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# THE ACCESS TO BUSINESS STUDIES & COMPUTING

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BUSINESS ORGANISATIONS IN THE  
PRIVATE SECTOR

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ASSIGNMENT NO.1A

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# INTRODUCTION

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Within the UK economy all businesses fall into one of three sectors.

- Voluntary – This is sector where non-profit making organisations operate. The aim of businesses within this sector is not to make a profit but to carry out charitable objectives. An example of a business within this sector is the RSPCA who provide shelter and new homes for animals.
- Private Sector – The businesses operating within the private sector of our economy are owned by private individuals and shareholders. Business within this sector is market driven, where companies seek to maximise profit by acting in response to changes in the demand of consumers.
- Public Sector – The public sector of the UK economy is where you will find the public, government and local authority funded business. An example of a public sector business is the publicly funded BBC who provide television and radio broadcasts to the nation.

## PRIVATE SECTOR BUSINESS ORGANISATIONS

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### SOLE TRADERS

#### OWNERSHIP

The owner of a sole trader business is the individual who owns and operates the business. Although there may be additional staff the owner is the only person who benefits from the businesses financial success or bears the responsibility of failure.

#### FORMATION

The formation of a sole trader business is the simplest formation of all. The law does not differentiate between the business and the owner therefore, the owner has unlimited liability. This means that the owner himself is liable to lose everything he has if the business incurs such debts. If insufficient funds to clear the debt can be raised the individual will be made bankrupt.

## SECTOR

A sole-trader business can operate in both the primary and secondary sectors of the economy. An example within the primary sector is a farmer who owns and runs a farm or a fisherman that owns his own boat and sells his catch. Within the secondary sector a sole trader may be a mechanic or anybody who's business deals with the manufacture of a product.

## SIZE, INFLUENCE & BEHAVIOUR

A sole trader has very little influence in the market place, as they are usually one of many businesses competing with each other. Due to their small size, sole traders are price takers, which means they sell their goods at the market price.

## ORGANISATION & CONTROL

The organisation and control of a sole trader business is ultimately the responsibility of the business owner. However it is likely that a sole trader will want to outsource certain aspects of the financial side to external providers. This may be appointing an accountant to provide bookkeeping and tax advice.

## AIMS & OBJECTIVES

The primary objective of a sole trader is to survive. In order to achieve this objective the business will aim to provide profit by increasing sales and keep production cost to a minimum. An example of this is a farmer purchasing machinery that will enable him to achieve a higher level of output and work more time efficiently. Build a strong customer base.

## SOURCES & TYPES OF FINANCE

A sole trader has only limited sources of finance at their disposal compare to larger organizations. When starting up in business a sole trader is likely to invest part of the capital themselves and can borrow money from the following sources:

- Bank loan
- Bank overdraft
- Debenture loans (long term loan repayable at a given date which is secured on specific assets)

Later in the businesses life there are other sources of finance available. This may be:

- Trade credit (suppliers agreeing to accept payment at a later date)
- Debt factoring (when a firm sells its debt to a factor, it receives the payment of the debt immediately minus the factor fee.)
- Leasing (rather than purchasing an asset the business can rent it from a leasing company avoiding spending large amounts purchasing it.)
- Reinvested profit.

Finance is available from the UK government, European government and European Union, who offer grants and loans to small businesses with the aim of promoting development. The Following government initiatives have been introduced to assist small businesses:

- The Business Start Up Scheme (BSUS)

- Loan Guarantee Scheme (LGS)
- The Business Expansion Scheme (BES)
- Enterprise Investment Scheme (EIS)

The government can also assist small businesses with taxation, retirement, health & safety requirements and employment protection.

See the fact sheet on sources of Government finance and assistance for small businesses for more details of the above together with details of where businesses can obtain information and advice.

## PARTNERSHIPS

### OWNERSHIP

A partnership business is owned jointly by the partners. There may be up to 20 although Solicitors, Accountants and Stock Exchange members are not legally bound to a certain number. All partners benefit from the businesses financial success and also all share responsibility for its failure.

### FORMATION

The formation of a partnership business is more complicated than that of a sole trader due to their being more people involved. Normally partners will make a legal agreement in the form of a “Deed of Partnership”. The following matters will be laid out in this document:

- Trading name of business
- Nature/purpose of business
- Capital contribution of partners
- Sharing of profit and losses
- Admission/expulsion of partners
- Dissolution of partnership
- Accounts/audit agreement

If a company does not have a partnership agreement the Partnership Act 1890 is applied when it settles any disputes.

All partners in the business except for sleeping partners have unlimited liability. Therefore there are more risks involved than with a sole trader, as an individual also has unlimited liability for the mistakes of his partners.

