businesses in India should look at eliminating the various factors of legal issues, credit issues, taxation issues etc. that influence the growth and future of LLP business in India.

2. Proper auditing and regular inspection of the books of accounts will help in eliminating the risk factor involved with the LLP form of business.

3. Most of the LLP business in India operate at a very low working capital, thus the entrepreneurs should try and increase the working capital balance of the LLP sector enterprise.

4. The LLP sector of India needs Foreign Direct Investment in order to expand its wings and work across foreign territories.

5. Govt. of India should take proper step in this bright sector. They can arrange proper steps to take loan or financial help in order to encourage and promote more business enterprises to join the LLP sector.

6. The fluctuations in the business trade markets and the foreign exchange rates play an important role and thus steps should be taken to minimize the harms of such system.

7. Provide proper motivation to the employees as well as owners of the LLP sector of India and encourage them to produce better results year after year.

8. Change in rules and regulations towards the credit policy will help enhance the LLP sector and also boost the economies of scale.

9. There is a need to propagate and send awareness and thought about the bright prospect of the LLP business in various sectors of the economy.

Conclusion

There were four main hypothesis laid down:

1. Difference in Demographic factors will influence the attitude towards the Growth and Future of LLP business In India.

2. Difference in preferred type of business entity will influence the attitude towards the Growth and Future of LLP business in India.

3. Difference in the choice of business entity towards tax benefits and legal support will influence the attitude towards the Growth and Future of LLP business in India.

4. Difference in issues concerned with the structure of LLP will influence the attitude towards the Growth and Future of LLP business in India.

Surprisingly, all four of them were rejected after t-test and f-tests results. This only goes on to prove the point that there is a vast scope of improvement in the LLP sector in India. It is still a new concept of business as compared to the other forms of businesses in India but it has a tremendous impact on the economic stability of the country. Proper developments in positive directions and helpful government laws can enable Indian LLP sector to boom at a very rapid rate and maybe change the course of Indian Economy for the better.

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