Types of Business organisation

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Sole traders

- Sole trader is a business owned by one person-the owner is a sole proprietor.

Advantages of being a sole trader

- There are few legal regulations to worry about.
- Sole traders are their own boss.
- They have freedom to choose their own holidays, hours of work, prices to be charged and whom to employ.
- They have close contact with their customer.
- They can keep all the profits.
- They enjoy complete secrecy in business matters.

Disadvantages of sole traders

They have no one to discuss business matter with.

They do not have benefit of limited liability. The business is not a separate legal unit and they have unlimited liability.

The sources of finance for a sole trader are limited to the owner's savings, profits or small bank loans. Banks are often reluctant to lend large amounts to such businesses. Capital for expansion is restricted and such business is unlikely to benefit from economies of scale.

Training and opportunities for workers' future careers cannot be offered.

If sole trader is ill, no one will take control of the business. If owner dies, business will not legally exist any longer.

Important definitions

Limited liability means that the liability of shareholders in a company is only limited to the amount they invested.

Unlimited liability means that the owners of a business can be held responsible for the debts of the business they own. Their liability is not limited to the investment they made in business.

Partnership

A partnership is a group or association of at least two people who agree to own and run a business together. There can be maximum limit of 20 people.

A partnership agreement is the written and legal agreement between business partners. It is not essential for partners to have such agreement. But it is always recommended.

Partnership agreement contains the amount of capital invested in the business by each partner, tasks to be undertaken by each partner, the way in which profits would be shared out, how long partnership would last, and agreements for absence, retirement and admission of partners.

Advantages of partnership

- More capital can be invested into the business and this would also allow expansion for the business.
- Responsibilities for running the business would be shared.
- Both partners are motivated to work hard as they would both benefit from the profits. On the other hand, any losses made by the business would be shared by the partners.

Important definition

- An unincorporated business is one that does not have a separate legal identity. Sole traders and partnerships are unincorporated business.
- Limited liability partnership is a type of partnership, which is a separate legal unit, which still exists after a partner's death, unlike ordinary partnership.

Disadvantages of partnership

- The partners do not have limited liability
- The business do not have separate legal identity and is an unincorporated business. If one of the partner dies, partnership would end.
- Partners can disagree on important business decisions, and it can be time consuming.
- If one partner is inefficient or dishonest, the other partner would suffer.
- The business growth would be limited by amount of capital that 20 people could invest.

Important definitions

Incorporated business are companies that have separate status from their owners.

Shareholders are the owners of a limited company. They buy shares which represent part-ownership of their company.

Private limited companies are businesses owned by shareholders but they cannot sell shares to the public.

Private limited companies

- It is an incorporated business; company exists separately from owners and will continue to exist if one of the owners should die.
- A company can make contracts or legal agreements
- Company accounts are kept separate from the accounts of the owners.
- Shareholders appoint directors to run the business.

Advantages of private limited company

Shares can be sold to large number of people. These would likely to be friends or relatives. Larger sums of capital can be invested to expand business.

All shareholders have limited liability. Shareholders could only loose their original investment in the shares.

The people who started company are able to keep control of it as long as they do not sell too many shares to other people.

Disadvantages of private limited company

- Significant legal matters need to be dealt with before a company can be formed. Two important documents must be sent to the Registrar of company.

1) The Articles of Association- It contains rules under which company will be manages, rights and duties of directors. Rules concerning election of directors and holding of official meetings, and procedure for issuance of shares.
2) The Memorandum of Association- It contains important information about company and directors, official names and address of the registered office, objectives of the company and number of shares bought by each director.

- They make sure that companies run correctly and reassure shareholders about purpose and structure of company. Once they have been received by Registrar of Companies, Certificate of Incorporation would be issued to allow company to start trading.

Disadvantages of private limited company

- Shares in private limited company cannot be transferred to anyone without agreement of other shareholders.
- The accounts of the company are less secret.
- Company cannot offer its shares to general public. It will not be possible to raise really large sums of capital to invest back.

Public limited company

Public limited companies are businesses owned by shareholders but they can sell shares to the public and their shares are tradeable on the Stock Exchange.

Public limited companies are not in the public sector of industry as they are privately owned. They are in the private sector.

In UK, private limited companies are abbreviated for Limited or Ltd, whereas public limited companies are abbreviated for plc.

Advantages of public limited company

- It offers limited liability to shareholders.
- It is an incorporated business.
- Its accounts are kept separate from the owners.
- There is an opportunity to raise very large capital sums to invest in business as there is no limit to number of shareholders a plc can have.
- There is no restriction on buying, selling or transfer of shares.
- A plc has a high status and find easier to attract suppliers to sell goods on credit and banks to lend money.

Disadvantages of a public limited company

Legal formalities of forming such company are quite complicated and time-consuming.

There are more regulations and controls over public limited company in order to try to protect the interests of shareholder.

Selling shares to public is expensive.

Original owners of business may lose control over it when it goes public

Important definitions

An annual General Meeting is a legal requirement for all companies. Shareholders may attend and vote on who they want to on the Board of Directors for the coming year.

Dividends are payments made to shareholders from the profits (after tax) of a company. They are the return to shareholders for investing in the company.

Control and ownership in a public limited company

- In sole trader business and partnership, owners have control over how a business is run. In private limited company, directors are often the majority shareholders who ensure that their decisions are passed at all meetings.

- In plc, shareholders attend AGM (few do), vote for Board of Directors who take all important decisions who then appoint managers for day-to-day business decisions.
- Shareholders are the owner.
- Board of Directors and managers control.

Franchising

A franchise is a business based upon the use of brand names, promotional logos and trading methods of an existing successful business. The franchisee buys the license to operate this business from the franchisor.

Advantages to the franchisor

- The franchisee has to pay to use the brand name.
- Expansion is much faster because the franchisor does not have to finance all new outlets.
- The franchisee manages outlets.
- All products sold must be bought from the franchisor

Disadvantages to the franchisor

- The failure of one franchise could lead to a bad reputation of the whole business.
- The franchisee keeps the profits.

Advantages to the franchisee

- The chances of failure is much reduced due to the well-known brand image.
- The franchisor pays for the advertising.
- All supplies can be obtained from the franchisor.
- Many business decisions will be made by the franchisor (price, store, layout, products).
- Training and staff and management is provided by the franchisor.
- Banks are willing to lend franchisees because of low risks.

Disadvantages for the franchisee

- Less independence
- May be unable to make decisions that would suit the local area.
- License fee must be paid annually, and a percentage of the turnover must be paid.

Joint ventures

Joint venture is where two or more businesses start a new project together, sharing capital, risks and profits.

Advantages:

- Shared costs are good for tackling expensive projects.
- Pooled knowledge, (e.g., foreign and local knowledge)
- Risks are shared

Disadvantages

- Profits have to be shared
- Disagreements might occur
- The two partners might run the joint venture differently

Public corporations

A public corporation is a business in the public sector that is owned and controlled by the state.

Advantages of public corporations

- Some businesses are considered to be important to be owned by an individual (electricity, water, airline)
- Consumers are not taken advantage by private monopolies.
- If a business is failing, government will step in to nationalize it.
- Important public services, such as TV and radio broadcasting, are often in public sector.

Disadvantages of public corporations

- Public corporation can be inefficient.
- There is lack of incentive to increase consumer choice, increase efficiency and improve customer service.
- Governments can use businesses for political reasons.