## SECTOR

A partnership can operate in any sector of the economy. For example, primary as a group of archaeologists, secondary as a firm of motorcycle manufacturers and tertiary as a partnership of solicitors.

## SIZE, INFLUENCE & BEHAVIOUR

Similar to a sole trader, a partnership is likely to be a small business therefore it will have relatively little influence in the market place. However, their behaviour will be more similar to that of a larger company as they will usually be competing with other local companies in a similar way to how large companies compete nationally.

A partnership will often be able to expand and broaden their chosen field by bringing in new partners with different skills. This gives the business an opportunity to grow, as each additional partner will bring with them more capital.

## ORGANISATION & CONTROL

The organisation and control of a partnership business is the responsibility of all the partners. Often there will be a senior partner who may have formed the business himself as a sole trader, or have greater capital invested in the business. The partners will make all decisions together although the senior partner may have the deciding vote.

As a partnership is a larger business than a sole trader it will have more funds available to employ staff to deal with the business administration and accounts. They may, however, still use external providers for these services such as accountants and financial advisers at the bank.

## AIMS & OBJECTIVES

The aims and objectives of a partnership will differ greatly from business to business depending on the market they are in. Primarily, each partner will want to make a profit therefore quantitative objectives will be based on production, stock sales, and market share factors.

A business such as a firm of accountants or solicitors will have slightly more qualitative aims and objectives such as building a reliable reputation and providing an efficient and professional service so that they can achieve a strong client base.

## SOURCES & TYPES OF FINANCE

When starting in business a partnership has funds available from the capital invested by each partner. The business can also borrow money from the bank, which will be willing to lend more money than to a sole trader due to the increased security.

Other sources of finance can be: -

- Bank loan
- Bank overdraft
- Debenture loan (long term loan repayable at a given date which is secured on specific assets)

- Trade credit (suppliers agreeing to accept payment at a later date)
- Debt factoring (when a firm sells its debt to a factor, it receives the payment of the debt immediately minus the factor fee.)
- Leasing (rather than purchasing an asset the business can rent it from a leasing company avoiding spending large amounts purchasing it.)
- Reinvested profit.

The government may also be able to assist the partnership with taxation, retirement, health and safety requirements and employment protection.

See the fact sheet on sources of Government finance and assistance for small businesses for more details of the above together with details of where businesses can obtain information and advice.

## PRIVATE LIMITED COMPANIES

### OWNERSHIP

A private limited company is owned by shareholders. Each shareholder's investment is represented by the number of shares they own. Each shareholder receives dividend payments from the company's profit relative to the proportion they own.

### FORMATION

A company that is formed by the issue of shares goes through the process of incorporation, which gives the organisation a separate legal identity to its owners. This means that the shareholders will have the benefit of only having limited liability. Limited liability enables the shareholders to know that they will lose no more than they invested should the company be unable to pay its debts.

In order to become a separate legal identity to its owners, the company must complete two documents:

- The Memorandum of Association – which deals with the company's overall make up. For example, the company's name, purpose and limitation of liability.
- The Articles of Association – which deals with the management of the company. For example, the role of the director, rights of the shareholders and frequency of shareholder meetings. Private limited companies are not listed on the stock market as shares cannot be bought and sold without the other directors agreeing.

### SECTOR

Private limited companies can function in all three economic sectors. The company may be a quarry in the primary sector, a car manufacturer in the secondary sector or a funeral director in the tertiary sector.

## SIZE, INFLUENCE & BEHAVIOUR

Private limited companies tend to be larger than partnerships but smaller than public limited companies. This is mainly due to the amount of investment they receive. Private limited companies may have up to 50 shareholders, whereas a public limited company may have any number.

As a rule, the company's influence in the marketplace is relative to its size and level of success. It is possible for a limited company to become so successful that it begins to monopolise the market such as Bill Gates and Paul Allen did with Microsoft. The government now monitors the behaviour of such companies as it is deemed to be unfair to consumers.

Due to their corporate identity it is compulsory for all private limited companies to make their financial information available to the public at Companies House, have their accounts audited and hold meetings for shareholders.

## ORGANISATION AND CONTROL

The organisation and control of a private limited company is the responsibility of the Board of Directors. They will then delegate to other members of staff in order to achieve the company's goals.

A private limited company will usually retain responsibility for its financial and administrative duties, as it is large enough to employ sufficient numbers of staff to deal specifically with each task.

## AIMS AND OBJECTIVES

The primary aim of a private limited company is to provide a return for its shareholders, therefore it must create a profit through its business. The company will have short term goals, which must be achieved for this aim to be realised.

