

Learning out come will see students being able to :

- \* A. C. .1.1- Identify the purpose of different types of Business Organisation- Slides

# Why do we set up Organisations?

- \* “Organisations are set up to serve a particular purpose. They therefore need to have a clear aim- Something they are trying to achieve.” For example Colbourne College’s main aim is to educate and prepare students to be worthwhile contributing citizens.

# How Organisations make known their purpose.

- \* **Mission Statements-** A mission statement brings your essence into focus so it is crystal clear who you are, what you do, and why you do it.
- \* **Vision-** Is a declaration of an organization's objectives, ideally based on economic foresight, intended to guide its internal decision-making. Foretelling where it is going or reach in a specified time.

# For-Profit and Non-Profit Organisations

- \* For- Profit: Business organisations with a “ for-profit” element, shops, supermarkets, banks.
- \* Non Profits- Government entities, charities, churches, Service clubs.

# Business Organisations

- \* Sole traders - A sole proprietorship is a business owned and operated by one individual
- \* Partnerships- Is a business association between to or more owners of an enterprise  
Usually have between 2-20 persons.

# Business Organisations

- \* **Private Limited Company-** The owners are called “ Shareholders”, This is because they each own a share in the business. Private limited companies must have at least two shareholders, no maximum limit to the number of shareholders. Share holdings is usually limited to known friends and family.
- \* **Public Limited Company-** Similar to the Private Limited Company, minimum of two shareholders are needed to incorporate a Public Limited Company. Key differences are that shareholders are not necessarily known to each other, and the company will face stronger regulation and reporting requirements, they are allowed to raise capital via the stock exchange.

# Sole Traders: Advantages

- \* Few legal requirements in setting up the business.
- \* Owner has complete control over the business.
- \* Close contact with customers.
- \* Incentive to work hard – do not have to share profits.
- \* Secrecy of business matters.

# Sole Trader: Disadvantages

- \* No shared ideas / decision making
- \* Unlimited liability – business not a separate legal entity, therefore owner is fully responsible for the debts of the business.
- \* Limited access to capital – hard to grow
- \* Limited skills
- \* Hard to take leave



# Partnerships

- \* Group of 2 – 20 people.
- \* Each partner contributed capital.
- \* Each partner takes part in the running of the business.
- \* Each partner gets a share of the profits.
- \* A Deed of Partnership / Partnership Agreement sets out the rights and responsibilities of the partners.

# Partnership Agreements

Partnership agreements usually include:

- \* The amount of capital invested by partners;
- \* The tasks to be undertaken by each partner;
- \* How profits are to be shared;
- \* The lifespan of the partnership;
- \* Arrangements for absences;
- \* Arrangements for retirement and new partners being admitted.

# Partnership: Advantages

- \* More capital (than sole trader).
- \* Responsibilities can be shared.
- \* Losses are shared.
- \* Easier to take leave.
- \* Increased skills.

# Partnership: Disadvantages

- \* Unlimited liability
- \* Unlimited life – if one partner dies, the partnership ends.
- \* Decision-making can be difficult when there are disagreements.
- \* One incompetent / dishonest partner could cause other partners to suffer.
- \* Limited to capital of 20 people.

# Private Limited Company (Ltd)

- \* Separate legal entity from owners.
- \* Shareholders are the owners – they buy shares in the company.
- \* Shares sold to a small group of people – not through the stock exchange.
- \* The shareholders appoint directors to run the company.

# Private Limited Company: Advantages

- \* Shares can be sold to a large number of people.
- \* Limited liability – shareholders are not personally responsible for the debts of the business.
- \* The main shareholders can keep relative control of the company.

# Private Limited Company: Disadvantages

- \* Significant legal requirements when setting up.
- \* Shares cannot be sold / transferred without the agreement of other shareholders.
- \* Accounts are much less private than sole trader / partnership.
- \* Cannot sell shares on stock exchange – limits expansion.

# Public Limited Company (PLC)

- \* Suitable for very large businesses.
- \* Owned by private individuals – don't mistakenly think it is government owned.
- \* Shares sold on the stock exchange.



# Public Limited Company: Advantages

- \* Limited liability to shareholders.
- \* Continuity should a shareholder die.
- \* Opportunity to raise very large sums of capital.
- \* No restrictions on the buying, selling and transfer of shares.
- \* Usually has a high status

# Public Limited Company: Disadvantages

- \* Complicated and time consuming legal formalities in setting up.
- \* More regulations and controls.
- \* Is costly to sell shares to the public.
- \* Shareholders have little control over the running of the company.



# Co-operatives

- \* Groups of people who agree to work together and pool their resources.
- \* All members have one vote.
- \* All members help in running the business
- \* Profits are shared equally among members.
- \* Types: producer co-ops, retail co-ops, worker co-ops.

# Franchising

- \* A franchisor is a business with a product / service idea that does not want to sell to customers directly.
- \* The franchisee is the person who buys the idea from the franchisor and sells it to the public.
- \* The franchisee pays the franchisor an initial fee, then monthly fees to cover advertising etc.
- \* The franchisee pays the franchisor a percentage of their profits.
- \* Examples: The Body Shop, McDonalds.

# Franchising: Advantages to Franchisor

- \* Expansion is paid for by franchisee.
- \* Expansion is fast and effective.
- \* Franchisor can make large profits via franchisees.
- \* Franchisor does not have management problems of the individual retail stores.

# Franchising: Advantages to Franchisee

- \* Reduced chance of failure.
- \* Advertising is paid for by franchisor.
- \* All supplies come from a single source – the franchisor.
- \* Many decisions have already been made for them.
- \* Franchisor provides training for staff.
- \* Banks more willing to loan money to franchises.

# Public Corporations

- \* Wholly owned by the state or central government.
- \* Usually businesses that have been nationalised (sold by private individuals to the government).
- \* The government appoints a Board of Directors to run the organisation.
- \* The Board of Directors runs the organisation according to the objectives set by the government.

# Public Corporations: Objectives

Traditionally, objectives of public corporations included:

- \* To keep prices low so that everyone can afford the service.
- \* To keep people in jobs.
- \* To offer a service to all areas of the country.

This often led to public corporations making huge losses, which had to be subsidised out of taxes.



# Public Corporations: Objectives

Today, the objectives have become:

- \* To reduce costs (this may include reducing the number of workers).
- \* To increase efficiency
- \* To close loss-making services (even if this means some consumers are not provided the service).

This way of running public sector organisations is called corporatisation.

# Public Corporations: Advantages

- \* Some industries are so important they need to be government owned e.g. electricity supply.
- \* Ensures consumers are not taken advantage of by privately owned monopolists.
- \* Government can nationalise important businesses that are failing to get them on their feet again.
- \* Non-profit but important services can still be offered to consumers.

# Public Corporations: Disadvantages

- \* Lack of profit motive may cause inefficiency.
- \* Subsidies can further reduce efficiency.
- \* Usually no close competition – lack of motive to increase consumer choice and efficiency.
- \* Public corporations could be used for political reasons e.g. creating jobs to win votes before elections.

# Reference

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## LIBRARY RESOURCES

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