In a larger company it can be more difficult to co-ordinate its business to achieve these goals but they are likely to be similar to that of sole traders and partnerships. Likely private limited company objectives are: -

- Maximising profit
- Maximising shareholder wealth
- Growth of the company
- Diversification of products or business
- Increasing market share

## SOURCES OF FINANCE

The main source of finance for a private limited company is its shareholders. Therefore if they need to find further investment they must find more shareholders. As private limited companies are not listed on the stock market, investors are usually people who know each other such as friends and family.

The company is also able to raise funds from the following sources:-

- Bank loan
- Bank overdraft
- Debenture loan (long term loan repayable at a given date which is secured on specific assets)
- Trade credit (suppliers agreeing to accept payment at a later date)
- Debt factoring (when a firm sells its debt to a factor, it receives the payment of the debt immediately minus the factor fee.)
- Leasing (rather than purchasing an asset the business can rent it from a leasing company avoiding spending large amounts purchasing it.)
- Reinvested profit.

# PUBLIC SECTOR BUSINESS ORGANISATION

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## BRITISH BROADCASTING CORPORATION (BBC)

### OWNERSHIP

The BBC is owned by members of the general public who contribute to its running costs by paying a licence fee. Each television owner in the UK must pay this fee in order to view the television broadcasts.

### FORMATION

The BBC as a public corporation was formed through an Act of Parliament. Any profits that the BBC creates are put back into the business and any shortfalls are made up by the licence payer's fees.

### ORGANISATION AND CONTROL

The organisation and control of a private limited company is the responsibility of the Board of Directors. They will then delegate to other members of staff in order to achieve the company's goals.

A private limited company will usually retain responsibility for its financial and administrative duties, as it is large enough to employ sufficient numbers of staff to deal specifically with each task.



## SECTOR

The BBC operates in the tertiary sector as it provides a service. Both the television and radio broadcasts provide the nation with regular news bulletins and much educational and entertaining material.

## SIZE, INFLUENCE & BEHAVIOUR

Due to the large size and large audience of the BBC's many television and radio productions, it has a very influential position in the broadcasting industry. The BBC has offices in many cities in the UK and employs a large number of staff.

As the BBC is a publicly financed organisation, it must uphold certain standards and values that its broadcasting competitors do not. They will have strict guidelines to adhere to regarding portrayal of political issues and the promotion of many issues to young people. An example of the lengths the BBC goes to, to promote its image and to give its audience what it wants is the "Road show", which travels the country each summer providing live entertainment to the public.

## ORGANISATION & CONTROL

Though owned by the public, the BBC is controlled by a chairperson who is appointed by the government and is responsible to parliament.

The organisation within the BBC will be undertaken by specialists and managers who deal with the very varied roles to be carried out. This will include having its own finance department that deals with all financial duties.

## AIMS & OBJECTIVES

The aims and objectives of the BBC are to provide the licence payers with informative and accurate information and quality entertainment whilst also being value for money. As a way of measuring its success, the BBC will look at ratings of its broadcasts compared to those of its competitors.

## SOURCES OF FINANCE

The BBC is financed solely by payers of the television licence.

# ADVANTAGES AND DISADVANTAGES OF A PARTNERSHIP BUSINESS

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There are a number of advantages in forming a partnership business as opposed to being a sole trader.

If we look at a firm of solicitors for example we can see that each solicitor is a specialist in a particular area of the law. Some solicitors set up business as a sole trader but not many as they will be more successful and have greater security if they work with others in the same profession. The reason for this is that clients prefer to deal with one firm for all their needs. A client may deal with a solicitor specialising in conveyancing when they sell their house, probate when they make a will, litigation when they get divorced or company law when they are unfairly dismissed all within the same firm of solicitors.

As you can see, there are many different specialities, which involve different skills and knowledge. By forming a partnership a group of solicitors are able to not only gain more capital but also strengthen the business and increase the services they offer.

A tertiary business such as a firm of solicitors relies heavily on creating a strong customer base for itself therefore if they can provide a very comprehensive service to their clients, they can hope it will generate more business and greater profits in the future.

The disadvantages of a partnership are that each individual has less control than if they were working as a sole trader. Decision making must be shared between the partners as well as profits and the work load. Occasionally there may be unavoidable disagreements between partners. For example, within a firm of solicitors it may happen that there is very little litigation or probate work but at the same time lots of people are selling their properties. This could mean that while one partner is working lots of extra hours, others are able to go home early but still receive the same share of the profit.

Another disadvantage of a partnership is that each partner still has unlimited liability. Therefore, should one partner make a grave mistake and the business collapse, all partners are liable to be made bankrupt if the business cannot pay its debts.

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